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Och-Ziff Capital Management Group LLC  
Form 10-Q  
August 02, 2016

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2016  
Commission File Number 001-33805

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
(Exact Name of Registrant as Specified in its Charter)

Delaware 26-0354783  
(State of Incorporation) (I.R.S. Employer Identification Number)

9 West 57th Street, New York, New York 10019  
(Address of Principal Executive Offices)  
Registrant's telephone number: (212) 790-0000

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

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

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

Large accelerated filer ☒ Accelerated filer ☐

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

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

As of July 29, 2016, there were 181,455,692 Class A Shares and 297,317,019 Class B Shares outstanding.



OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
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Defined Terms	
2007 Offerings	Refers collectively to our IPO and the concurrent private offering of approximately 38.1 million Class A Shares to DIC Sahir Limited, a wholly owned indirect subsidiary of Dubai Holding LLC
2011 Offering	Our public offering of 33.3 million Class A Shares in November 2011
active executive managing directors	Executive managing directors who remain active in our business
Annual Report	Our annual report on Form 10-K for the year ended December 31, 2015, dated February 11, 2016 and filed with the SEC
Class A Shares	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 NYSE
Class B Shares	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
CLOs	Collateralized loan obligations
Exchange Act	Securities Exchange Act of 1934, as amended
executive managing directors	The current limited partners of the Och-Ziff Operating Group entities other than our intermediate holding companies, including our founder, 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
GAAP	U.S. generally accepted accounting principles
intermediate holding companies	Refers collectively to Och-Ziff Corp and Och-Ziff Holding, both of which are wholly owned subsidiaries of Och-Ziff Capital Management Group LLC
Institutional Credit Strategies	Our asset management platform that invests in performing credits, including leveraged loans, high-yield bonds, private credit/bespoke financing and investment grade credit via CLOs and other customized solutions
IPO	Our initial public offering of 36.0 million Class A Shares that occurred in November 2007
NYSE	New York Stock Exchange
Och-Ziff, the Company, the firm, we, us, our	Refers, unless the context requires otherwise, to Och-Ziff Capital Management Group LLC, a Delaware limited liability company, and its consolidated subsidiaries, including the Och-Ziff Operating Group
Och-Ziff Corp	Och-Ziff Holding Corporation, a Delaware corporation

Och-Ziff funds,  
funds

The multi-strategy, opportunistic credit, real estate and equity funds, Institutional Credit Strategies products and other alternative investment vehicles for which we provide asset management services

Och-Ziff Holding	Och-Ziff Holding LLC, a Delaware limited liability company
Och-Ziff Operating Group	Refers collectively to OZ Management, OZ Advisors I and OZ Advisors II, and their consolidated subsidiaries
OZ Advisors I	OZ Advisors LP, a Delaware limited partnership
OZ Advisors II	OZ Advisors II LP, a Delaware limited partnership
OZ Management	OZ Management LP, a Delaware limited partnership
Registrant	Och-Ziff Capital Management Group LLC, a Delaware limited liability company
Reorganization	The reorganization of our business that took place prior to the 2007 Offerings
SEC	U.S. Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
Special Investments	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
Ziffs	Refers collectively to Ziff Investors Partnership, L.P. II and certain of its affiliates and control persons

#### Available Information

Och-Ziff Capital Management Group LLC files annual, quarterly and current reports, proxy statements and other information required by the Exchange Act with the SEC. We make available free of charge on our website ([www.ozcap.com](http://www.ozcap.com)) our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and any amendments to those filings as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Also posted on our website in the “Public Investors – Corporate Governance” section are charters for our Audit Committee; Compensation Committee; and Nominating, Corporate Governance and Conflicts Committee, as well as our Corporate Governance Guidelines and Code of Business Conduct and Ethics governing our directors, officers and employees. Information on, or accessible through, our website is not a part of, and is not incorporated into, this report or any other SEC filing. Copies of our SEC filings or corporate governance materials are available without charge upon written request to Och-Ziff Capital Management Group LLC, 9 West 57th Street, New York, New York 10019, Attention: Office of the Secretary.

Any materials we file with the SEC are also publicly available through the SEC’s website ([www.sec.gov](http://www.sec.gov)) or may be read and copied at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

No statements herein, available on our website or in any of the materials we file with the SEC under the Exchange Act 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,” “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 and Section 21E of 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,” “anticipate,” “opportunity,” “comfortable,” “assume,” “maintain,” “sustain,” “achieve,” “see,” “think,” “position” or the negative version of those words or other comparable words.

Any forward-looking statements contained herein are based upon historical information and on our current plans, estimates and expectations. The inclusion of this or other forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved.

We caution that forward-looking statements are subject to numerous assumptions, estimates, risks and uncertainties, including but not limited to the following: global economic, business, market and geopolitical conditions; U.S. and foreign regulatory developments relating to, among other things, financial institutions and markets, government oversight, fiscal and tax policy; the outcome of third-party litigation and government investigations involving us, including the resolution of the FCPA investigation by the SEC and the DOJ; conditions impacting the alternative asset management industry; our ability to retain existing fund investor capital; 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.

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

	June 30, 2016	December 31, 2015
	(dollars in thousands)	
Assets		
Cash and cash equivalents	\$368,161	\$254,070
Income and fees receivable	24,419	93,846
Due from related parties	21,750	8,096
Deferred income tax assets	714,783	719,954
Other assets, net (includes assets measured at fair value of \$29,973 and \$18,501 as of June 30, 2016 and December 31, 2015, respectively)	208,272	192,975
Assets of consolidated Och-Ziff funds:		
Investments, at fair value	28,727	9,071,933
Other assets of Och-Ziff funds	8,956	344,769
Total Assets	\$1,375,068	\$10,685,643
Liabilities and Shareholders' (Deficit) Equity		
Liabilities		
Due to related parties	\$593,020	\$593,390
Debt obligations	562,204	443,069
Compensation payable	17,203	176,602
Other liabilities	558,695	83,813
Liabilities of consolidated Och-Ziff funds:		
Notes and loans payable of consolidated CLOs, at fair value	—	7,077,679
Securities sold under agreements to repurchase	—	190,751
Other liabilities of Och-Ziff funds	133	47,487
Total Liabilities	1,731,255	8,612,791
Commitments and Contingencies (Note 15)		
Redeemable Noncontrolling Interests (Note 4)	20,292	832,284
Shareholders' (Deficit) Equity		
Class A Shares, no par value, 1,000,000,000 shares authorized, 181,449,985 and 181,026,455 shares issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	—	—
Class B Shares, no par value, 750,000,000 shares authorized, 297,317,019 and 297,317,400 shares issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	—	—
Paid-in capital	3,053,550	3,040,655
Appropriated retained deficit	—	(59,663 )
Accumulated deficit	(3,584,340 )	(3,396,822 )
Shareholders' deficit attributable to Class A Shareholders	(530,790 )	(415,830 )
Shareholders' equity attributable to noncontrolling interests	154,311	1,656,398

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Total Shareholders' (Deficit) Equity	(376,479 )	1,240,568
Total Liabilities, Redeemable Noncontrolling Interests and Shareholders' (Deficit) Equity	\$1,375,068	\$10,685,643

See notes to consolidated financial statements.

## OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME — UNAUDITED

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(dollars in thousands)				
Revenues				
Management fees	\$ 143,399	\$ 167,486	\$ 300,309	\$ 333,429
Incentive income	8,136	28,537	38,723	85,647
Other revenues	585	508	1,164	969
Income of consolidated Och-Ziff funds	438	124,868	804	234,205
Total Revenues	152,558	321,399	341,000	654,250
Expenses				
Compensation and benefits	57,743	71,375	112,004	141,293
Reorganization expenses	—	4,017	—	8,034
Interest expense	5,937	5,405	11,323	10,650
General, administrative and other	272,501	12,013	540,025	61,848
Expenses of consolidated Och-Ziff funds	33	78,383	299	138,271
Total Expenses	336,214	171,193	663,651	360,096
Other Income (Loss)				
Net gains on investments in Och-Ziff funds and joint ventures	250	72	499	189
Net gains (loss) of consolidated Och-Ziff funds	816	(3,399)	) 1,361	42,486
Total Other Income (Loss)	1,066	(3,327)	) 1,860	42,675
(Loss) Income Before Income Taxes	(182,590)	) 146,879	(320,791)	) 336,829
Income taxes	10,911	82,025	29,450	107,185
Consolidated and Comprehensive Net (Loss) Income	\$(193,501)	\$ 64,854	\$(350,241)	\$ 229,644
Allocation of Consolidated and Comprehensive Net (Loss) Income				
Class A Shareholders	\$(78,571)	) \$ 4,760	\$(147,927)	\$ 30,631
Noncontrolling interests	(115,592)	) 58,022	(203,437)	) 191,375
Redeemable noncontrolling interests	662	2,072	1,123	7,638
	\$(193,501)	\$ 64,854	\$(350,241)	\$ 229,644
(Loss) Earnings Per Class A Share				
Basic	\$(0.43)	) \$ 0.03	\$(0.81)	) \$ 0.17
Diluted	\$(0.44)	) \$ 0.03	\$(0.81)	) \$ 0.17
Weighted-Average Class A Shares Outstanding				
Basic	182,454,677	177,693,164	182,501,762	177,664,174
Diluted	479,771,696	182,095,697	182,501,762	181,126,383
Dividends Paid per Class A Share	\$—	\$ 0.22	\$—	\$ 0.69
See notes to consolidated financial statements.				



## OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' (DEFICIT) EQUITY — UNAUDITED

Och-Ziff Capital Management Group LLC Shareholders

	Number of Class A Shares	Number of Class B Shares	Paid-in Capital	Appropriated Retained Deficit	Accumulated Deficit	Shareholders' Deficit Attributable to Class A Shareholders	Shareholders' Equity Attributable to Noncontrolling Interests	Total Shareholders' (Deficit) Equity
(dollars in thousands)								
As of December 31, 2015	181,026,455	297,317,400	\$3,040,655	\$(59,663)	\$(3,396,822)	\$(415,830)	\$1,656,398	\$1,240,568
Deconsolidation of Och-Ziff funds on adoption of ASU 2015-02 (See Note 3)	—	—	—	59,663	(39,887)	19,776	(1,321,488)	(1,301,712)
Capital contributions	—	—	—	—	—	—	440	440
Capital distributions	—	—	—	—	—	—	(20)	(20)
Dividend equivalents on Class A restricted share units	—	—	(296)	—	296	—	—	—
Equity-based compensation	423,530	(381)	13,310	—	—	13,310	22,299	35,609
Impact of changes in Och-Ziff Operating Group ownership (See Note 4)	—	—	(119)	—	—	(119)	119	—
Comprehensive net loss, excluding amounts allocated to redeemable noncontrolling interests	—	—	—	—	(147,927)	(147,927)	(203,437)	(351,364)
As of June 30, 2016	181,449,985	297,317,019	\$3,053,550	\$—	\$(3,584,340)	\$(530,790)	\$154,311	\$(376,479)

See notes to consolidated financial statements.



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

	Six Months Ended June 30,	
	2016	2015
	(dollars in thousands)	
Cash Flows from Operating Activities		
Consolidated net (loss) income	\$(350,241)	\$229,644
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Reorganization expenses	—	8,034
Amortization of equity-based compensation	38,013	59,043
Depreciation and amortization	6,982	5,149
Deferred income taxes	23,440	98,071
Operating cash flows due to changes in:		
Income and fees receivable	78,143	399,122
Due from related parties	(11,758)	(3,321)
Other assets, net	5,697	21,166
Due to related parties	(370)	(48,401)
Compensation payable	(159,362)	(217,778)
Other liabilities	393,258	(4,489)
Consolidated Och-Ziff funds related items:		
Net gains of consolidated Och-Ziff funds	(1,361)	(42,486)
Purchases of investments	(142,310)	(2,411,545)
Proceeds from sale of investments	138,775	2,155,014
Other assets of consolidated Och-Ziff funds	2,764	(18,464)
Securities sold under agreements to repurchase	—	(47,861)
Other liabilities of consolidated Och-Ziff funds	38	(12,633)
Net Cash Provided by Operating Activities	21,708	168,265
Cash Flows from Investing Activities		
Purchases of fixed assets	(6,244)	(31,686)
Purchases of United States government obligations	(29,915)	—
Maturities of United States government obligations	18,500	—
Investment in Och-Ziff funds	(7,556)	(415)
Return of investment in Och-Ziff funds	952	167
Other, net	(17)	—
Net Cash Used in Investing Activities	(24,280)	(31,934)

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
CONSOLIDATED STATEMENTS OF CASH FLOWS — (continued)

	Six Months Ended June 30,	
	2016	2015
	(dollars in thousands)	
Cash Flows from Financing Activities		
Contributions from noncontrolling and redeemable noncontrolling interests	441	524,675
Distributions to noncontrolling and redeemable noncontrolling interests	(20)	(509,771)
Dividends on Class A Shares	—	(121,538)
Proceeds from debt obligations	120,000	3,606
Repayment of debt obligations	(1,818)	(1,302)
Withholding taxes paid on vested RSUs	(2,053)	(4,417)
Other, net	113	1,170
Net Cash Provided (Used) by Financing Activities	116,663	(107,577)
Net Change in Cash and Cash Equivalents	114,091	28,754
Cash and Cash Equivalents, Beginning of Period	254,070	250,603
Cash and Cash Equivalents, End of Period	\$368,161	\$279,357

Supplemental Disclosure of Cash Flow Information

Cash paid during the period:

Interest	\$9,959	\$9,593
Income taxes	\$7,618	\$10,894

Non-cash transactions:

Assets related to the initial consolidation of CLOs	\$—	\$1,051,471
Liabilities related to the initial consolidation of CLOs	\$—	\$1,065,027

See Note 3 for non-cash impact of the deconsolidation of Och-Ziff funds upon the adoption of ASU 2015-02.

See notes to consolidated financial statements.



OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
JUNE 30, 2016

## 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, Dubai, Shanghai and Houston. The Company provides asset management services to its investment funds (the “Och-Ziff funds” or the “funds”), which pursue a broad range of global investment opportunities. The Company currently manages multi-strategy funds, dedicated credit funds, including opportunistic credit funds and Institutional Credit Strategies products, real estate funds and other alternative investment vehicles. Through Institutional Credit Strategies, the Company’s asset management platform that invests in performing credits, the Company manages collateralized loan obligations (“CLOs”) and other customized solutions for clients.

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 currently has two operating segments: the Och-Ziff Funds segment and the Company’s real estate business. The Och-Ziff Funds segment is currently the Company’s only reportable operating segment under U.S. generally accepted accounting principles (“GAAP”) and provides asset management services to the Company’s multi-strategy funds, dedicated credit funds and other alternative investment vehicles. The Company’s real estate business, which provides asset management services to its real estate funds, is included within Other Operations, as it does not meet the threshold of a reportable operating segment under 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 its operations through OZ Management LP (“OZ Management”), OZ Advisors LP (“OZ Advisors I”) and OZ Advisors II LP (“OZ Advisors II”) 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, OZ Advisors and OZ Advisors II other than the Company’s intermediate holding companies, including the Company’s founder, 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.

During the first quarter of 2016, the Company adopted Accounting Standards Update (“ASU”) 2015-02, Amendments to the Consolidation Analysis. As a result of this update, the Company no longer consolidates the majority of the previously consolidated Och-Ziff funds. See Notes 2 and 3 for additional information.

## 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, 2015 (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

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
 JUNE 30, 2016

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.

The Company adopted ASU 2015-02 as of January 1, 2016 using the modified retrospective method of transition, which resulted in a cumulative effect adjustment to opening equity. The Company did not restate prior-period results. The impact to the Company's opening retained earnings was driven by the cumulative effect of a change in incentive income recognition for the funds no longer consolidated, net of deferred income tax effects. As described in Note 2 of the Company's Annual Report, incentive income from funds not consolidated is recognized at the end of the applicable commitment period when the amounts are contractually payable and when no longer subject to clawback. Prior to deconsolidation, incentive income from these previously consolidated funds was recognized by allocating a portion of the net income of these funds to the Company rather than to the fund investors (noncontrolling interests) based on the contractual terms of the relevant fund agreements. This resulted in incentive income being recognized that was subject to clawback in the event of future losses in the respective funds.

The deconsolidation of the majority of its previously consolidated funds resulted in a substantial decrease in assets of consolidated Och-Ziff funds, liabilities of consolidated Och-Ziff funds, redeemable noncontrolling interests, appropriated retained deficit and shareholders' equity attributable to non-controlling interests in the Company's consolidated balance sheet. Additionally, the deconsolidation has caused a significant decrease in the amount of income of consolidated Och-Ziff funds, expenses of consolidated Och-Ziff funds, and net gains of consolidated Och-Ziff funds in the Company's consolidated statements of comprehensive (loss) income.

As a result of the adoption of ASU 2015-02, the Company modified its consolidation policies, resulting in the deconsolidation of the majority of the previously consolidated Och-Ziff funds. The Company's updated consolidation policy is presented below.

#### Consolidation Policies

The Company's funds are typically organized using a "master-feeder" structure. Fund investors, including the Company's executive managing directors, employees and other related parties to the extent they invest in a given fund, generally invest directly into the feeder funds. These feeder funds are typically limited partnerships or limited companies that hold direct or indirect interests in a master fund. The master fund, together with its subsidiaries, is the primary investment vehicle for its feeder funds. The Company generally collects its management fees and incentive income from the feeder funds or subsidiaries of the feeder funds ("intermediate funds"), and does not collect any management fees or incentive income directly from the master funds. However, the Company also organizes certain funds (e.g., its real estate funds and certain opportunistic credit funds) without the use of a master-feeder structure. These are typically organized as limited partnerships, in which the Company is the general partner and collects management fees and incentive income directly from these entities; however, in the case of the real estate funds, the Company collects management fees directly from the funds' investors. The Company generally directs the activities of its funds through its role as general partner or as the investment or CLO collateral manager with decision-making rights.

The consolidated financial statements include the accounts of the Registrant and entities in which it, directly or indirectly, is determined to have a controlling financial interest under the following set of guidelines:

Variable Interest Entities ("VIEs")—The Company determines whether, if by design, an entity has any of the following characteristics: (i) equity investors who lack the characteristics of a controlling financial interest; (ii) the entity does not have sufficient equity at risk to finance its expected activities without additional subordinated financial support from other parties; or (iii) substantially all of the activities of the entity are performed on behalf of a party with disproportionately few voting rights. An entity with any one of these characteristics is a VIE. Partnerships, and similarly structured entities, will be considered as VIEs where a simple majority of third party investors with equity at risk are not able to exercise substantive kick-out or participating rights over the general partner.

✓ Voting Interest Entities (“VOEs”)—Where an entity does not have the characteristics of a VIE, it will be a VOE.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

JUNE 30, 2016

The determination of whether a fund is a VIE or a VOE is based on the facts and circumstances for each individual fund in accordance with the guidelines described below. Classification of such entities is reassessed where there is a substantive change in the governing documents or contractual arrangements of the entity, to the capital structure of the entity or in the activities of the entity. The Company continuously reassesses whether it should consolidate a VIE or VOE.

Prior to the Adoption of ASU 2015-02

Prior to the adoption of ASU 2015-02, the Company used two models for determining whether it was the primary beneficiary of a VIE depending on the nature and characteristics of the entity.

In the case of fund vehicles classified as VIEs that qualified for the deferral under ASU 2010-10, Amendments to Statement 167 for Certain Investment Funds, the primary beneficiary was the party that absorbed a majority of a VIEs' expected losses or received a majority of the expected residual returns as a result of holding variable interests. The Company was identified as the primary beneficiary of a fund where the Company's related party group absorbed a majority of the variability of the fund, and where the Company was determined to be most closely associated to the fund within that related party group.

In the case of the Company's CLOs and a certain joint venture that were classified as VIEs and did not qualify for the deferral under ASU 2010-10, the primary beneficiary was the party that had both (i) the power to direct the activities of the entity that most significantly impact the entity's economic performance; and (ii) the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the entity. The Company was identified as the primary beneficiary of the CLOs because it directed the investment activities of the CLOs and had the right to receive benefits from the CLOs that could potentially be significant as a result of its fee arrangements.

Finally, certain partnerships that were not determined to be VIEs in which the Company held a substantive equity investment and was determined to be the controlling general partner were classified as voting interest entities ("VOEs") and consolidated by the Company because the limited partners did not have substantive rights to participate in the ongoing governance and operating activities of the partnership.

Upon the Adoption of ASU 2015-02

Where the Company holds a variable interest in an entity, it is required to determine whether it should consolidate the entity. Under ASU 2015-02, fee arrangements are no longer considered variable interests when they are commensurate with the level of effort required to provide services and include only terms, conditions, or amounts that are customarily present in arrangements for similar services negotiated at arm's length, and where the Company does not hold other interests in the entity that would absorb more than an insignificant amount of the variability of the entity.

Where the Company does not have a variable interest in the entity, it will not consolidate the entity. Where the Company has a variable interest, it is required to determine whether the entity will be considered as a VIE or VOE, the classification of which will determine the analysis that the Company is required to perform when determining whether it should consolidate the entity.

Funds that are VIEs

Funds that the Company has determined to be VIEs are generally VIEs because fund investors are deemed to lack the characteristics of a controlling financial interest or the entity does not have sufficient equity.

The party identified as the primary beneficiary of a VIE is required to consolidate the entity. The Company is the primary beneficiary of a VIE where it has a controlling financial interest in the entity, which is defined as (i) the power to direct the activities of the entity that most significantly impact the entity's economic performance; and (ii) the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the entity. Where the Company does not have a controlling financial interest, but is part of a related party group under common control that collectively has power and



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benefits, an assessment as to which party within the related party group is more closely associated with the VIE and would therefore consolidate a VIE. This assessment would also be performed where power is shared within the related party group.

The types of funds that are VIEs and not consolidated are generally (i) master funds and intermediate fund vehicles for the Company's multi-strategy funds, as well as credit, real estate and similar fund vehicles, as third party investors in these entities have not been granted substantive removal rights and (ii) CLOs, as they lack sufficient equity at risk to finance their expected activities without additional subordinated financial support from other parties. The Company does not consolidate VIEs where it does not have a controlling financial interest.

The types of funds that are VIEs consolidated by the Company are certain new funds that the Company has seeded and generally expects to deconsolidate when the fund has a certain level of additional third party capital.

**Funds that are VOEs**

Funds that are corporations, or similarly structured entities that are not VIEs, are consolidated by the Company where the Company has an equity investment of greater than 50% and has control over significant operating, financial and investing decisions of the entity. The Company will consolidate partnerships, or similarly structured entities that are not VIEs, where a single investor or simple majority of third party investors with equity cannot exercise substantive kick-out or participating rights over the entity.

The types of funds that are VOEs and not consolidated by the Company are generally feeder funds of the Company's multi-strategy funds, as third party fund investors in these entities have been granted substantive removal rights.

**Recently Adopted Accounting Pronouncements**

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis. ASU 2015-02 significantly changes the consolidation analysis required under GAAP. The impact of adoption and the Company's revised consolidation policies incorporating the changes made by ASU 2015-02 are presented above.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance costs. ASU 2015-03 simplifies the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The requirements of ASU 2015-03 were effective for the Company beginning in first quarter of 2016. The Company reclassified \$5.8 million of debt issuance costs in its December 31, 2015 balance sheet from other assets to debt obligations upon the adoption of ASU 2015-03.

In May 2015, the FASB issued ASU 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The requirements of ASU 2015-07 were effective for the Company beginning in the first quarter of 2016, and are applied retrospectively. The impact of ASU 2015-07 was limited to disclosure of the level in the fair value hierarchy of investments held by the Company that are measured using net asset value per share during the periods presented. None of the other changes to GAAP that went into effect in the six months ended June 30, 2016 has had a material effect on the Company's consolidated financial statements.

**Future Adoption of Accounting Pronouncements**

In May 2014, the FASB issued 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 revenue recognition guidance throughout the ASC. 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





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goods or services. The requirements of ASU 2014-09 are effective for the Company beginning in the first quarter of 2018. Entities are permitted to apply the guidance in ASU 2014-09 using one of the following methods: (i) full retrospective application to each prior period presented, or (ii) 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 Company is currently evaluating the impact, if any, that this update will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 significantly changes accounting for lease arrangements, in particular from the perspective of the lessee. The Company is not currently a lessor in any significant lease arrangements, but is a lessee in several lease arrangements that would be impacted by the ASU. Upon adoption of the ASU, where the Company is lessee, the Company will likely be required to recognize certain lease arrangements on its balance sheet for the first time, but will continue to recognize associated expenses on its statement of comprehensive income in a manner similar to existing accounting principles. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The requirements of ASU 2016-02 are effective for the Company beginning in the first quarter of 2019.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 will change how companies account for certain aspects of share-based payments to employees. Specifically, the ASU will require companies to recognize the income tax effects of awards in the statement of comprehensive income when the awards vest or are settled, increases the amount companies can withhold to cover income taxes on awards and still qualify for the exception to liability classification for shares used to satisfy the employer's statutory income tax withholding obligation, and will require companies to elect whether to account for forfeitures of share-based payments by either recognizing forfeitures of awards as they occur or by estimating the number of awards expected to be forfeited and adjusting the estimate when it is likely to change, as is currently required. Entities are required to apply amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, and forfeitures using a modified retrospective transition method, while amendments related to the recognition of excess tax benefits and tax deficiencies in the statement of comprehensive income should be applied prospectively. The requirements of ASU 2016-09 are effective for the Company beginning in the first quarter of 2017 with early adoption permitted. The Company is currently evaluating the impact that this update will have on its consolidated financial statements.

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

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## 3. DECONSOLIDATION OF CERTAIN OCH-ZIFF FUNDS

As a result of the adoption of ASU 2015-02 on January 1, 2016, the Company is no longer required to consolidate the majority of the Och-Ziff funds previously consolidated. The table below presents the non-cash adjustments to the Company's balance sheet as a result of the deconsolidation upon the adoption of ASU 2015-02.

	(dollars in thousands)
Assets	
Income and fees receivable	\$8,715
Due from related parties	1,896
Deferred income tax assets	18,532
Other assets, net	3,331
Assets of consolidated Och-Ziff funds:	
Investments, at fair value	(9,036,433 )
Other assets of Och-Ziff funds	(344,719 )
Total Assets	\$(9,348,678)
Liabilities and Shareholders' Equity	
Liabilities	
Other liabilities	\$81,972
Liabilities of consolidated Och-Ziff funds:	
Notes and loans payable of consolidated CLOs, at fair value	(7,077,679 )
Securities sold under agreements to repurchase	(190,751 )
Other liabilities of Och-Ziff funds	(47,392 )
Total Liabilities	(7,233,850 )
Redeemable Noncontrolling Interests	(813,116 )
Shareholders' Equity	
Appropriated retained deficit	59,663
Accumulated deficit	(39,887 )
Shareholders' deficit attributable to Class A Shareholders	19,776
Shareholders' equity attributable to noncontrolling interests	(1,321,488 )
Total Shareholders' Equity	(1,301,712 )
Total Liabilities, Redeemable Noncontrolling Interests and Shareholders' Equity	\$(9,348,678)

## 4. 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, as well as fund investors' interests in the consolidated Och-Ziff funds. Net (loss) income allocated to the Och-Ziff Operating Group A Units is driven by the earnings (losses) 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.



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As discussed in Notes 2 and 3, the Company deconsolidated the majority of the previously consolidated Och-Ziff funds, including all of the CLOs. As a result, noncontrolling interests and redeemable noncontrolling interests related to fund investors presented in the tables below decreased substantially from the prior year.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(dollars in thousands)			
Och-Ziff Operating Group A Units	\$(115,632)	\$50,802	\$(203,651)	\$131,734
Consolidated Och-Ziff funds	—	7,105	262	59,457
Other	40	115	(48)	184
	\$(115,592)	\$58,022	\$(203,437)	\$191,375

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

	June 30, December 31,	
	2016	2015
	(dollars in thousands)	
Och-Ziff Operating Group A Units	\$152,121	\$429,312
Consolidated Och-Ziff funds	—	1,224,996
Other	2,190	2,090
	\$154,311	\$1,656,398

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

	Six Months Ended June 30, 2016
	(dollars in thousands)
Beginning balance	\$832,284
Deconsolidation of Och-Ziff funds on adoption of ASU 2015-02 (See Note 3)	(813,116 )
Capital contributions	1
Comprehensive income	1,123
Ending Balance	\$20,292
Och-Ziff Operating Group Ownership	

The Company's interest in the Och-Ziff Operating Group increased to 37.9% as of June 30, 2016, from 37.8% as of December 31, 2015. Changes in the Company's interest in the Och-Ziff Operating Group have historically been, and in the future may be, driven by the following: (i) the exchange of Och-Ziff Operating Group A Units for an equal number of Class A Shares, at which time the related Class B Shares are also canceled; (ii) the issuance of Class A Shares under the Company's Amended and Restated 2007 Equity Incentive Plan and 2013 Incentive Plan, primarily related to the settlement of Class A restricted share units ("RSUs"); (iii) the forfeiture of Och-Ziff Operating Group A Units and related Class B Shares by a departing executive managing director; and (iv) the repurchase of Class A

Shares and 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 settlement of RSUs. These increases will be offset upon any conversion by an executive

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managing director of Och-Ziff Operating Group D Units, which are not considered equity for GAAP purposes, into Och-Ziff Operating Group A Units, at which time an equal number of Class B Shares is also issued to the executive managing director.

## 5. 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.

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. government 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 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, investments in affiliated credit funds, as well as the notes and loans 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.

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Fair Value Measurements Categorized within the Fair Value Hierarchy

The following table summarizes the Company's assets and liabilities (excluding the assets and liabilities of the consolidated funds) measured at fair value on a recurring basis within the fair value hierarchy as of June 30, 2016 and December 31, 2015:

	Fair Value		Fair Value Hierarchy
	June 30, 2016	December 31, 2015	
	(dollars in thousands)		
United States government obligations	\$29,973	\$18,501	Level 1
Financial Assets, at Fair Value, Included Within Other Assets, Net	\$29,973	\$18,501	

Consolidated Funds

As a result of the adoption of ASU 2015-02, the Company no longer consolidates the majority of the previously consolidated Och-Ziff funds as of January 1, 2016. In addition, as a result of the adoption of ASU 2015-07, the Company no longer categorizes within the fair value hierarchy investments held at net asset value. Prior year amounts were restated upon the adoption of ASU 2015-07. See Notes 2 and 3 for additional information regarding these ASUs. The following table summarizes the consolidated funds' assets measured at fair value on a recurring basis within the fair value hierarchy as of June 30, 2016:

	As of June 30, 2016			
	Level I	Level II	Level III	Total
	(dollars in thousands)			
Bank debt	\$ <del>19,859</del>	\$8,868		\$28,727
Total Investments, at Fair Value	\$ <del>19,859</del>	\$8,868		\$28,727

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The following table summarizes the consolidated funds' assets and liabilities measured at fair value on a recurring basis within the fair value hierarchy as of December 31, 2015:

	As of December 31, 2015			
	Level I	Level II	Level III	Total
	(dollars in thousands)			
Bank debt	\$—	\$4,809,367	\$1,998,423	\$6,807,790
Real estate investments	—	—	719,957	719,957
Residential mortgage-backed securities	—	—	323,571	323,571
Collateralized debt obligations	—	—	83,759	83,759
Energy and natural resources limited partnerships	2,100	—	70,604	72,704
Commercial real estate debt	—	—	18,295	18,295
Corporate bonds	—	75,149	—	75,149
United States government obligations	40,672	—	—	40,672
Asset-backed securities	—	—	23,739	23,739
Commercial mortgage-backed securities	—	—	13,803	13,803
Other investments	316	9	1,938	2,263
Financial Assets, at Fair Value	\$43,088	\$4,884,525	\$3,254,089	\$8,181,702
Investments held at net asset value				890,231
Total Investments, at Fair Value				\$9,071,933
Senior secured notes and loans payable of consolidated CLOs	\$—	\$—	\$6,636,838	\$6,636,838
Subordinated notes payable of consolidated CLOs	—	—	440,841	440,841
Notes and loans payable of consolidated CLOs, at fair value	—	—	7,077,679	7,077,679
Other liabilities, included within other liabilities of Och-Ziff funds	2,527	298	—	2,825
Financial Liabilities, at Fair Value	\$2,527	\$298	\$7,077,679	\$7,080,504



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## 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 or other funds are included within investment purchases.

The following table summarizes the changes in the Company's Level III assets and liabilities (excluding notes and loans payable of consolidated CLOs) for the three months ended June 30, 2016:

	March 31, 2016	Transfers In	Transfers Out	Investment Purchases	Investment Sales	Derivative Settlements	Net Gains of Consolidated Och-Ziff Funds	June 30, 2016
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(dollars in thousands)

Bank debt	\$3,981	\$ 489	\$ —	\$ 27,612	\$ (23,408 )	\$ —	\$ 194	\$ 8,868
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The following table summarizes the changes in the Company's Level III assets and liabilities (excluding notes and loans payable of consolidated CLOs) for the three months ended June 30, 2015:

	March 31, 2015	Transfers In	Transfers Out	Investment Purchases	Investment Sales	Derivative Settlements	Net Gains (Losses) of Consolidated Och-Ziff Funds	June 30, 2015
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(dollars in thousands)

Bank debt	\$1,916,114	\$245,374	\$ (477,882 )	\$387,905	\$ (265,141 )	\$ —	\$ (3,615 )	\$1,802,755
Real estate investments	687,560	—	—	79,266	(64,227 )	—	34,879	737,478
Residential mortgage-backed securities	434,975	—	—	14,827	(31,109 )	—	(4,362 )	414,331
Collateralized debt obligations	150,963	—	—	3,105	(38,463 )	—	3,557	119,162
Energy and natural resources limited partnerships	72,056	—	—	5,474	—	—	335	77,865
Commercial real estate debt	63,959	—	—	—	(3,156 )	—	464	61,267
Corporate bonds	698	—	—	—	(522 )	—	(162 )	14
Asset-backed securities	22,545	—	—	1,532	(995 )	—	177	23,259
Commercial mortgage-backed securities	2,996	—	—	—	(2,602 )	—	285	679
Other investments (including derivatives, net)	2,120	—	—	—	(234 )	(209 )	328	2,005
	\$3,353,986	\$245,374	\$ (477,882 )	\$492,109	\$ (406,449 )	\$ (209 )	\$ 31,886	\$3,238,815



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The following table summarizes the changes in the Company's Level III assets and liabilities (excluding notes and loans payable of consolidated CLOs) for the six months ended June 30, 2016:

	December 31, 2015	Transfers In	Transfers Out	Investment Purchases	Investment Sales <sup>(1)</sup>	Derivative Settlements	Net Gains of Consolidated Och-Ziff Funds	June 30, 2016
(dollars in thousands)								
Bank debt	\$1,998,423	\$ 460	\$ —	—\$ 47,227	\$(2,037,742)	\$ —	—\$ 500	\$8,868
Real estate investments	719,957	—	—	—	(719,957)	) —	—	—
Residential mortgage-backed securities	323,571	—	—	—	(323,571)	) —	—	—
Collateralized debt obligations	83,759	—	—	—	(83,759)	) —	—	—
Energy and natural resources limited partnerships	70,604	—	—	—	(70,604)	) —	—	—
Commercial real estate debt	18,295	—	—	—	(18,295)	) —	—	—
Corporate bonds	—	—	—	—	—	—	—	—
Asset-backed securities	23,739	—	—	—	(23,739)	) —	—	—
Commercial mortgage-backed securities	13,803	—	—	—	(13,803)	) —	—	—
Other investments (including derivatives, net)	1,938	—	—	—	(1,938)	) —	—	—
	\$3,254,089	\$ 460	\$ —	—\$ 47,227	\$(3,293,408)	\$ —	—\$ 500	\$8,868

(1) Amounts related to the deconsolidation of the Company's funds upon the adoption of ASU 2015-02 are included within investment sales.

The following table summarizes the changes in the Company's Level III assets and liabilities (excluding notes and loans payable of consolidated CLOs) for the six months ended June 30, 2015:

	December 31, 2014	Transfers In	Transfers Out	Investment Purchases	Investment Sales	Derivative Settlements	Net Gains (Losses) of Consolidated Och-Ziff Funds	June 30, 2015
(dollars in thousands)								
Bank debt	\$2,224,032	\$189,756	\$(782,478)	\$703,752	\$(548,534)	\$ —	\$ 16,227	\$1,802,755
Real estate investments	645,916	—	—	138,514	(98,537)	) —	51,585	737,478
Residential mortgage-backed securities	462,927	—	—	26,615	(72,377)	) —	(2,834)	414,331
Collateralized debt obligations	173,746	—	—	7,425	(73,916)	) —	11,907	119,162

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Energy and natural resources limited partnerships	65,909	—	—	15,272	(3,467	) —	151	77,865
Commercial real estate debt	29,815	—	—	33,892	(3,164	) —	724	61,267
Corporate bonds	656	—	—	146	(521	) —	(267	) 14
Asset-backed securities	21,368	—	—	3,822	(1,969	) —	38	23,259
Commercial mortgage-backed securities	3,287	—	—	—	(2,904	) —	296	679
Other investments (including derivatives, net)	2,144	—	—	—	(234	) (371	) 466	2,005
	\$3,629,800	\$189,756	\$(782,478)	\$929,438	\$(805,623)	\$ (371	) \$ 78,293	\$3,238,815

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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 periods 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 and loans 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 (loss) income:

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	2015		2015	
	(dollars in thousands)			
Bank debt	\$69	\$(3,835)	\$100	\$11,453
Real estate investments	—	22,612	—	31,067
Residential mortgage-backed securities	—	(6,166)	—	(6,796)
Collateralized debt obligations	—	(1,125)	—	(1,028)
Energy and natural resources limited partnerships	—	335	—	151
Commercial real estate debt	—	657	—	907
Corporate bonds	—	(155)	—	(239)
Asset-backed securities	—	249	—	194
Commercial mortgage-backed securities	—	(290)	—	(303)
Other investments (including derivatives, net)	—	109	—	85
	\$69	\$12,391	\$100	\$35,491

The table below summarizes the changes in the notes and loans payable of consolidated CLOs for the three and six months ended June 30, 2015. As a result of the adoption of ASU 2015-02, the Company no longer consolidates any of its CLOs as of January 1, 2016. Accordingly, no tables are presented for the three and six months ended June 30, 2016.

For the three and six months ended June 30, 2015, the Company recorded net unrealized losses of \$2.5 million and \$38.5 million for notes and loans payable of consolidated CLOs still outstanding as of June 30, 2015. Amounts related to the initial consolidation of the Company's CLOs are included within issuances in the table below.

	March 31, 2015	Issuances	Net Losses (Gains) of Consolidated Och-Ziff Funds	June 30, 2015
	(dollars in thousands)			
Senior secured notes and loans payable of consolidated CLOs	\$5,298,366	\$511,166	\$ 18,126	\$5,827,658
Subordinated notes payable of consolidated CLOs	468,930	47,147	(15,654)	500,423
	\$5,767,296	\$558,313	\$ 2,472	\$6,328,081



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	December 31, 2014	Issuances	Net Losses (Gains) of Consolidated Och-Ziff Funds	June 30, 2015
	(dollars in thousands)			
Senior secured notes and loans payable of consolidated CLOs	\$4,784,134	\$975,543	\$ 67,981	\$5,827,658
Subordinated notes payable of consolidated CLOs	443,277	86,634	(29,488)	) 500,423
	\$5,227,411	\$1,062,177	\$ 38,493	\$6,328,081

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

Bank Debt; Residential and Commercial Mortgage-Backed Securities; Collateralized Debt Obligations; Commercial Real Estate Debt; Corporate Bonds; Asset-Backed Securities; Notes and Loans 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 and loans 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 and yields. Significant increases (decreases) in the discount rates and yields in isolation would be expected to result in a significantly lower (higher) fair value measurement.

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.



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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 rate 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.

## Energy and Natural Resources Limited Partnerships

The fair value of energy and natural resources limited partnerships is 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 significant unobservable inputs used in the fair value measurement of the Company's energy and natural resources limited partnerships that are not measured using net asset value are discount rates, EBITDA multiples, price per acre and production multiples. Significant increases (decreases) in the discount rates in isolation would be expected to result in a lower (higher) fair value measurement. Significant increases (decreases) in the EBITDA multiples, price per acre, price per square foot and production multiples in isolation would be expected to result in a significantly higher (lower) fair value measurement.

## 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 held by the consolidated funds as of June 30, 2016.

Type of Investment or Liability	Fair Value at June 30, 2016 (in thousands)	Valuation Technique	Unobservable Input	Range (Weighted-Average)
Bank debt	\$ 8,868	Independent pricing services	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, 2015.

Type of Investment or Liability	Fair Value at December 31, 2015 (in thousands)	Valuation Technique	Unobservable Input	Range (Weighted-Average)
Bank debt	\$ 1,949,227	Independent pricing services	n/a	
	49,196	Yield analysis	Yield	14% to 23% (16%)
Real estate investments	\$ 719,957	Discounted cash flow	Discount rate	10% to 30% (19%)
			Cash flow growth rate	-24% to 36% (3%)

			Capitalization rate	6% to 12% (8%)
			Price per square foot	\$50 to \$187 (\$159)
			Absorption rate per year	0% to 27% (8%)
			Exit multiple	5.9x to 18.9x (10.3x)
Residential mortgage-backed securities	\$ 312,839	Broker quotes	n/a	
	10,732	Independent pricing services	n/a	

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Type of Investment or Liability	Fair Value at December 31, 2015 (in thousands)	Valuation Technique	Unobservable Input	Range (Weighted-Average)
Collateralized debt obligations	\$ 83,759	Broker quotes	n/a	
Energy and natural resources limited partnerships	\$ 49,326	Scenario analysis	Discount rate	10% to 25% (19%)
			EBITDA multiple	5.5x to 7.3x (6.4x)
			Price per acre	\$1,750
			Production multiple (price per thousand cubic feet equivalent per day)	\$6,750 to \$9,167 (\$7,662)
	18,672	Sum of the parts	Discount rate	15 %
			Price per acre	\$437
	2,606	Discounted cash flow	Discount rate	15 %
Commercial real estate debt	\$ 7,010	Yield analysis	Yield	13% to 18% (16%)
	\$ 11,285	Discounted cash flow	Discount rate	15 %
Asset-backed securities	\$ 22,428	Broker quotes	n/a	
	1,311	Discounted cash flow	Discount rate	14 %
Commercial mortgaged-backed securities	\$ 13,803	Broker quotes	n/a	
Senior secured notes and loans payable of consolidated CLOs	\$ 6,636,838	Broker quotes	n/a	
Subordinated notes payable of consolidated CLOs	\$ 440,841	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 with the valuation policy, ensuring that all of the funds' investments reflect fair value, 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 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 complying 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: 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 valuations provided by independent pricing service providers on a bi-weekly and monthly basis; performing due diligence reviews on independent pricing services on an annual or as needed basis; and recommending changes in valuation policies to the Valuation Committee.

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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 periodically with management and the Audit Committee of the Company's Board of Directors to evaluate and provide guidance on the existing risk framework and control environment assessments.

Monthly procedures have been established for Level III investments, which include 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 carrying value of the Company's other financial instruments, mainly its Notes, as well as the Revolving Credit Facility and the Aircraft Loan (each as defined in Note 10), approximated their fair values as of June 30, 2016. The Notes are categorized as Level II within the fair value hierarchy, and the Revolving Credit Facility and the Aircraft Loan are categorized as Level III.

#### 6. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

In the ordinary course of business, certain consolidated funds have entered into certain repurchase agreements 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 set off solely with respect to the transactions affected by the default. Generally, the funds party to these agreements manage cash and securities collateral on a counterparty basis as permitted under each master agreement.

The table below presents the repurchase agreements that are set off, if any, as well as 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. As a result of the adoption of ASU 2015-02, the Company no longer consolidates the majority of the previously consolidated Och-Ziff funds as of January 1, 2016. The deconsolidation resulted in no amounts being reportable as of June 30, 2016.

	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
Securities Sold Under Agreements to Repurchase					
	(dollars in thousands)				
As of December 31, 2015	\$190,751	\$	—\$ 190,751	\$ 190,751	\$ —



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The table below presents the remaining contractual maturity of the repurchase agreements by class of collateral pledged.

	As of December 31, 2015				
Securities Sold Under Agreements to Repurchase	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 Days	Total
	(dollars in thousands)				
Collateralized debt obligations	\$—	\$9,004	\$20,418	\$—	\$29,422
Residential mortgage-backed securities	—	87,719	6,605	59,242	153,566
United States government obligations	7,763	—	—	—	7,763
Total	\$7,763	\$96,723	\$27,023	\$59,242	\$190,751

The repurchase agreements entered into by certain of the consolidated funds may result in credit exposure to those funds in the event the counterparty to the transaction is unable to fulfill its contractual obligations. The funds minimize the credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral where appropriate.

#### 7. VARIABLE INTEREST ENTITIES

In the ordinary course of business, the Company sponsors the formation of funds that are considered VIEs. See Note 2 for a discussion of entities that are VIEs and the evaluation of those entities for consolidation by the Company.

The table below presents the assets and liabilities of VIEs consolidated by the Company. As a result of the adoption of ASU 2015-02 on January 1, 2016, the Company is no longer required to consolidate the majority of the Och-Ziff funds, including all CLOs, previously consolidated.

	June 30, 2016	December 31, 2015	
	Other Funds	CLOs	Other Funds
(dollars in thousands)			
<b>Assets</b>			
Assets of consolidated Och-Ziff funds:			
Investments, at fair value	\$28,727	\$6,750,296	\$1,199,633
Other assets of Och-Ziff funds	8,956	308,917	19,647
Total Assets	\$37,683	\$7,059,213	\$1,219,280
<b>Liabilities</b>			
Liabilities of consolidated Och-Ziff funds:			
Notes and loans payable of consolidated CLOs, at fair value	\$—	\$7,077,679	\$—
Securities sold under agreements to repurchase	—	—	3,583
Other liabilities of Och-Ziff funds	133	34,197	9,840
Total Liabilities	\$133	\$7,111,876	\$13,423

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's direct involvement with funds that are VIEs and not consolidated by the Company is generally limited to providing asset management services and, in certain cases, insignificant equity investments in the VIEs. The maximum



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exposure to loss represents the potential loss of current investments or income and fees receivables from these entities, as well as the obligation to repay unearned revenues, primarily incentive income subject to clawback, in the event of any future fund losses. The Company has commitments to fund certain funds that are VIEs as discussed in Note 15. The Company does not provide, nor is it required to provide, any type of non-contractual financial or other support to its VIEs that are not consolidated.

The table below presents the net assets of VIEs in which the Company has variable interests as of June 30, 2016 and December 31, 2015, respectively.

	June 30, 2016	December 31, 2015
	(dollars in thousands)	
Net assets of unconsolidated VIEs in which the Company has a variable interest <sup>(1)</sup>	\$2,986,826	\$32,878,450
Variable interest in assets and liabilities related to unconsolidated VIEs:		
Unearned revenues	88,226	314
Income and fees receivable	3,291	66,215
Investments in Och-Ziff funds	13,571	4,924
Maximum Exposure to Loss	\$105,088	\$71,453

The significant decline in the net assets period over period was due to the adoption of ASU 2015-02 on January 1, 2016. Prior to adoption of ASU 2015-02, management fees and incentive income were considered to be direct variable interests in the Company's funds. Subsequent to the adoption of ASU 2015-02, these fees were no longer considered to be variable interests when they were deemed customary and commensurate with the services being performed, and therefore only entities in which the Company holds other direct variable interests are included in the disclosure.

#### 8. OTHER ASSETS, NET

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

	June 30, 2016	December 31, 2015
	(dollars in thousands)	
Fixed Assets:		
Corporate aircraft	\$86,050	\$ 85,840
Leasehold improvements	52,451	51,814
Computer hardware and software	37,955	33,485
Furniture, fixtures and equipment	8,818	8,765
Accumulated depreciation and amortization	(67,194 )	(60,899 )
Fixed assets, net	118,080	119,005
United States government obligations, at fair value	29,973	18,501
Goodwill	22,691	22,691
Investments in Och-Ziff funds	15,651	6,019
Prepaid expenses	15,647	21,472
Other	6,230	5,287
Total Other Assets, Net	\$208,272	\$ 192,975



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## 9. OTHER LIABILITIES

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

	June 30, 2016	December 31, 2015
	(dollars in thousands)	
FCPA investigation reserve (See Note 15)	\$414,285	\$ —
Unearned revenues <sup>(1)</sup>	88,268	314
Accrued expenses	29,673	54,692
Deferred rent credit	15,383	17,436
Other	11,086	11,371
Total Other Liabilities	\$558,695	\$ 83,813

The significant increase in unearned revenues was the result of the deconsolidation of the majority of the (1) Company's funds upon the adoption of ASU 2015-02 on January 1, 2016. Prior to the deconsolidation, incentive income from the consolidated funds was eliminated in consolidation.

## 10. DEBT OBLIGATIONS

As of June 30, 2016, the Company's outstanding indebtedness was primarily comprised of Senior Notes (the "Notes"), borrowings under a revolving credit facility (the "Revolving Credit Facility") and a secured term loan to finance the purchase of a new corporate aircraft (the "Aircraft Loan").

### Senior Notes

On November 20, 2014, the Company issued \$400.0 million of Notes due November 20, 2019, unless earlier redeemed or repurchased. The Notes were issued at a price of 99.417% of the aggregate principal amount and bear interest at a rate per annum of 4.50% payable semiannually in arrears. The Notes are unsecured and unsubordinated obligations issued by a subsidiary of the Company, Och-Ziff Finance Co. LLC ("Och-Ziff Finance"), and are fully and unconditionally guaranteed, jointly and severally, on an unsecured and unsubordinated basis by OZ Management, OZ Advisors I and OZ Advisors II (collectively, the "Notes Guarantors").

The Notes may be redeemed from time to time at the Company's option, in whole or in part, at a redemption price equal to the greater of 100% of the principal amount to be redeemed and a make-whole redemption price (as defined in the Notes indenture), in either case, plus any accrued and unpaid interest. If a change of control repurchase event occurs, the Company will be required to offer to repurchase the Notes at a price equal to 101% of the aggregate principal amount, plus any accrued and unpaid interest.

The Notes do not have any financial maintenance covenants. However, the Notes include certain covenants, including limitations on Och-Ziff Finance's and, as applicable, the Notes Guarantors' ability to, subject to exceptions, incur indebtedness secured by liens on voting stock or profit participating equity interests of their respective subsidiaries or merge, consolidate or sell, transfer or lease all or substantially all assets. The Notes also provide for customary events of default, bankruptcy, insolvency or reorganization that may cause the Notes to become immediately due and payable, plus any accrued and unpaid interest.

### Revolving Credit Facility

On November 20, 2014, the Company entered into a \$150.0 million, 5-year unsecured Revolving Credit Facility, which was subsequently amended on December 29, 2015, the proceeds of which may be used for working capital, general corporate purposes or other liquidity needs. The borrower under the Revolving Credit Facility is OZ Management and the facility is guaranteed by OZ Advisors I, OZ Advisors II and Och-Ziff Finance. The Company is able to increase the maximum amount of



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credit available under the facility to \$225.0 million if certain conditions are satisfied. On April 29, 2016, the Company borrowed \$120.0 million pursuant to the Revolving Credit Facility. As of June 30, 2016, the Company had \$120.0 million of outstanding borrowings under the facility.

The Company is subject to a fee of 0.10% to 0.25% per annum on undrawn commitments during the term of the Revolving Credit Facility. Outstanding borrowings will bear interest at a rate per annum of LIBOR plus 1.00% to 2.00%, or a base rate plus 0% to 1.00%. The commitment fees and the spreads over LIBOR or the base rate are based on OZ Management's credit rating throughout the term of the facility. The interest rate on the drawn portion of the commitment as of June 30, 2016 was LIBOR plus 1.50%.

The Revolving Credit Facility includes two financial maintenance covenants. The first covenant prohibits total fee-paying assets under management as of the last day of any fiscal quarter to be less than \$22.0 billion for two successive quarters. The second covenant prohibits the economic income leverage ratio (as defined in the Revolving Credit Facility) as of the last day of any fiscal quarter from exceeding 4.0 to 1.0. The Revolving Credit Facility 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.

The Revolving Credit Facility includes provisions that restrict or limit, among other things, the ability of Och-Ziff Operating Group from:

• Incurring additional indebtedness or issuing certain equity interest.

• Creating liens.

• Paying dividends or making certain other payments when there is a default or event of default under the Revolving Credit Facility.

• Merging, consolidating, selling or otherwise disposing 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 Revolving Credit Facility permits the Och-Ziff Operating Group to incur, among other things, up to \$150.0 million of indebtedness, up to an additional \$200.0 million of indebtedness for financing of CLO risk retention investments and additional 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. The facility also permits the Och-Ziff Operating Group to create liens to, among other things, secure indebtedness related to financing of CLO risk retention investments, as well as other indebtedness and obligations of up to \$50.0 million.

#### Aircraft Loan

On February 14, 2014, the Company entered into the Aircraft Loan to finance installment payments towards the purchase of a new corporate aircraft that was delivered to the Company in February 2015. The Aircraft Loan is guaranteed by OZ Management, OZ Advisors I and OZ Advisors II. As of June 30, 2016, \$48.5 million was outstanding under the Aircraft Loan.

Outstanding borrowings bear interest at a rate of 3.22% per annum, and the balance is payable in equal monthly installments of principal and interest over the term of the facility beginning on the aircraft delivery date, with a balloon payment of \$30.8 million due upon maturity on February 4, 2022. There are no financial covenants associated with the Aircraft Loan. The Aircraft Loan includes other customary terms and conditions, including customary events of default and covenants.



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Notes and Loans Payable of Consolidated CLOs

Prior to the adoption of ASU 2015-02 on January 1, 2016, the Company consolidated the CLOs it manages. As a result, the senior and subordinated notes and loans issued by the CLOs were included in the Company's consolidated balance sheet as of December 31, 2015. Notes and loans 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 December 31, 2015, the fair value of the CLO assets was \$7.1 billion.

The Company elected to carry these notes and loans payable at fair value in its consolidated balance sheet to mitigate the accounting mismatch between the carrying values of the assets and liabilities of the consolidated CLOs prior to deconsolidation. The Company recorded net losses of \$2.5 million and \$38.5 million for the three and six months ended June 30, 2015. These net losses are included within net gains (losses) of consolidated Och-Ziff funds in the statements of comprehensive income. The majority of these changes relate to changes in instrument specific credit risk, as the majority of these are floating-rate instruments.

The table below presents information related to the CLO notes and loans outstanding as of December 31, 2015. The subordinated notes have no stated interest rate, and are entitled to any excess cash flows after contractual payments are made to the senior secured notes and loans. As a result of the adoption of ASU 2015-02 referenced above, there were no notes or loans payable of consolidated CLOs as of June 30, 2016.

	As of December 31, 2015			
	Borrowings Outstanding	Fair Value	Weighted-Average Interest Rate	Weighted-Average Maturity in Years
	(dollars in thousands)			
Senior secured notes and loans payable of consolidated CLOs	\$6,810,350	\$6,636,838	2.45%	10.5
Subordinated notes payable of consolidated CLOs	688,578	440,841	N/A	10.5
Total Notes and Loans Payable of Consolidated CLOs	\$7,498,928	\$7,077,679		

11. GENERAL, ADMINISTRATIVE AND OTHER

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

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2016	2015	2016	2015
	(dollars in thousands)			
Professional services	\$19,820	\$20,771	\$43,195	\$28,258
Recurring placement and related service fees	10,023	12,227	22,554	24,874
Information processing and communications	8,325	7,202	18,674	14,117
Occupancy and equipment	9,163	8,543	18,491	16,919
Business development	3,789	4,127	8,458	7,316
Insurance	4,027	4,209	8,031	8,373
Other expenses	3,095	3,335	6,508	10,417
	58,242	60,414	125,911	110,274
FCPA investigation reserve (See Note 15)	214,285	—	414,285	—
Changes in tax receivable agreement liability	(26 )	(48,401 )	(171 )	(48,426 )

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Total General, Administrative and Other	\$272,501	\$12,013	\$540,025	\$61,848
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## 12. 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 -6.0% and 55.8% for the three months ended June 30, 2016 and 2015, respectively.

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 -9.2% and 31.8% for the six months ended June 30, 2016 and 2015, 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 Company's consolidated net income is not subject to federal, state and local corporate income taxes in the United States, as these amounts are allocated to the executive managing directors on their Och-Ziff Operating Group A Units or to fund investors in the Company's consolidated funds (each of which is included within noncontrolling interests); (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 accrual for the Foreign Corrupt Practices Act (the "FCPA") investigation reserve described in Note 15 was treated as a non-deductible expense when determining income tax expense.

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.

As of June 30, 2016 and December 31, 2015, the Company had a liability for unrecognized tax benefits of \$7.0 million. As of and for the three and six months ended June 30, 2016, the Company did not accrue interest or penalties related to uncertain tax positions. As of June 30, 2016, 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 \$4.3 million as of June 30, 2016.

## 13. (LOSS) EARNINGS PER CLASS A SHARE

Basic (loss) earnings per Class A Share is computed by dividing the net (loss) income allocated to Class A Shareholders by the weighted-average number of Class A Shares outstanding for the period. For the three months ended June 30, 2016, and 2015, the Company included 1,062,801 RSUs and 1,160,179 RSUs, respectively, 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 (loss) earnings per Class A Share. For the six months ended June 30, 2016, and 2015 the Company included 1,213,680 RSUs and 1,346,295 RSUs, respectively, that have vested but have not been settled in Class A Shares in the weighted-average Class A Shares outstanding used to calculate basic and diluted (loss) earnings per Class A Share.



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

	Net Loss Allocated to Class A Shareholders	Weighted-Average Class A Shares Outstanding	Loss Per Class A Share	Number of Antidilutive Units Excluded from Diluted Calculation
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	(dollars in thousands, except per share amounts)			
Basic	\$ (78,571 )	182,454,677	\$ (0.43 )	
Effect of dilutive securities:				
Och-Ziff Operating Group A Units	(130,904 )	297,317,019		—
RSUs	—	—		14,676,979
Diluted	\$ (209,475 )	479,771,696	\$ (0.44 )	

	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
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	(dollars in thousands, except per share amounts)			
Basic	\$ 4,760	177,693,164	\$ 0.03	
Effect of dilutive securities:				
Och-Ziff Operating Group A Units	—	—		301,874,006
RSUs	—	4,402,533		—
Diluted	\$ 4,760	182,095,697	\$ 0.03	

	Net Loss Allocated to Class A Shareholders	Weighted-Average Class A Shares Outstanding	Loss Per Class A Share	Number of Antidilutive Units Excluded from Diluted Calculation
--	---	---	---------------------------------	--

	(dollars in thousands, except per share amounts)			
Basic	\$ (147,927 )	182,501,762	\$ (0.81 )	
Effect of dilutive securities:				
Och-Ziff Operating Group A Units	—	—		297,317,172
RSUs	—	—		13,901,270
Diluted	\$ (147,927 )	182,501,762	\$ (0.81 )	
Six Months Ended June 30, 2015		Weighted-Average		Number of

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	Net Income Allocated to Class A Shareholders	Class A Shares Outstanding	Earnings Per Class A Share	Antidilutive Units Excluded from Diluted Calculation
	(dollars in thousands, except per share amounts)			
Basic	\$30,631	177,664,174	\$ 0.17	
Effect of dilutive securities:				
Och-Ziff Operating Group A Units	—	—		301,877,014
RSUs	—	3,462,209		—
Diluted	\$30,631	181,126,383	\$ 0.17	

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## 14. RELATED PARTY TRANSACTIONS

## Due from Related Parties

Amounts due from related parties relate primarily to amounts due from the Och-Ziff funds for expenses paid on their behalf. These amounts are reimbursed to the Company on an ongoing basis.

## 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 discussed further in Note 15.

## Notes and Loans Payable of Consolidated CLOs

As of December 31, 2015, \$100.4 million of the notes and loans payable of consolidated CLOs was held by certain funds managed by the Company.

## 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. However, in January 2015, the Company began to waive management fees and incentive income on new investments by its executive managing directors and certain other related parties. The Company continues to waive fees for employee investments in the funds.

The following table presents management fees and incentive income charged on investments held by related parties and amounts waived by the Company for related parties before the impact of eliminations related to the consolidated funds:

	Three Months	Six Months
	Ended June 30,	Ended June 30,
	2016	2015

(dollars in thousands)

## Fees charged on investments held by related parties:

Management fees	\$4,492	\$4,987	\$9,259	\$10,020
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Incentive income	\$1,080	\$255	\$2,000	\$1,709
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## Fees waived on investments held by related parties:

Management fees	\$4,395	\$4,308	\$8,719	\$8,390
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Incentive income	\$185	\$349	\$749	\$584
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## Corporate Aircraft

The Company's corporate aircraft are used primarily for business purposes. From time to time, certain executive managing directors use the aircraft for personal use. For the three months ended June 30, 2016 and 2015, the Company charged \$274 thousand and \$212 thousand, respectively, for personal use of the aircraft by certain executive managing directors. For the

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six months ended June 30, 2016, and 2015, the Company charged \$595 thousand and \$568 thousand, respectively, for personal use of the aircraft by certain executive managing directors.

15. 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 as 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 (loss) 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 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. As of June 30, 2016, the estimated future payment under the tax receivable agreement was \$591.6 million, which is recorded in due to related parties on the consolidated balance sheets.

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, Dubai, Shanghai and Houston 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, 2015.

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.



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As previously disclosed, since 2011, the Company has been investigated by the U.S. Securities and Exchange Commission (the “SEC”) and the U.S. Department of Justice (the “DOJ”) concerning possible violations of the FCPA and other laws. While the Company is unable to predict the full scope, duration or outcome of the SEC and DOJ investigations, based on discussions with the SEC and DOJ it believes that the government will pursue civil and criminal sanctions. The Company is in discussions with the SEC and DOJ concerning resolution of these matters. The Company accrued \$200.0 million in the first quarter of 2016 in connection with the disclosed investigations and recorded an additional charge of \$214.3 million in connection with the disclosed investigations for the second quarter of 2016. The probable estimated loss, which totals \$414.3 million, may be subject to change based on the terms of any final settlement with the SEC and DOJ relating to those matters. Any resolution could have a material adverse effect on the Company’s business, financial condition or results of operations.

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.*). The amended complaint asserts claims on behalf of all purchasers of Company securities from February 9, 2012 to August 22, 2014, and asserts claims under the Securities Exchange Act of 1934. Daniel Och, Joel Frank and Michael Cohen are also named defendants. The amended complaint alleges, among other things, breaches of certain disclosure obligations with respect to matters under investigation by the SEC and the DOJ. On March 16, 2015, the Company and Messrs. Och and Frank moved to dismiss the amended complaint. On February 17, 2016, the court entered an order granting the motion to dismiss in part and denying it in part, and dismissed Mr. Cohen from the action. On March 2, 2016, the Company and Messrs. Och and Frank filed a motion for reconsideration requesting that the court reconsider its ruling insofar as it denied the motion to dismiss and further requesting that the court dismiss the amended complaint in its entirety. The motion for reconsideration was denied on May 6, 2016. On March 23, 2016, the Company and Messrs. Och and Frank filed their answer to the amended complaint.

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.*). The amended 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. On July 27, 2015, the Supreme Court of the State of New York ruled from the bench that it was granting defendants’ motion to dismiss the amended complaint for failure to plead demand futility. On August 10, 2015, the court in the Stokes matter entered a written order dismissing the action. The plaintiff’s time to appeal the court’s decision on the motion to dismiss has lapsed.

On September 2, 2015, a shareholder derivative action was filed in the Supreme Court of the State of New York, County of New York (*Kumari v. Och, et al.*). The complaint asserts derivative claims on behalf of the Company against all of the Company’s directors and alleges breaches of fiduciary duty and other misconduct with respect to matters under investigation by the SEC and the DOJ.

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, including the Company if it is an investor in the relevant fund.

The Company has unfunded capital commitments of \$24.5 million to certain funds it manages. It expects to fund these commitments over the next five years. In addition, certain of the Company’s executive managing directors, collectively, have capital commitments to funds managed by the Company of up to \$39.9 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.





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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.

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.

16. SEGMENT INFORMATION

The Company's operating segments are the Och-Ziff Funds segment and the Company's real estate business. The Och-Ziff Funds, which provides asset management services to the Company's multi-strategy funds, dedicated credit funds and other alternative investment vehicles, is currently the Company's only reportable operating segment under GAAP. The Company's real estate business, which provides asset management services to its real estate funds, is included in the Other Operations, as it does not meet the threshold of a reportable operating segment 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 on their direct interests in the Och-Ziff Operating Group. Management reviews operating performance at the Och-Ziff Operating Group level, where 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. However, the fair value of RSUs that are settled in cash to employees or executive managing directors is included as an expense at the time of settlement.

Changes in the tax receivable agreement liability and net gains 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 commitment period, as management reviews the total compensation expense related to these arrangements in relation to any incentive income earned by the relevant fund.



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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.

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		Six Months Ended	
June 30,		June 30,	
2016	2015	2016	2015

(dollars in thousands)

Och-Ziff Funds Segment:

Economic Income Revenues \$135,672 \$191,977 \$302,441 \$415,267

Economic Income \$(162,586) \$110,511 \$(282,525) \$263,174

Reconciliation of Och-Ziff Funds Segment Revenues to Consolidated Revenues

Three Months Ended		Six Months Ended	
June 30,		June 30,	
2016	2015	2016	2015

(dollars in thousands)

Total consolidated revenues	\$152,558	\$321,399	\$341,000	\$654,250
Adjustment to management fees <sup>(1)</sup>	(10,023 )	(477 )	(22,554 )	(2,577 )
Adjustment to incentive income <sup>(2)</sup>	—	3,000	—	11,173
Other Operations revenues	(6,425 )	(7,077 )	(15,201 )	(13,374 )
Income of consolidated Och-Ziff funds	(438 )	(124,868 )	(804 )	(234,205 )
Economic Income Revenues - Och-Ziff Funds Segment	\$135,672	\$191,977	\$302,441	\$415,267

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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(dollars in thousands)			
Net (loss) income allocated to Class A Shareholders—GAAP	\$(78,571 )	\$4,760	\$(147,927 )	\$30,631
Net (loss) income allocated to the Och-Ziff Operating Group A Units	(115,632 )	50,802	(203,651 )	131,734
Equity-based compensation, net of RSUs settled in cash	19,471	30,247	38,013	59,043
Income taxes	10,911	82,025	29,450	107,185
Adjustment for incentive income allocations from consolidated funds subject to clawback	—	(18,805 )	—	(37,278 )
Allocations to Och-Ziff Operating Group D Units	1,025	5,414	1,900	11,449
Adjustment for expenses related to compensation and profit-sharing arrangements based on fund investment performance	1,425	2,175	2,689	3,594
Reorganization expenses	—	4,017	—	8,034
Changes in tax receivable agreement liability	(26 )	(48,401 )	(171 )	(48,426 )
Depreciation and amortization	3,580	3,000	6,982	5,149
Other adjustments	(942 )	43	(1,373 )	110
Other Operations	(3,827 )	(4,766 )	(8,437 )	(8,051 )
Economic Income - Och-Ziff Funds Segment	\$(162,586)	\$110,511	\$(282,525)	\$263,174

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 II—Item 1A. Risk Factors” of this 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

Recent Developments

Certain of our executive managing directors are in discussions with a Special Committee of our Board of Directors regarding a potential financing transaction of up to \$500.0 million of perpetual preferred units, the proceeds of which would be used to fund payments in connection with our ongoing FCPA investigation and for general corporate purposes. The dividend rate on the units is expected to be 0% initially for three years, after which it is expected to increase over time and upon the occurrence of certain events to be agreed. The units would not be convertible into Class A Shares. See “—Liquidity and Capital Resources—Potential Financing Transaction of New Preferred Units” for additional information.

Deconsolidation on Adoption of ASU 2015-02

As a result of the adoption of ASU 2015-02, we deconsolidated the majority of our previously consolidated funds. This resulted in a substantial decrease in assets of consolidated Och-Ziff funds, liabilities of consolidated Och-Ziff funds, redeemable noncontrolling interests, appropriated retained deficit and shareholders’ equity attributable to non-controlling interests in our consolidated balance sheet. Additionally, the deconsolidation has caused a significant decrease in the amount of income of consolidated Och-Ziff funds, expenses of consolidated Och-Ziff funds, and net gains of consolidated Och-Ziff funds in our consolidated statement of comprehensive (loss) income. Management fees and incentive income from the previously consolidated funds are also no longer eliminated in consolidation.



We adopted ASU 2015-02 using the modified retrospective method of transition, which resulted in an effective date of adoption of January 1, 2016, and a cumulative effect adjustment to opening equity to reflect the impacts of adoption. We did not restate prior-period results. The impact to our opening retained earnings was driven by the cumulative effect of a change in incentive income recognition for the funds no longer consolidated as further discussed below. The net impact to our results is that incentive income from these funds will now be recognized when such amounts are no longer subject to clawback. Prior to deconsolidation, incentive income from these previously consolidated funds was recognized by allocating a portion of the net income of these funds to us rather than to the fund investors (noncontrolling interests) based on the contractual terms of the relevant fund agreements. This resulted in incentive income being recognized that was subject to clawback in the event of future losses in the respective funds. The adoption of ASU 2015-02 and the resulting deconsolidation of the majority of the previously consolidated funds had no impact on our Economic Income or other non-GAAP measures discussed throughout this MD&A.

#### Overview of Our Financial Results

For the second quarter of 2016, we reported GAAP net loss allocated to Class A Shareholders of \$78.6 million, compared to net income of \$4.8 million for the second quarter of 2015, and net loss of \$147.9 million for the first half of 2016, compared to net income of \$30.6 million for the first half of 2015. The decrease for both quarter to date and year to date periods was primarily driven by the \$414.3 million FCPA investigation reserve accrual taken in the first half of 2016, \$214.3 million of which was recorded in the second quarter of 2016. Please see Note 15 to our consolidated financial statements included in this report for additional information related to the accrual. In addition, lower incentive income and management fees and higher non-compensation expenses, partially offset by lower income taxes and lower compensation and benefits, also contributed to the year-over-year decrease.

For the second quarter of 2016, we reported net loss on an Economic Income basis for the Company of \$158.8 million, compared to net income of \$115.3 million for the second quarter of 2015, and net loss on an Economic Income basis of \$274.1 million for the first half of 2016, compared to net income of \$271.2 million for the first half of 2015. The decrease for both quarter to date and year to date periods was primarily driven by the \$414.3 million FCPA investigation reserve accrual taken in the first half of 2016, \$214.3 million of which was recorded in the second quarter of 2016. In addition, lower incentive income and management fees, as well as higher operating expenses also contributed to year over year decrease. 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 change in Economic Income, please see “—Economic Income Analysis.”

#### Overview of Assets Under Management and Fund Performance

Assets under management totaled \$42.0 billion as of June 30, 2016. Longer-dated assets under management, which are those subject to initial commitment periods of three years or longer, were \$16.5 billion, or 39%, of our total assets under management as of June 30, 2016. Assets under management in our dedicated credit, real estate and other strategy-specific funds were \$15.9 billion, comprising 38% of assets under management as of June 30, 2016.

Assets under management in our multi-strategy products totaled \$26.1 billion as of June 30, 2016. OZ Master Fund, our largest multi-strategy fund, generated a gross return of -1.2% and a net return of -2.1% year-to-date through June 30, 2016. On a gross basis, U.S. long/short equity special situations was the largest contributor to the performance-related depreciation, partially offset by positive performance in merger arbitrage, credit-related strategies and convertible and derivative arbitrage. Assets under management for the fund were \$21.4 billion as of June 30, 2016. Please see “—Assets Under Management and Fund Performance—Multi-Strategy Funds” for additional information regarding the returns of the OZ Master Fund.

Assets under management in our dedicated credit products totaled \$12.4 billion as of June 30, 2016. Assets under management in our opportunistic credit funds were \$5.2 billion as of June 30, 2016. OZ Credit Opportunities Master Fund, our global opportunistic credit fund, generated a gross return of 5.1% and a net return of 4.4% year-to-date through June 30, 2016. On a gross basis, performance was driven by the fund’s U.S. portfolio. Assets under management for the fund were \$1.6 billion as of June 30, 2016. Assets under management in Institutional Credit Strategies, our asset management platform that invests in performing credits, were \$7.2 billion as of June 30, 2016.





Assets under management in our real estate funds totaled \$2.2 billion as of June 30, 2016. Since inception, Och-Ziff Real Estate Fund II, which finished its investment period in 2014, has generated a net internal rate of return (“IRR”) of 21.9% through June 30, 2016 and a gross multiple of invested capital (“MOIC”) of 1.8x.

#### 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 global markets. Financial markets experienced a number of important macroeconomic events over the course of the second quarter of 2016. The U.K. referendum on E.U. membership was the dominant event of the second quarter, as the market’s unease leading up to the referendum on June 23<sup>rd</sup> and the uncertainty that followed, which is likely to persist for an extended period of time. Financial assets have experienced divergent performance since the result of the U.K. referendum, indicative of the market’s struggle to digest the economic and political ramifications of the U.K.’s exit from the E.U. The volatile price action experienced by the financial markets during the first quarter of 2016 subsided at the beginning of the second quarter. In general, financial markets rose during the second quarter, with the MSCI World Index generating positive performance, however, there was meaningful divergence in regional performance. In the U.S., the S&P 500 finished the second quarter with positive performance, while major indices in Europe, Japan and China all posted losses.

In the U.S., performance during the second quarter was largely driven by macroeconomic factors. Commodity prices rallied sharply at the beginning of the quarter, driving a strong recovery in both the Energy and Materials sectors. The Financials sector also rose at the beginning of the second quarter on increased expectations of a rate hike by the U.S. Federal Reserve. Performance in the Financials sector quickly reversed in June as expectations for a rate hike in 2016 faded meaningfully after the result of the U.K. referendum.

In Europe, financial markets rallied in April and May, but then declined sharply in June as a result of the U.K. referendum. In the U.K., however, financial markets rallied soon after the U.K. referendum.

In Asia, markets delivered mixed results during the second quarter of 2016. In China, economic data softened during the second quarter. However, currency outflows appear to have moderated, even as the Chinese yuan weakened further against the U.S. dollar. In Japan, the yen strengthened sharply during the second quarter of 2016, as geopolitical risks rose and the Bank of Japan disappointed investors by providing no additional monetary stimulus.

#### 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 opportunistic credit funds, our Institutional Credit Strategies products 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. In a declining market, during periods when the hedge fund industry generally experiences outflows, or in response to specific events that occur at the Company, we could experience increased redemptions and a consequent reduction in our assets under management. Recently, our assets under management have declined and we believe this trend will likely continue to some extent for some period of time following the resolution of the previously disclosed FCPA investigation.

Information with respect to our assets under management throughout this report, including the tables set forth below, 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. However, in January 2015, we began to waive management fees and incentive income on new investments by our executive managing directors and certain other related parties. As of June 30, 2016, approximately 6% 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 50% 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 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 tables below present the changes to our assets under management for the respective periods based on the type of funds or investment vehicles we manage.

## Three Months Ended June 30, 2016

	March 31, 2016	Inflows / (Outflows)	Distributions / Other Reductions	Appreciation / (Depreciation)	June 30, 2016
(dollars in thousands)					
Multi-strategy funds	\$27,511,130	\$ (1,706,955)	\$ —	\$ 290,219	\$26,094,394
Credit					
Opportunistic credit funds	5,178,528	16,964	(147,400 )	144,664	5,192,756
Institutional Credit Strategies	7,242,804	8,797	—	(6,093 )	7,245,508
Real estate funds	2,067,870	155,956	(7,072 )	(2,933 )	2,213,821
Other	1,211,726	21,924	—	309	1,233,959
Total	\$43,212,058	\$ (1,503,314)	\$ (154,472 )	\$ 426,166	\$41,980,438

## Three Months Ended June 30, 2015

	March 31, 2015	Inflows / (Outflows)	Distributions / Other Reductions	Appreciation / (Depreciation)	June 30, 2015
(dollars in thousands)					
Multi-strategy funds	\$33,872,642	\$ (1,139,366)	\$ —	\$ 257,182	\$32,990,458
Credit					
Opportunistic credit funds	5,191,989	18,201	(174,260 )	48,681	5,084,611
Institutional Credit Strategies	5,857,399	707,095	—	3,486	6,567,980
Real estate funds	2,058,366	9,488	(68,649 )	4,347	2,003,552
Other	1,329,831	(22,800 )	—	16,282	1,323,313
Total	\$48,310,227	\$ (427,382 )	\$ (242,909 )	\$ 329,978	\$47,969,914

## Six Months Ended June 30, 2016

	December 31, 2015	Inflows / (Outflows)	Distributions / Other Reductions	Appreciation / (Depreciation)	June 30, 2016
(dollars in thousands)					
Multi-strategy funds	\$29,510,248	\$ (2,761,207)	\$ —	\$ (654,647 )	\$26,094,394
Credit					
Opportunistic credit funds	5,383,629	(43,352 )	(288,400 )	140,879	5,192,756
Institutional Credit Strategies	7,241,680	14,176	—	(10,348 )	7,245,508
Real estate funds	2,048,559	230,995	(61,365 )	(4,368 )	2,213,821
Other	1,310,745	(21,448 )	—	(55,338 )	1,233,959
Total	\$45,494,861	\$ (2,580,836)	\$ (349,765 )	\$ (583,822 )	\$41,980,438

## Six Months Ended June 30, 2015

	December 31, 2014	Inflows / (Outflows)	Distributions / Other Reductions	Appreciation / (Depreciation)	June 30, 2015
(dollars in thousands)					
Multi-strategy funds	\$34,100,390	\$(2,600,685)	\$—	\$ 1,490,753	\$32,990,458
Credit					
Opportunistic credit funds	5,098,600	416,454	(537,190 )	106,747	5,084,611
Institutional Credit Strategies	5,166,734	1,395,147	—	6,099	6,567,980
Real estate funds	2,022,399	64,001	(82,941 )	93	2,003,552
Other	1,146,292	91,132	(1 )	85,890	1,323,313
Total	\$47,534,415	\$(633,951 )	\$(620,132 )	\$ 1,689,582	\$47,969,914

In the six months ended June 30, 2016, our funds experienced performance-related depreciation of \$583.8 million and net outflows of \$2.6 billion, which was comprised of \$681.8 million of gross inflows and \$3.3 billion of gross outflows due to redemptions. We also had \$349.8 million in distributions to investors in our closed-end opportunistic credit and real estate funds. Excluding CLOs, pensions and fund-of-funds were the largest sources of our gross inflows, while private banks, pensions and fund-of-funds were our largest sources of gross outflows during the first half of 2016.

In the six months ended June 30, 2015, our funds experienced performance-related appreciation of \$1.7 billion and net outflows of \$634.0 million, which was comprised of \$3.0 billion of gross inflows and \$3.6 billion of gross outflows due to redemptions. Distributions and other reductions were \$620.1 million, which was driven by \$467.7 million in distributions to investors in our closed-end opportunistic credit and real estate funds, and a \$152.4 million reduction in the OZ European Credit Opportunities Fund as a result of the expiration of the fund's investment period. Our gross inflows included \$1.0 billion within Institutional Credit Strategies related to two CLOs that closed during the first half of 2015. Excluding CLOs, pension funds were the largest source of our gross inflows during the first half of 2015, while private banks were the largest source of our gross outflows.

## Weighted-Average Assets Under Management and Average Management Fee Rate

The table below presents our weighted-average assets under management and the average management fee rate. Weighted-average assets under management exclude the impact of second quarter investment performance for the periods presented, as these amounts do not impact management fees calculated for the periods presented.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(dollars in thousands)				
Weighted-average assets under management	\$41,772,672	\$47,248,867	\$43,079,692	\$46,846,825
Average management fee rate	1.28	% 1.42	% 1.30	% 1.42

The decline in our average management fee rate for the periods presented occurred because of a change in the mix of products that comprise our assets under management. Specifically, the rate decline was driven by lower assets under management in our multi-strategy funds and an increase in our opportunistic credit funds and our Institutional Credit Strategies products as a percentage of total assets under management. These credit funds earn lower management fee rates than our multi-strategy funds, consistent with market convention for these products. Our average management fee will vary from period to period based on the mix of products that comprise our assets under management. Across the hedge fund industry, management fees are experiencing downward pressure. We are also subject to this pressure and believe it is likely to result in decreased management fees in future periods.



## Fund Performance Information

The tables below present performance information for the funds we manage. All of our funds are managed by the Och-Ziff Funds segment with the exception of our real estate funds, which are managed by the real estate management business included in Other Operations.

The performance information presented in this report is not indicative of the performance of our Class A Shares and is not necessarily indicative of the future results of any particular fund, including the accrued unrecognized amounts of incentive income. 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 timing and amount of incentive income generated from our funds are inherently uncertain. Incentive income is a function of investment performance and realizations of investments, which vary period-to-period based on market conditions and other factors. We cannot predict when, or if, any realization of investments will occur. Incentive income recognized for any particular period is not a reliable indicator of incentive income that may be earned in subsequent periods.

The return information presented in this report represents, where applicable, the composite performance of all feeder funds that comprise each of the master funds presented. Gross return information is generally calculated using the total return of all feeder funds, net of all fees and expenses except management fees and incentive income of such feeder funds and master funds and the returns of each feeder fund include the reinvestment of all dividends and other income. Net return information is generally calculated as the gross returns less management fees and incentive income (except incentive income on unrealized gains attributable to Special Investments in certain funds that could reduce returns on these investments at the time of realization). Return information also includes 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

The table below presents assets under management and investment performance for our multi-strategy funds. Assets under management are generally based on the net asset value of these products. Management fees generally range from 1.00% to 2.50% of assets under management.

We generally crystallize incentive income from the majority of our multi-strategy funds on an annual basis. Incentive income is generally equal to 20% of the realized and unrealized profits attributable to each investor. A portion of the assets under management in each of the OZ Master Fund and our other multi-strategy funds is subject to initial commitment periods of three years, and certain of these assets are subject to hurdle rates (generally equal to the 3-month T-bill or LIBOR rate). However, once the investment performance has exceeded the hurdle rate for a portion of these assets, we may receive a preferential “catch-up” allocation, resulting in a potential recognition by us of a full 20% of the net profits attributable to investors in these assets. See “—Understanding Our Results—Incentive Income” for additional information.

Fund	Assets Under Management as of June 30,		Returns for the Six Months Ended June 30,				Annualized Returns Since Inception Through June 30, 2016	
			2016		2015			
	2016	2015	Gross	Net	Gross	Net	Gross	Net
	(dollars in thousands)							
OZ Master Fund <sup>(1)</sup>	\$21,448,827	\$27,046,091	-1.2 %	-2.1 %	6.1 %	4.1 %	16.9 % <sup>(1)</sup>	11.8 % <sup>(1)</sup>
OZ Asia Master Fund	1,102,792	1,272,444	-2.9 %	-3.8 %	15.7 %	12.0 %	9.4 %	5.4 %
OZ Europe Master Fund	845,900	918,757	-0.9 %	-1.7 %	7.3 %	5.2 %	11.6 %	7.6 %
OZ Enhanced Master Fund	1,003,949	1,262,828	-3.3 %	-4.2 %	9.8 %	7.0 %	9.2 %	5.3 %
Och-Ziff European Multi-Strategy UCITS Fund	172,092	302,105	-4.7 %	-5.7 %	8.0 %	5.9 %	4.3 %	1.5 %
Other funds	1,520,834	2,188,233	n/m	n/m	n/m	n/m	n/m	n/m

\$26,094,394 \$32,990,458

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n/m not meaningful

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The annualized returns since inception are those of the Och-Ziff Multi-Strategy Composite, which represents the composite performance of all accounts that were managed in accordance with our broad multi-strategy mandate that were not subject to portfolio investment restrictions or other factors that limited our investment discretion since inception on April 1, 1994. Performance is calculated using the total return of all such accounts net of all investment fees and expenses of such accounts, 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 include the reinvestment of all dividends and other income. The performance calculation for the OZ Master Fund excludes realized and unrealized gains and losses attributable to currency hedging specific to certain investors investing in (1) OZ Master Fund in currencies other than the U.S. Dollar. For the period from April 1, 1994 through December 31, 1997, the returns are gross of certain overhead expenses that were reimbursed by the accounts. Such reimbursement arrangements were terminated at the inception of the OZ Master Fund on January 1, 1998. The size of the accounts comprising the composite during the time period shown vary materially. Such differences impacted our investment decisions and the diversity of the investment strategies followed. Furthermore, the composition of the investment strategies we follow is subject to our discretion, has varied materially since inception and is expected to vary materially in the future. As of June 30, 2016, the gross and net annualized returns since the OZ Master Fund's inception on January 1, 1998 were 12.9% and 8.7%, respectively.

The \$6.9 billion, or 21%, year-over-year decrease in assets under management in our multi-strategy funds was primarily due to capital net outflows of \$4.9 billion, primarily from the OZ Master Fund. Also contributing to the decrease was \$2.0 billion of performance-related depreciation.

For the first half of 2016, the OZ Master Fund generated a gross return of -1.2% and a net return of -2.1%. On a gross basis, U.S. long/short equity special situations was the largest contributor to the performance-related depreciation, partially offset by positive performance in merger arbitrage, credit-related strategies and convertible and derivative arbitrage. For the first half of 2015, the OZ Master Fund generated a gross return of 6.1% and net return of 4.1%, driven by its long/short equity special situations strategy globally.

#### Credit

Assets Under  
Management as of June  
30,  
2016                      2015

(dollars in thousands)

Opportunistic credit funds	\$5,192,756	\$5,084,611
Institutional Credit Strategies	7,245,508	6,567,980
	\$12,438,264	\$11,652,591

#### Opportunistic Credit Funds

Our opportunistic credit funds seek to generate risk-adjusted returns by capturing value in mispriced investments across disrupted, dislocated and distressed corporate, structured and private credit markets globally.

Certain of our opportunistic credit funds are open-end and allow for contributions and redemptions (subject to initial lock-up and notice periods) on a periodic basis similar to our multi-strategy funds. Our remaining opportunistic credit funds are closed-end, whereby investors make a commitment that is funded over an investment period. Upon the expiration of an investment period, the investments are then sold or realized over a period of time, and distributions are made to the investors in the fund.

Assets under management for our opportunistic credit funds are generally based on the net asset value of those funds plus any unfunded commitments. Management fees for our opportunistic credit funds generally range from 0.50% to 1.75% of the net asset value of these funds. See “—Understanding Our Results—Incentive Income” for additional information, including the recognition of incentive income for funds that we consolidate.

The table below presents assets under management and investment performance information for certain of our opportunistic credit funds. Incentive income related to these funds is generally equal to 20% of realized and unrealized profits attributable to each investor, and a portion of these assets under management is subject to hurdle rates



(generally 5% to 8%). However, once the investment performance has exceeded the hurdle rate, we may receive a preferential “catch-up” allocation, resulting in a potential recognition by us of a full 20% of the net profits attributable to investors in these funds. The measurement periods for these assets under management generally range from one to five years.

Fund	Assets Under Management as of June 30,		Returns for the Six Months Ended June 30,				Annualized Returns Since Inception Through June 30, 2016	
	2016	2015	2016		2015		2016	
			Gross	Net	Gross	Net	Gross	Net
	(dollars in thousands)							
OZ Credit Opportunities Master Fund	\$1,621,130	\$1,573,470	5.1 %	4.4 %	1.5 %	1.1 %	16.0%	11.6%
Customized Credit Focused Platform	2,519,090	1,814,973	5.6 %	4.2 %	3.7 %	2.7 %	18.5%	14.0%
Closed-end opportunistic credit funds	625,634	1,130,221	See below for return information on our closed-end opportunistic credit funds.					
Other funds	426,902	565,947	n/m	n/m	n/m	n/m	n/m	n/m
	\$5,192,756	\$5,084,611						

n/m not meaningful

The \$108.1 million year-over-year increase in our opportunistic credit funds was due to capital net inflows of \$661.3 million, partially offset by distributions and other reductions of \$478.4 million in our closed-end opportunistic credit funds and \$74.8 million of performance-related depreciation. The capital net inflows were driven primarily by capital net inflows of \$690.5 million into the Customized Credit Focused Platform. For the first half of 2016, the OZ Credit Opportunities Master Fund, our global opportunistic credit fund, generated a gross return of 5.1% and a net return of 4.4%. On a gross basis, performance was driven by the fund's U.S. portfolio.

The table below presents assets under management, investment performance and other information for our closed-end opportunistic credit funds. Incentive income related to these funds is generally equal to 20% of the cumulative realized profits attributable to each investor over the life of the fund, subject to hurdle rates (generally 5% to 6%), and is recognized at or near the end of the life of the fund when it is no longer subject to clawback. However, once the investment performance has exceeded the hurdle rate, we may receive a preferential "catch-up" allocation, resulting in a potential recognition by us of a full 20% of the net profits attributable to investors in these funds. The investment periods for these funds may generally be extended for an additional one to two years.

Fund (Investment Period)	Assets Under Management as of June 30,		Inception to Date as of June 30, 2016			
	2016	2015	IRR			
			Total Commitments	Total Invested Capital <sup>(1)</sup>	Gross <sup>(2)</sup>	Net <sup>(3)</sup>
	(dollars in thousands)					
OZ European Credit Opportunities Fund (2012-2015) <sup>(5)</sup>	\$151,043	\$312,700	\$459,600	\$305,487	16.6%	12.5%
OZ Structured Products Domestic Fund II (2011-2014) <sup>(5)</sup>	207,405	349,142	326,850	326,850	18.2%	13.9%
OZ Structured Products Offshore Fund II (2011-2014) <sup>(5)</sup>	212,937	301,982	304,531	304,531	14.8%	11.0%
OZ Structured Products Offshore Fund I (2010-2013) <sup>(5)</sup>	16,497	25,089	155,098	155,098	23.9%	19.1%
OZ Structured Products Domestic Fund I (2010-2013) <sup>(5)</sup>	10,504	15,425	99,986	99,986	22.8%	18.2%
Other funds	27,248	125,883	298,250	268,250	n/m	n/m

\$625,634 \$1,130,221 \$1,644,315 \$1,460,202

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n/m not meaningful

(1) Represents funded capital commitments net of recallable distributions to investors.

Gross IRR for our closed-end opportunistic credit funds represents the estimated, unaudited, annualized return based on the timing of cash inflows and outflows for the fund as of June 30, 2016, including the fair value of

(2) unrealized investments as of such date, together with any appreciation or depreciation from related hedging activity. Gross IRR does not include the effects of management fees or incentive income, which would reduce the return, and includes the reinvestment of all fund income.

Net IRR is calculated as described in footnote (2), but is reduced by all management fees, as well as paid incentive and accrued incentive income that will be payable upon the distribution of each fund's capital in accordance with the terms of the relevant fund. Accrued incentive income may be higher or lower at such time. The net IRR represents a composite rate of return for a fund and does not reflect the net IRR specific to any individual investor.

Gross MOIC for our closed-end opportunistic credit funds is calculated by dividing the sum of the net asset value of the fund, accrued incentive income, life-to-date incentive income and management fees paid and any non-recallable distributions made from the fund by the invested capital.

These funds have concluded their investment periods, and therefore we expect assets under management for these funds to decrease as investments are sold and the related proceeds are distributed to the investors in these funds.

#### Institutional Credit Strategies

Institutional Credit Strategies is our asset management platform that invests in performing credits, including leveraged loans, high-yield bonds, private credit/bespoke financing and investment grade credit via CLOs and other customized solutions for clients.

		Assets Under Management as of June 30,		
	Closing Date	Initial Deal Size	2016	2015
(dollars in thousands)				
CLOs:				
OZLM I	July 19, 2012	\$510,700	\$497,636	\$505,682
OZLM II	November 1, 2012	560,100	513,276	518,066
OZLM III	February 20, 2013	653,250	612,123	614,041
OZLM IV	June 27, 2013	600,000	541,114	543,525
OZLM V	December 17, 2013	501,250	468,683	471,074
OZLM VI	April 16, 2014	621,250	597,488	593,269
OZLM VII	June 26, 2014	824,750	796,223	796,434
OZLM VIII	September 9, 2014	622,250	596,574	596,239
OZLM IX	December 22, 2014	510,208	495,016	495,667
OZLM XI	March 12, 2015	510,500	491,377	490,977
OZLM XII	May 28, 2015	565,650	547,916	546,435
OZLM XIII	August 6, 2015	511,600	496,217	—
OZLM XIV	December 21, 2015	507,420	495,798	—
		7,498,928	7,149,441	6,171,409
Other funds	n/a	n/a	96,067	396,571
		\$7,498,928	\$7,245,508	\$6,567,980

Assets under management for our CLOs are generally based on the par value of the collateral and cash held in the CLOs. However, assets under management are reduced for any investments in our CLOs held by our other funds in order to avoid double counting these assets. Management fees for the CLOs are generally 0.50% of assets under management. Incentive income from our CLOs is generally equal to 20% of the excess cash flows due to the holders of the subordinated notes issued by the CLOs, subject to a 12% hurdle rate. See “—Understanding Our Results—Incentive Income” for additional information. Because of the hurdle rate and structure of our CLOs, we do not expect to earn a meaningful amount of incentive income from these entities, and therefore no return information is presented for these vehicles.

The year-over-year increase in assets under management was driven primarily by the launch of two additional CLOs.

#### Real Estate Funds

Our real estate funds generally make investments in commercial and residential real estate, including real property, multi-property portfolios, real estate-related joint ventures, real estate operating companies and other real

estate-related assets.

Assets under management for our real estate funds are generally based on the amount of capital committed by our fund investors during the investment period and the amount of actual capital invested for periods following the investment period.

However, assets under management are reduced for unfunded commitments by our executive managing directors that will be funded through transfers from other funds in order to avoid double counting these assets. Management fees for our real estate funds generally range from 0.75% to 1.50% of assets under management.

The tables below present assets under management, investment performance and other information for our real estate funds. Incentive income related to these funds is equal to 20% of the cumulative realized profits attributable to each investor over the life of the fund, subject to hurdle rates (generally 6% to 10%). However, once the investment performance has exceeded the hurdle rate, we may receive a preferential “catch-up” allocation, resulting in a potential recognition by us of a full 20% of the net profits attributable to investors in these funds.

Assets Under  
Management as of June  
30,  
2016                      2015

Fund	(dollars in thousands)	
Och-Ziff Real Estate Fund I	\$32,005	\$39,368
Och-Ziff Real Estate Fund II	345,174	393,876
Och-Ziff Real Estate Fund III	1,451,538	1,445,391
Och-Ziff Real Estate Credit Fund I	280,925	34,414
Other funds	104,179	90,503
	\$2,213,821	\$2,003,552

Inception to Date as of June 30, 2016

Fund (Investment Period)	Total Investments						Realized/Partially Realized Investments <sup>(1)</sup>			
	Total Commitments	Invested Capital <sup>(2)</sup>	Total Value <sup>(3)</sup>	Gross IRR <sup>(4)</sup>	Net IRR <sup>(5)</sup>	Gross MOIC <sup>(6)</sup>	Invested Capital	Total Value	Gross IRR <sup>(4)</sup>	Gross MOIC <sup>(6)</sup>
(dollars in thousands)										
Och-Ziff Real Estate Fund I <sup>(7)</sup> (2005-2010)	\$408,081	\$385,228	\$794,334	25.2%	15.7%	2.1x	\$359,360	\$786,167	28.1%	2.2x
Och-Ziff Real Estate Fund II <sup>(7)</sup> (2011-2014)	839,508	735,700	1,306,483	34.0%	21.9%	1.8x	552,240	1,085,390	39.5%	2.0x
Och-Ziff Real Estate Fund III <sup>(8)</sup> (2014-2019)	1,500,000	330,189	380,382	n/m	n/m	n/m	—	—	n/m	n/m
Och-Ziff Real Estate Credit Fund I <sup>(8)</sup> (2015-2019)	323,225	22,419	26,483	n/m	n/m	n/m	22,419	26,483	n/m	n/m
Other funds	216,172	65,920	96,835	n/m	n/m	n/m	—	—	n/m	n/m
	\$3,286,986	\$1,539,456	\$2,604,517				\$934,019	\$1,898,040		

Unrealized Investments as of  
June 30, 2016

Invested Capital      Total Value      Gross MOIC<sup>(6)</sup>

Fund (Investment Period) (dollars in thousands)

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Och-Ziff Real Estate Fund I (2005-2010) <sup>(7)</sup>	\$25,868	\$8,167	0.3x
Och-Ziff Real Estate Fund II (2011-2014) <sup>(7)</sup>	183,460	221,093	1.2x
Och-Ziff Real Estate Fund III (2014-2019) <sup>(8)</sup>	330,189	380,382	n/m
Och-Ziff Real Estate Credit Fund I (2015-2019) <sup>(8)</sup>	—	—	n/m
Other funds	65,920	96,835	n/m
	\$605,437	\$706,477	

n/m not meaningful

(1) An investment is considered partially realized when the total amount of proceeds received, including dividends, interest or other distributions of income and return of capital, represents at least 50% of invested capital.

(2) Invested capital represents total aggregate contributions made for investments by the fund.

(3) Total value represents the sum of realized distributions and the fair value of unrealized and partially realized investments as of June 30, 2016. Total value will be impacted (either positively or negatively) by future economic and other factors. Accordingly, the total value ultimately realized will likely be higher or lower than the amounts presented as of June 30, 2016.

- Gross IRR for our real estate funds represents the estimated, unaudited, annualized return based on the timing of cash inflows and outflows for the aggregated investments as of June 30, 2016, including the fair value of
- (4) unrealized and partially realized investments as of such date, together with any unrealized appreciation or depreciation from related hedging activity. Gross IRR is not adjusted for estimated management fees, incentive income or other fees or expenses to be paid by the fund, which would reduce the return.
- Net IRR is calculated as described in footnote (4), but is reduced by all management fees and other fund-level fees and expenses not adjusted for in the calculation of gross IRR. Net IRR is further reduced by paid incentive and
- (5) accrued incentive income that will be payable upon the distribution of each fund's capital in accordance with the terms of the relevant fund. Accrued incentive income may be higher or lower at such time. The net IRR represents a composite rate of return for a fund and does not reflect the net IRR specific to any individual investor.
- (6) Gross MOIC for our real estate funds is calculated by dividing the value of a fund's investments by the invested capital, prior to adjustments for incentive income, management fees or other expenses to be paid by the fund.
- (7) These funds have concluded their investment periods, and therefore we expect assets under management for these funds to decrease as investments are sold and the related proceeds are distributed to the investors in these funds.
- (8) This fund recently launched and has only invested a small portion of its committed capital; therefore, IRR and MOIC information is not presented, as it is not meaningful.

The \$210.3 million year-over-year increase in assets under management in our real estate funds was driven primarily by additional commitments to Och-Ziff Real Estate Credit Fund I, partially offset by distributions primarily related to Och-Ziff Real Estate Fund II.

#### Other

Our other assets under management are comprised of funds that are generally strategy-specific, including our equity, Africa and energy funds. Management fees for these funds range from 0.75% to 2.25% of assets under management, generally based on the amount of capital committed to these platforms by our fund investors. Incentive income for our equity funds is generally 20% of realized and unrealized annual profits attributable to each investor. Incentive income related to the Africa and energy funds is generally 20% of cumulative realized profits attributable to each investor, and is subject to hurdle rates (generally 8%). Incentive income for the Africa and energy funds is generally 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.

#### Longer-Term Assets Under Management

As of June 30, 2016, approximately 39% of our assets under management were subject to initial commitment periods of three years or longer. We earn incentive income on these assets based on the cumulative investment performance generated over this commitment period. The table below presents the amount of these assets under management, as well as the gross amount of incentive income accrued at the fund level but for which the commitment period has not concluded. These amounts have not yet been recognized in our revenues, as we recognize incentive income at the end of the commitment period when amounts are no longer subject to clawback. Further, these amounts may ultimately not be recognized as revenue by us in the event of future losses in the respective funds. See “—Understanding Our Results—Incentive Income” for additional information.

June 30, 2016  
Longer-Term Accrued  
Assets            Unrecognized  
Under            Incentive  
Management Income

(dollars in thousands)

Multi-strategy funds	\$2,673,158	\$ 9,154
Credit		
Opportunistic credit funds	4,125,164	116,090
Institutional Credit Strategies	7,204,357	—
Real estate funds	2,213,821	123,935



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Other	309,640	—
	\$16,526,140	\$ 249,179

We recognize incentive income on our longer-term assets under management in our multi-strategy funds and open-end opportunistic credit funds at the end of their respective commitment periods, which are generally three to five years. We expect

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the commitment period with respect to approximately 6% and 12% of the longer-term assets under management in our multi-strategy funds to mature during the third quarter of 2016 and the remainder of 2016, respectively. We do not expect the commitment period for a significant amount of longer-term assets under management in our open-end opportunistic credit funds to expire during the third quarter of 2016; however, we expect the commitment period with respect to approximately 10% of the longer-term assets under management to mature during the remainder of 2016. Incentive income related to assets under management in our closed-end opportunistic credit funds and our real estate funds is generally recognized at or near the end of the life of each fund. These funds generally begin to make distributions after the conclusion of their respective investment period, as presented in the tables above. However, these investment periods may generally be extended for an additional one to two years.

#### 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 commitment period, no hurdle rate and no high-water marks from prior years.

For any given quarter, our revenues are 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 are 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 commitment periods, or incentive income related to fund investor redemptions, and these amounts may be significant. In the fourth quarter, our revenues are 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 one-year commitment periods, or for other assets under management for which the commitment period expired in that quarter.

**Management Fees.** Management fees are generally calculated and paid to us on a quarterly basis in advance, based on the amount of assets under management at the beginning of the quarter. Management fees are prorated for capital inflows and redemptions during the quarter. Accordingly, changes in our management fee revenues from quarter to quarter are driven by changes in the quarterly opening balances of assets under management, the relative magnitude and timing of inflows and redemptions during the respective quarter, as well as the impact of differing management fee rates charged on those inflows and redemptions. Our average management fee rate for the second quarter of 2016 was approximately 1.28%. This average rate takes into account the effect of non-fee paying assets under management, as well as our opportunistic credit funds, Institutional Credit Strategies products, 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 cumulative performance of our funds over a commitment period. Incentive income is typically equal to 20% of the net realized and unrealized profits attributable to each fund investor in our multi-strategy funds, open-end opportunistic credit funds and certain other funds, but it excludes unrealized gains and losses attributable to Special Investments. For our closed-end opportunistic 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 within Institutional Credit Strategies, 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 do not consolidate, incentive income is recognized at the end of the applicable commitment period when the amounts are contractually payable, or “crystallized.” Additionally, all of our multi-strategy funds and open-end opportunistic credit funds are subject to a perpetual loss carry forward, or a perpetual “high-water mark,” meaning we would 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.

For funds that we consolidate, 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 commitment 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.

The commitment period for most of our assets under management is for a period of one year 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 commitment periods for which such period has expired (including the rollover of a portion of these assets into one-year commitment periods upon the conclusion of the initial three-year period), as well as assets in certain of our opportunistic credit funds, real estate funds and certain other funds we manage, which typically have commitment periods of three years or longer. 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 commitment period (if at all).

In addition to assets under management subject to one-year commitment periods, approximately \$16.5 billion, or 39%, of our assets under management as of June 30, 2016 were subject to initial commitment periods of three years or longer. These assets under management include assets subject to three-year commitment periods in the OZ Master Fund and certain other multi-strategy funds, as well as assets in our opportunistic credit funds, Institutional Credit Strategies products, 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 commitment period (in the case of CLOs within Institutional Credit Strategies, 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 by 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 consist of salaries, benefits, payroll taxes, and discretionary and guaranteed cash bonus expenses. 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 of each year. Compensation and benefits also includes equity-based compensation expense, which is primarily in the form of RSUs granted to our independent board members, employees and executive managing directors, as well as Och-Ziff Operating Group A Units granted to executive managing directors subsequent to the

2007 Offerings.

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We also issue Och-Ziff Operating Group D Units to 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 (loss) 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 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 is 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 Och-Ziff Capital Management Group LLC 2012 Partner Incentive Plan (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. 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. In addition to awards under the PIP, we may also issue additional performance-related Och-Ziff Operating Group D Units or make discretionary performance cash payments to our executive managing directors.

**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 had vesting periods through 2015.

**Interest Expense.** Amounts included within interest expense relate primarily to indebtedness outstanding under the 4.50% Senior Notes issued in November 2014 (the “Notes”). We also have indebtedness outstanding under a secured multiple draw term loan agreement entered into in February 2014 to finance installment payments made toward the purchase of a new corporate aircraft that was delivered to us in February 2015 (the “Aircraft Loan”). Interest expense related to the Aircraft Loan was capitalized and, therefore, not included in interest expense prior to aircraft delivery. Following aircraft delivery in 2015, interest on the Aircraft Loan is fixed at 3.22% per annum. In April 2016, we borrowed \$120.0 million pursuant to our revolving credit facility (the “Revolving Credit Facility”) at a rate per annum of LIBOR plus 1.00% to 2.00%, or a base rate plus 0% to 1.00%. See “—Liquidity and Capital Resources—Debt Obligations” for additional information.

**General, Administrative and Other.** General, administrative and other expenses are related to recurring placement and related service fees, occupancy and equipment, professional services, information processing and communications, insurance, business development, changes in our tax receivable agreement liability and other miscellaneous expenses. In addition, the \$414.3 million FCPA investigation reserve accrual taken in the first half of 2016 is also included in this line item.

**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 consist 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 of Consolidated Och-Ziff Funds.** Net gains 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 settlement 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 (Loss) 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 (loss) 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 settlement 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 certain of our credit funds, wherein investors are able to redeem their interests after an initial lock-up period of up to three years. Allocations of earnings to these interests are reflected within net income allocated to redeemable noncontrolling interests in the consolidated statements of comprehensive (loss) income.

#### Results of Operations

As previously discussed, the deconsolidation of the majority of our funds upon the adoption of ASU 2015-02 caused a significant decrease in the amount of income of consolidated Och-Ziff funds, expenses of consolidated Och-Ziff funds, and net gains of consolidated Och-Ziff funds in our consolidated statements of comprehensive (loss) income. Management fees and incentive income from the previously consolidated funds are also no longer eliminated in consolidation. The net impact to our results is that incentive income from these funds will now be recognized when such amounts are no longer subject to clawback. Prior to deconsolidation, incentive income from these previously consolidated funds was recognized by allocating a portion of the net income of these funds to us rather than to the fund investors (noncontrolling interests) based on the contractual terms of the relevant fund agreements. This resulted in incentive income being recognized that was subject to clawback in the event of future losses in the respective funds.



See “—Economic Income Analysis” for a discussion of our results on an Economic Income basis, which excludes the effects of the consolidated funds.

#### Revenues

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(dollars in thousands)			
Management fees	\$143,399	\$167,486	\$300,309	\$333,429
Incentive income	8,136	28,537	38,723	85,647
Other revenues	585	508	1,164	969
Income of consolidated Och-Ziff funds	438	124,868	804	234,205
Total Revenues	\$152,558	\$321,399	\$341,000	\$654,250

Total revenues for the quarter-to-date period decreased by \$168.8 million, primarily due to the following:

• A \$124.4 million decrease in income of consolidated Och-Ziff funds, primarily as a result of the deconsolidation of the majority of our funds during the first quarter of 2016.

• A \$24.1 million decrease in management fees, driven by lower assets under management in our multi-strategy funds, partially offset by higher assets under management in our Institutional Credit Strategies products. This change in the mix of products that comprise our assets under management also resulted in a lower year-over-year average management fee rate. See “Assets Under Management and Fund Performance—Weighted-Average Assets Under Management and Average Management Fee Rate” above for information regarding our average management fee rate.

• A \$20.4 million decrease in incentive income, primarily due to the following:

Multi-strategy funds. A \$17.9 million decrease in incentive income from our multi-strategy funds primarily due to lower incentive income realized from redeeming investors in 2016.

Opportunistic credit funds. A \$1.6 million decrease in incentive income from our opportunistic credit funds.

Real estate funds. A \$335 thousand decrease in incentive income from our real estate funds.

Total revenues for the year-to-date period decreased by \$313.3 million, primarily due to the following:

• A \$233.4 million decrease in income of consolidated Och-Ziff funds, primarily as a result of the deconsolidation of the majority of our funds during the first quarter of 2016.

• A \$46.9 million decrease in incentive income, primarily due to the following:

Multi-strategy funds. A \$44.0 million decrease in incentive income from our multi-strategy funds was due to: (i) a \$15.5 million decrease related to lower tax distributions taken to cover tax liabilities on incentive income that has been accrued on certain longer-term assets under management, but that will not be realized until the end of the relevant commitment period; (ii) a \$15.4 million decrease related to fund investor redemptions; (iii) a \$10.7 million decrease related to assets subject to one-year measurement period; and (iv) a \$2.4 million decrease related to longer-term assets under management.

Opportunistic credit funds. A \$5.6 million decrease in incentive income from our opportunistic credit funds, driven by lower tax distributions on certain longer-term assets under management.

Real estate funds. A \$3.3 million increase in incentive income from our real estate funds, primarily due to incentive income from Och-Ziff Real Estate Fund I being eliminated in consolidation in the prior year period. This fund was deconsolidated on January 1, 2016 upon the adoption of ASU 2015-02.

A \$33.1 million decrease in management fees, driven by lower assets under management in our multi-strategy funds, partially offset by higher assets under management in our Institutional Credit Strategies products. This change in the mix of products that comprise our assets under management also resulted in a lower year-over-year average

management fee rate. See “Assets Under Management and Fund Performance—Weighted-Average Assets Under Management and Average Management Fee Rate” above for information regarding our average management fee rate.

Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(dollars in thousands)			
Compensation and benefits	\$57,743	\$71,375	\$112,004	\$141,293
Reorganization expenses	—	4,017	—	8,034
Interest expense	5,937	5,405	11,323	10,650
General, administrative and other	272,501	12,013	540,025	61,848
Expenses of consolidated Och-Ziff funds	33	78,383	299	138,271
Total Expenses	\$336,214	\$171,193	\$663,651	\$360,096

Total expenses for the quarter-to-date period increased by \$165.0 million, primarily due to the following:

A \$260.5 million increase in general, administrative and other expenses, driven by an additional \$214.3 million FCPA investigation reserve accrual taken in the second quarter of 2016, as well as a decrease of \$48.4 million due to a change in tax receivable agreement liability which occurred as a result of updated estimated future income tax savings at the state and local level.

A \$78.4 million offsetting decrease in expenses of consolidated Och-Ziff funds, primarily as a result of the deconsolidation of the majority of our funds during the first quarter of 2016.

A \$13.6 million offsetting decrease in compensation and benefits expenses, driven by the following:

(i) a \$10.8 million decrease in equity-based compensation expense due to a lower average grant date fair value and a lower number of RSUs being amortized; (ii) a \$4.4 million decrease in allocations to Och-Ziff Operating Group D Units due to lower profitability of the Och-Ziff Operating Group; and (iii) a \$1.2 million offsetting increase in salaries and benefits due to a higher average number of employees in the current year period. Our global headcount was 611 as of June 30, 2016 compared to 638 as of March 31, 2016, and 612 as of June 30, 2015.

Total expenses for the year-to-date period increased by \$303.6 million, primarily due to the following:

A \$478.2 million increase in general, administrative and other expenses, primarily driven by the \$414.3 million FCPA investigation reserve accrual taken in the first half of 2016, as well as a \$48.3 million decrease in tax receivable agreement liability that reduced accrued expenses in the first half of 2015 and did not reoccur in 2016.

A \$138.0 million offsetting decrease in expenses of consolidated Och-Ziff funds, primarily as a result of the deconsolidation of the majority of our funds during the first quarter of 2016.

A \$29.3 million offsetting decrease in compensation and benefits expenses, driven by the following:

(i) a \$21.1 million decrease in equity-based compensation expense due to a lower average grant date fair value and a lower number of RSUs being amortized; (ii) a \$9.5 million decrease in allocations to Och-Ziff Operating Group D Units due to lower profitability of the Och-Ziff Operating Group; (iii) a \$2.1 million decrease in bonus expense; and (iv) an offsetting increase of \$3.4 million in salaries and benefits due to a higher average number of employees in the current year period.

## Other Income (Loss)

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	2015		2015	
	(dollars in thousands)			
Net gains on investments in Och-Ziff funds and joint ventures	\$250	\$72	\$499	\$189
Net gains (loss) of consolidated Och-Ziff funds	816	(3,399 )	1,361	42,486
Total Other Income (Loss)	\$1,066	\$(3,327)	\$1,860	\$42,675
Total other income for the quarter-to-date and year-to-date periods increased by \$4.4 million and decreased by \$40.8 million, respectively, primarily due to the deconsolidation of the majority of our funds during the first quarter of 2016.				

## Income Taxes

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	2015		2015	
	(dollars in thousands)			

Income taxes \$10,911 \$82,025 \$29,450 \$107,185

Income tax expense for the quarter-to-date and year-to-date periods decreased by \$71.1 million and \$77.7 million, respectively, primarily due to higher deferred tax expense in the prior year, resulting from an enacted change in tax law that changed the methodology used for local income tax apportionment, which resulted in a revaluation our deferred income tax assets.

## Net (Loss) Income Allocated to Noncontrolling Interests

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

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	2015		2015	
	(dollars in thousands)			
Och-Ziff Operating Group A Units	\$(115,632)	\$50,802	\$(203,651)	\$131,734
Consolidated Och-Ziff funds	—	7,105	262	59,457
Other	40	115	(48 )	184
Total	\$(115,592)	\$58,022	\$(203,437)	\$191,375
Redeemable noncontrolling interests	\$662	\$2,072	\$1,123	\$7,638

Net (loss) income allocated to noncontrolling interests for the quarter-to-date period decreased by \$173.6 million, primarily due to the following:

A \$166.4 million decrease in the net (loss) income allocated to the Och-Ziff Operating Group A Units, primarily driven by the additional \$214.3 million FCPA investigation reserve accrual taken in the second quarter of 2016. In addition, lower incentive income and management fees, partially offset by lower compensation and benefits, also contributed to the decrease.

A \$7.1 million decrease in the net income allocated to the consolidated Och-Ziff funds due to the deconsolidation of the majority of our funds during the first quarter of 2016.

Net (loss) income allocated to noncontrolling interests for the year-to-date period decreased by \$394.8 million, primarily due to the following:

A \$335.4 million decrease in the net (loss) income allocated to the Och-Ziff Operating Group A Units, primarily driven by the \$414.3 million FCPA investigation reserve accrual taken in the first half of 2016. In addition, lower incentive income and management fees and higher non-compensation expenses, partially offset by lower compensation and benefits, also contributed to the decrease.

A \$59.2 million decrease in the net income allocated to the consolidated Och-Ziff funds due to the deconsolidation of the majority of our funds during the first quarter of 2016.

Net (Loss) Income Allocated to Class A Shareholders

Three Months		Six Months Ended	
Ended June 30,		June 30,	
2016	2015	2016	2015
(dollars in thousands)			

Net (loss) income allocated to Class A Shareholders	\$(78,571)	\$4,760	\$(147,927)	\$30,631
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Net (loss) income allocated to Class A Shareholders for the quarter-to-date period decreased by \$83.3 million, primarily driven by the additional \$214.3 million FCPA investigation reserve accrual recorded in the second quarter of 2016. In addition, lower incentive income and management fees and higher non-compensation expenses, lower income taxes and lower compensation and benefits, also contributed to the quarter-over-quarter decrease.

Net (loss) income allocated to Class A Shareholders for the year-to-date period decreased by \$178.6 million, primarily driven by the \$414.3 million FCPA investigation reserve accrual taken in the first half of 2016. In addition, lower incentive income and management fees and higher non-compensation expenses, partially offset by lower income taxes and lower compensation and benefits, also contributed to the year-over-year decrease.

#### 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 on their direct interests in the Och-Ziff Operating Group. Management reviews operating performance at the Och-Ziff Operating Group level, where 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. However, the fair value of RSUs that are settled in cash to employees or executive managing directors is included as an expense at the time of settlement.

Changes in the tax receivable agreement liability and net gains 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 commitment 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 currently have two operating segments: the Och-Ziff Funds segment and our real estate business. The Och-Ziff Funds segment, which provides asset management services to our multi-strategy funds, dedicated credit funds and other alternative investment vehicles, is currently our only reportable operating segment under GAAP. Our real estate business, which provides asset management services to our real estate funds, is included within Other Operations as it does not meet the threshold of a reportable operating segment under GAAP.

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

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Economic Income Basis						
Management fees	\$128,139	\$ 5,237	\$133,376	\$162,183	\$ 4,826	\$167,009
Incentive income	6,950	1,186	8,136	29,295	2,242	31,537
Other revenues	583	2	585	499	9	508
Total Economic Income Revenues	\$135,672	\$ 6,425	\$142,097	\$191,977	\$ 7,077	\$199,054

Economic Income revenues for the quarter-to-date period decreased by \$57.0 million, primarily due to the following: A \$33.6 million decrease in management fees, driven by lower assets under management in our multi-strategy funds, partially offset by higher assets under management in our Institutional Credit Strategies products. This change in the mix of products that comprise our assets under management also resulted in a lower year-over-year average management fee rate. See “Assets Under Management and Fund Performance—Weighted-Average Assets Under Management and Average Management Fee Rate” above for information regarding our average management fee rate.

▲ \$23.4 million decrease in incentive income, primarily due to the following:

Multi-strategy funds. A \$17.9 million decrease in incentive income from our multi-strategy funds, primarily due to lower incentive income realized from redeeming investors in 2016.

Opportunistic credit funds. A \$2.4 million decrease in incentive income from our opportunistic credit funds.

Real estate funds. A \$2.6 million decrease in incentive income from our real estate funds.

	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
(dollars in thousands)						

#### Economic Income Basis

Management fees	\$267,383	\$ 10,372	\$277,755	\$321,251	\$ 9,601	\$330,852
Incentive income	33,903	4,820	38,723	93,065	3,755	96,820
Other revenues	1,155	9	1,164	951	18	969
Total Economic Income Revenues	\$302,441	\$ 15,201	\$317,642	\$415,267	\$ 13,374	\$428,641

Economic Income revenues for the year-to-date period decreased by \$111.0 million, primarily due to the following:

▲ \$58.1 million decrease in incentive income, primarily due to the following:

Multi-strategy funds. A \$44.0 million decrease in incentive income from our multi-strategy funds was due to: (i) a \$15.5 million decrease related to lower tax distributions taken to cover tax liabilities on incentive income that has been accrued on certain longer-term assets under management, but that will not be realized until the end of the relevant commitment period; (ii) a \$15.4 million decrease related to fund investor redemptions; (iii) a \$10.7 million decrease related to assets subject to one-year measurement period; and (iv) a \$2.4 million decrease related to longer-term assets under management.

Opportunistic credit funds. A \$13.0 million decrease in incentive income from our opportunistic credit funds, driven by lower tax distributions on certain longer-term assets under management.

Real estate funds. A \$457 thousand decrease in incentive income from our real estate funds.

A \$53.1 million decrease in management fees, driven by lower assets under management in our multi-strategy funds, partially offset by higher assets under management in our Institutional Credit Strategies products. This change in the mix of products that comprise our assets under management also resulted in a lower year-over-year average management fee rate. See “Assets Under Management and Fund Performance—Weighted-Average Assets Under Management and Average Management Fee Rate” above for information regarding our average management fee rate.

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

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	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	\$34,039	\$ 1,957	\$35,996	\$31,289	\$ 1,788	\$33,077
Non-compensation expenses	264,222	641	264,863	50,176	523	50,699
Total Economic Income Expenses	\$298,261	\$ 2,598	\$300,859	\$81,465	\$ 2,311	\$83,776

Economic Income expenses for the quarter-to-date period increased by \$217.1 million, primarily due to the following: A \$214.2 million increase in non-compensation expenses, driven by an additional \$214.3 million FCPA investigation reserve accrual taken in the second quarter of 2016. The ratio of non-compensation expense, excluding the FCPA investigation reserve accrual, to management fees was 38% for the second quarter of 2016, compared to 30% for the second quarter of 2015.

As \$2.9 million increase in compensation and benefit expenses driven by a \$1.2 million increase in salaries and benefits due to a higher average number of employees in the current year period and an increase of \$1.7 million in bonus expense. The ratio of salaries and benefits to management fees was 22% for the second quarter of 2016, compared to 17% for the second quarter of 2015.

	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
	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	\$65,098	\$ 4,654	\$69,752	\$62,071	\$ 4,348	\$66,419
Non-compensation expenses	519,873	2,110	521,983	90,029	975	91,004
Total Economic Income Expenses	\$584,971	\$ 6,764	\$591,735	\$152,100	\$ 5,323	\$157,423

Economic Income expenses for the year-to-date period increased by \$434.3 million, primarily due to the following:

A \$431.0 million increase in non-compensation expenses, driven by the \$414.3 million FCPA investigation reserve accrual taken in 2016, as well as a \$14.9 million increase in professional fees primarily due to increased legal expenses relating to the investigation. The ratio of non-compensation expense, excluding the FCPA investigation reserve accrual, to management fees was 39% for the first half of 2016, compared to 28% for the first half of 2015.

A \$3.3 million increase in compensation and benefit expenses driven by a \$3.4 million increase in salaries and benefits due to a higher average number of employees in the current year period. The ratio of salaries and benefits to management fees was 21% for the first half of 2016, compared to 17% for the first half of 2015.

We expect our operating expenses to trend downward in 2017 as the result of decreased legal expenses related to the FCPA investigation, as well as savings identified through an ongoing review of our expense base.

#### Other Economic Income Items (Non-GAAP)

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					

#### Economic Income Basis

Net income (loss) allocated to noncontrolling interests	\$(3)	\$	—	\$(3)	\$	1
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	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					

#### Economic Income Basis

Net loss allocated to noncontrolling interests	\$(5)	\$	—	\$(5)	\$	(7)
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Net income (loss) allocated to noncontrolling interests represents amounts that were reduced from Economic Income and allocated to residual interests in certain businesses not owned by us.

Economic Income (Non-GAAP)

Three Months Ended		Six Months Ended	
June 30,		June 30,	
2016	2015	2016	2015
(dollars in thousands)			

Economic Income:

Och-Ziff Funds segment	\$(162,586)	\$110,511	\$(282,525)	\$263,174
Other Operations	3,827	4,766	8,437	8,051
Total Company	\$(158,759)	\$115,277	\$(274,088)	\$271,225

Economic Income for the quarter-to-date period decreased by \$274.0 million, primarily due to an additional \$214.3 million FCPA investigation reserve accrual taken in the second quarter of 2016. In addition, lower incentive income and management fees, as well as higher operating expenses also contributed to the year-over-year decrease.

Economic Income for the year-to-date period decreased by \$545.3 million, primarily due to the \$414.3 million FCPA investigation reserve accrual taken in the first half of 2016. In addition, lower incentive income and management fees, as well as higher operating expenses also contributed to the year-over-year decrease.

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.

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.

- Pay interest on our debt obligations.

- 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.”

In addition, our liquidity needs in the next 12 months may include costs incurred in connection with the FCPA investigation described in Note 15 to our consolidated financial statements included in this quarterly report.

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 incurred in the ordinary course of business. Across the hedge fund industry, management fees are experiencing downward pressure. We are also subject to this pressure and believe it is likely to result in decreased management fees in future periods.

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 also may obtain financing, as described under "—Potential Financing Transaction of New Preferred Units," the proceeds of which would be used to fund payments in connection with the resolution of the SEC and DOJ investigations and general corporate purposes.

We may use cash on hand to repay all or a portion of our Notes, the Aircraft Loan and any current or future drawings under the Revolving Credit Facility prior to their respective maturity dates, 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 issuing new notes or 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 issue new notes, enter into new credit facilities or issue equity or other securities in the future on attractive terms or at all. Any new notes or new credit facilities that we may be able to issue or 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 borrowing funds under our Revolving Credit Facility or by issuing additional debt, 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.



Cover potential costs incurred in connection with the legal and regulatory matters described in the notes to our consolidated financial statements included in this report.

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.

#### Potential Financing Transaction of New Preferred Units

Certain of our executive managing directors (the “EMD Purchasers”) are in discussions with a Special Committee of our Board of Directors, composed entirely of independent directors, regarding a potential financing transaction of up to \$500.0 million, the proceeds of which would be used to fund payments in connection with the potential resolution of the SEC and DOJ investigations and for general corporate purposes. The potential financing transaction being discussed currently contemplates that the EMD Purchasers would invest in a perpetual preferred equity instrument to be issued by the Och-Ziff Operating Group entities on terms and conditions to be agreed (the “Preferred Units”). The dividend rate on the Preferred Units is expected to be 0% initially for three years, after which it is expected to increase over time and upon the occurrence of certain events to be agreed. The units would not be convertible into Class A Shares. A potential financing transaction would be expected to be subject to customary conditions, including, among others, entry into settlement agreements to resolve the SEC and DOJ investigations satisfactory to the EMD Purchasers.

As of the date hereof, discussions between the EMD Purchasers and us are ongoing and there can be no assurances that we, acting through the Special Committee, and the EMD Purchasers will reach an agreement on the terms and conditions of this potential financing transaction, that the funding pursuant to the terms and conditions of such potential financial transaction, if any, will occur, or that the EMD Purchasers will provide any other financing.

#### Debt Obligations

##### Senior Notes

On November 20, 2014, we issued \$400.0 million of 4.50% Senior Notes due November 20, 2019, unless earlier redeemed or repurchased. The Notes were issued at a price equal to 99.417% of the aggregate principal amount and bear interest at a rate per annum of 4.50% payable semiannually in arrears. The Notes are unsecured and unsubordinated obligations of the issuer, Och-Ziff Finance, and are fully and unconditionally guaranteed, jointly and severally, on an unsecured and unsubordinated basis by the Och-Ziff Operating Group entities.

Please see Note 10 to our consolidated financial statements included in this report for a description of the redemption provisions and restrictions under the Notes.

##### Revolving Credit Facility

On November 20, 2014, we entered into the \$150.0 million, five-year unsecured Revolving Credit Facility, which was subsequently amended on December 29, 2015, the proceeds of which may be used for working capital, general corporate purposes or other liquidity needs. The borrower under the Revolving Credit Facility is OZ Management and the facility is guaranteed by OZ Advisors I, OZ Advisors II and Och-Ziff Finance. We are able to increase the maximum amount of credit available under the facility to \$225.0 million if certain conditions are satisfied. As of June 30, 2016, we had \$120.0 million of outstanding borrowings under the facility.

We are subject to a fee of 0.10% to 0.25% per annum on undrawn commitments during the term of the Revolving Credit Facility. Outstanding borrowings will bear interest at a rate per annum of LIBOR plus 1.00% to 2.00%, or a base rate plus zero to 1.00%. The commitment fees and the spreads over LIBOR or the base rate are based on OZ Management’s credit rating throughout the term of the facility. The interest rate on the drawn portion of the commitment as of June 30, 2016 was LIBOR plus 1.50%.

Please see Note 10 to our consolidated financial statements included in this report for a description of the financial covenants and restrictions under the Revolving Credit Facility.

#### Aircraft Loan

On February 14, 2014, we entered into the Aircraft Loan to finance installment payments towards the purchase of a new corporate aircraft that was delivered to us in February 2015. The Aircraft Loan is guaranteed by OZ Management, OZ Advisors I and OZ Advisors II. As of June 30, 2016, \$48.5 million was outstanding under the Aircraft Loan. Outstanding borrowings bear interest at a rate of 3.22% per annum, and the balance is payable in equal monthly installments of principal and interest over the term of the facility beginning on the aircraft delivery date, with a balloon payment of \$30.8 million due upon maturity on February 4, 2022. There are no financial covenants associated with the Aircraft Loan. The Aircraft Loan includes other customary terms and conditions, including customary events of default and covenants.

#### 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 from the date of the 2007 Offerings or the date of any subsequent exchange. 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 June 30, 2016, 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 are currently obligated to pay our executive managing directors and the Ziffs an estimated \$591.6 million 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

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, to make payments on any of our other obligations, to fund the repurchase of Class A Shares or interests in the Och-Ziff Operating Group, as well as to fund any potential payments relating to the settlement of the FCPA investigation discussed in Note 15 of our consolidated financial statements.

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. 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 multi-strategy and open-end opportunistic credit 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. Investors in our other funds are generally not allowed to redeem until the end of the life of the fund.

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 for the six months ended June 30, 2016 and 2015 was \$21.7 million and \$168.3 million, 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 lower earnings in the first half of 2016 compared to the first half of 2015, as well as lower incentive income earned in 2015 compared to 2014, partially offset by lower discretionary bonuses in 2015 compared to 2014. The majority of our incentive income is generally collected and the related bonus payments are paid out during the first quarter of the following year. Partially offsetting these decreases were lower cash outflows in 2016 related to the investment activities of the consolidated funds, which was the result of the deconsolidation of the majority of our funds upon the adoption of ASU 2015-02 on January 1, 2016.

**Investing Activities.** Net cash used in investing activities for the six months ended June 30, 2016 and 2015 was \$24.3 million and \$31.9 million, respectively. Investing cash flows in 2016 primarily related to the purchases and maturities of U.S. government obligations to manage excess liquidity. Investing cash flows in 2015 primarily related to leasehold improvements in our New York headquarters. Investment-related cash flows of the consolidated Och-Ziff funds are classified within operating activities.

**Financing Activities.** Net cash from financing activities for the six months ended June 30, 2016 and 2015 was \$116.7 million and \$(107.6) million, 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, 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 on their Och-Ziff Operating Group A Units, are also included in net cash from financing activities.

On April 29, 2016, we borrowed \$120.0 million pursuant to our Revolving Credit Facility.

We paid dividends to our Class A Shareholders of \$121.5 million and paid distributions to our executive managing directors on the Och-Ziff Operating Group A Units of \$250.6 million for the six months ended June 30, 2015. We did not pay any dividends or distributions on our Class A Shares or Och-Ziff Operating Group A Units in the first half of 2016.

#### Contractual Obligations

The following are the only material changes to the contractual obligations as presented in our Annual Report:

During the second quarter of 2016, we borrowed \$120.0 million pursuant to our Revolving Credit Facility, as discussed above.

Notes and loans payable of consolidated CLOs are no longer on our balance sheet as a result of the deconsolidation of the majority of our funds upon the adoption of ASU 2015-02 on January 1, 2016, as discussed in Note 3 to our consolidated financial statements included in this report.

#### Off-Balance Sheet Arrangements

As of June 30, 2016, 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 5 to our consolidated financial statements included in this report for additional information regarding fair value measurements.

As of June 30, 2016, the absolute values of our funds' invested assets and liabilities (excluding the notes and loans payable of our CLOs) were classified within the fair value hierarchy as follows: approximately 46% within Level I; approximately 30% within Level II; and approximately 24% within Level III. As of December 31, 2015, the absolute values of our funds' invested assets and liabilities (excluding the notes and loans payable of our CLOs) were classified within the fair value hierarchy as follows: approximately 48% within Level I; approximately 27% within Level II; and approximately 25% 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 5 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. See Note 5 to our consolidated financial statements included in this report for additional information regarding our valuation procedures and related oversight and controls.

**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 our real estate funds and certain 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 unrealized gains and losses of the investments held by our funds would generally have an immediate 10% impact on the amount of profit on which we earn our 20% incentive income if the change continues at the end of the commitment period, at which time incentive income is recognized, and assuming no hurdle rates and no high-water marks from any prior-year losses. For certain opportunistic credit, real estate and certain other funds, 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 unaffiliated investors in any fund or 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 should consolidate a variable interest 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, as well as an additional 20-year loss carryforward period available to us in any year a net operating loss is generated as a result. 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 \$58.3 million for the six months ended June 30, 2016, 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 \$1.8 billion over the remaining seven-year weighted-average amortization period, as well as an additional 20-year loss carryforward period available to us if a net operating loss is generated, in order to fully realize the deferred



income tax assets. 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 \$1.8 billion in taxable income over the remaining amortization and loss carryforward periods available to us, we estimated that, based on assets under management of \$39.2 billion as of July 1, 2016, 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 June 30, 2016, we had \$119.6 million of net operating losses available to offset future taxable income for federal income tax purposes that will expire between 2030 and 2036, and \$117.8 million of net operating losses available to offset future taxable income for state income tax purposes and \$95.8 million for local income tax purposes that will expire between 2035 and 2036. Based on the analysis set forth above, as of June 30, 2016, 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 federal, state and local income tax credits. Accordingly, a valuation allowance of \$21.8 million has been established for these credits.

#### Impact of Recently Adopted Accounting Pronouncements on Recent and Future Trends

Accounting Standards Updates (“ASU”) 2015-02, Amendments to the Consolidation Analysis. ASU 2015-02 significantly changed the consolidation analysis required under GAAP, and resulted in the deconsolidation of the majority of the previously consolidated Och-Ziff funds, including all of the CLOs. The deconsolidation of the majority of the previously consolidated funds resulted in a substantial decrease in assets of consolidated Och-Ziff funds, liabilities of consolidated Och-Ziff funds, redeemable noncontrolling interests, appropriated retained deficit and shareholders’ equity attributable to noncontrolling interests in our consolidated balance sheet. Additionally, the deconsolidation has caused a significant decrease in the amount of income of consolidated Och-Ziff funds, expenses of consolidated Och-Ziff funds, and net gains (losses) of consolidated Och-Ziff funds in our consolidated statement of comprehensive (loss) income. Management fees and incentive income from the previously consolidated funds are also no longer eliminated in consolidation.

The net impact to our results is that incentive income from the previously consolidated funds will now be recognized when such amounts are no longer subject to clawback. Prior to deconsolidation, incentive income from these



previously consolidated funds was recognized by allocating a portion of the net income of these funds to us rather than to the fund investors (noncontrolling interests) based on the contractual terms of the relevant fund agreements. This resulted in incentive income being recognized that was subject to clawback in the event of future losses in the respective funds.

The adoption of ASU 2015-02 did not have any effect on Economic Income. See Notes 2 and 3 to our consolidated financial statements included in this report for additional information.

None of the other changes to GAAP that went into effect during the six months ended June 30, 2016 are expected to have an impact on our future trends.

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

The Financial Accounting Standards Board (the “FASB”) has issued various ASUs that could have an impact on our future trends. For additional details regarding these ASUs, including allowable methods of adoption (e.g., full retrospective or modified retrospective), see Note 2 to our consolidated financial statements included in this report.

Below is a summary of ASUs that may have an impact on our future trends upon adoption.

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 requirements of ASU 2014-09 were initially effective for us beginning in the first quarter of 2017; however, the FASB in April 2015 approved a deferral of the effective date to the first quarter of 2018. We are currently evaluating the impact that this update will have on our future trends.

ASU 2016-02, Leases. ASU 2016-02 significantly changes accounting for lease arrangements, in particular from the perspective of the lessee. Upon adoption of the ASU, where we are the lessee, we will likely be required to recognize certain lease arrangements on our balance sheet for the first time, but will continue to recognize associated expenses on our statement of comprehensive income in a manner similar to existing accounting principles. The requirements of ASU 2016-02 are effective for us beginning in the first quarter of 2019. We are currently evaluating the impact that this update will have on our future trends.

ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 will change how companies account for certain aspects of share-based payments to employees. The requirements of ASU 2016-09 are effective for us beginning in the first quarter of 2017 with early adoption permitted. We are currently evaluating the impact that this update will have on our future trends.

The other changes to GAAP that have been issued but that have not yet been adopted are not expected to have an impact on our future trends.

## Economic Income Reconciliations

The tables below present the reconciliations of Economic Income and its components to the respective GAAP measures for the periods presented in this MD&A.

## Economic Income

	Three Months Ended June 30, 2016		
	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)		
Net (loss) income allocated to Class A Shareholders—GAAP	\$(80,087 )	\$ 1,516	\$(78,571 )
Net loss allocated to the Och-Ziff Operating Group A Units	(115,632 )	—	(115,632 )
Equity-based compensation, net of RSUs settled in cash	18,687	784	19,471
Income taxes	10,911	—	10,911
Allocations to Och-Ziff Operating Group D Units	1,025	—	1,025
Adjustment for expenses related to compensation and profit-sharing arrangements based on fund investment performance	—	1,425	1,425
Changes in tax receivable agreement liability	(26 )	—	(26 )
Depreciation and amortization	3,394	186	3,580
Other adjustments	(858 )	(84 )	(942 )
Economic Income—Non-GAAP	\$(162,586 )	\$ 3,827	\$(158,759 )
	Three Months Ended June 30, 2015		
	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)		
Net (loss) income allocated to Class A Shareholders—GAAP	\$(12,328 )	\$ 17,088	\$ 4,760
Net income allocated to the Och-Ziff Operating Group A Units	50,802	—	50,802
Equity-based compensation, net of RSUs settled in cash	29,269	978	30,247
Income taxes	82,025	—	82,025
Adjustment for incentive income allocations from consolidated funds subject to clawback	(3,066 )	(15,739 )	(18,805 )
Allocations to Och-Ziff Operating Group D Units	5,189	225	5,414
Adjustment for expenses related to compensation and profit-sharing arrangements based on fund investment performance	—	2,175	2,175
Reorganization expenses	4,017	—	4,017
Changes in tax receivable agreement liability	(48,401 )	—	(48,401 )
Depreciation and amortization	2,814	186	3,000
Other adjustments	190	(147 )	43
Economic Income—Non-GAAP	\$ 110,511	\$ 4,766	\$ 115,277

	Six Months Ended June 30, 2016		
	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)		
Net (loss) income allocated to Class A Shareholders—GAAP	\$(151,809)	\$ 3,882	\$(147,927)
Net loss allocated to the Och-Ziff Operating Group A Units	(203,651 )	—	(203,651 )
Equity-based compensation, net of RSUs settled in cash	36,655	1,358	38,013
Income taxes	29,450	—	29,450
Allocations to Och-Ziff Operating Group D Units	1,900	—	1,900
Adjustment for expenses related to compensation and profit-sharing arrangements based on fund investment performance	—	2,689	2,689
Changes in tax receivable agreement liability	(171 )	—	(171 )
Depreciation and amortization	6,609	373	6,982
Other adjustments	(1,508 )	135	(1,373 )
Economic Income—Non-GAAP	\$(282,525)	\$ 8,437	\$(274,088)
	Six Months Ended June 30, 2015		
	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)		
Net (loss) income allocated to Class A Shareholders—GAAP	\$(7,866 )	\$ 38,497	\$30,631
Net income allocated to the Och-Ziff Operating Group A Units	131,734	—	131,734
Equity-based compensation, net of RSUs settled in cash	57,274	1,769	59,043
Income taxes	107,185	—	107,185
Adjustment for incentive income allocations from consolidated funds subject to clawback	(826 )	(36,452 )	(37,278 )
Allocations to Och-Ziff Operating Group D Units	10,886	563	11,449
Adjustment for expenses related to compensation and profit-sharing arrangements based on fund investment performance	—	3,594	3,594
Reorganization expenses	8,034	—	8,034
Changes in tax receivable agreement liability	(48,426 )	—	(48,426 )
Depreciation and amortization	4,778	371	5,149
Other adjustments	401	(291 )	110
Economic Income—Non-GAAP	\$263,174	\$ 8,051	\$271,225

## Economic Income Revenues

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Management fees—GAAP	\$138,162	\$ 5,237	\$143,399	\$162,660	\$ 4,826	\$167,486
Adjustment to management fees <sup>(1)</sup>	(10,023 )	—	(10,023 )	(477 )	—	(477 )
Management Fees—Economic Income Basis—Non-GAAP	128,139	5,237	133,376	162,183	4,826	167,009
Incentive income—GAAP	6,950	1,186	8,136	28,537	—	28,537
Adjustment to incentive income <sup>(2)</sup>	—	—	—	758	2,242	3,000
Incentive Income—Economic Income Basis—Non-GAAP	6,950	1,186	8,136	29,295	2,242	31,537
Other revenues	583	2	585	499	9	508
Total Revenues—Economic Income Basis—Non-GAAP	\$135,672	\$ 6,425	\$142,097	\$191,977	\$ 7,077	\$199,054
	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Management fees—GAAP	\$289,937	\$ 10,372	\$300,309	\$323,828	\$ 9,601	\$333,429
Adjustment to management fees <sup>(1)</sup>	(22,554 )	—	(22,554 )	(2,577 )	—	(2,577 )
Management Fees—Economic Income Basis—Non-GAAP	267,383	10,372	277,755	321,251	9,601	330,852
Incentive income—GAAP	33,903	4,820	38,723	85,647	—	85,647
Adjustment to incentive income <sup>(2)</sup>	—	—	—	7,418	3,755	11,173
Incentive Income—Economic Income Basis—Non-GAAP	33,903	4,820	38,723	93,065	3,755	96,820
Other revenues	1,155	9	1,164	951	18	969
Total Revenues—Economic Income Basis—Non-GAAP	\$302,441	\$ 15,201	\$317,642	\$415,267	\$ 13,374	\$428,641

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

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Compensation and benefits—GAAP	\$53,577	\$ 4,166	\$57,743	\$66,209	\$ 5,166	\$71,375
Adjustment to compensation and benefits <sup>(1)</sup>	(19,538 )	(2,209 )	(21,747 )	(34,920 )	(3,378 )	(38,298 )
Compensation and Benefits—Economic Income Basis—Non-GAAP	\$34,039	\$ 1,957	\$35,996	\$31,289	\$ 1,788	\$33,077
Interest expense and general, administrative and other expenses—GAAP	\$277,611	\$ 827	\$278,438	\$16,712	\$ 706	\$17,418
Adjustment to interest expense and general, administrative and other expenses <sup>(2)</sup>	(13,389 )	(186 )	(13,575 )	33,464	(183 )	33,281
Non-Compensation Expenses—Economic Income Basis—Non-GAAP	\$264,222	\$ 641	\$264,863	\$50,176	\$ 523	\$50,699
	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Compensation and benefits—GAAP	\$103,303	\$ 8,701	\$112,004	\$131,019	\$10,274	\$141,293
Adjustment to compensation and benefits <sup>(1)</sup>	(38,205 )	(4,047 )	(42,252 )	(68,948 )	(5,926 )	(74,874 )
Compensation and Benefits—Economic Income Basis—Non-GAAP	\$65,098	\$ 4,654	\$69,752	\$62,071	\$ 4,348	\$66,419
Interest expense and general, administrative and other expenses—GAAP	\$548,865	\$ 2,483	\$551,348	\$71,151	\$ 1,347	\$72,498
Adjustment to interest expense and general, administrative and other expenses <sup>(2)</sup>	(28,992 )	(373 )	(29,365 )	18,878	(372 )	18,506
Non-Compensation Expenses—Economic Income Basis—Non-GAAP	\$519,873	\$ 2,110	\$521,983	\$90,029	\$ 975	\$91,004

- Adjustment to exclude equity-based compensation, as management does not consider these non-cash expenses to be reflective of our operating performance. However, the fair value of RSUs that are settled in cash to employees or executive managing directors is included as an expense at the time of settlement. Further, expenses related to compensation and profit-sharing arrangements based on fund investment performance are recognized at the end of the relevant commitment 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 our operations are performed, prior to making any income allocations.
- (1) Adjustment to exclude depreciation, amortization and changes in the tax receivable agreement liability, as management does not consider these items to be reflective of our operating performance. Additionally, recurring placement and related service fees are excluded, as management considers these fees a reduction in management fees, not an expense.
- (2)



## Other Economic Income Items

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Net (loss) income allocated to noncontrolling interests—GAAP	\$(115,646)	\$ 54	\$(115,592)	\$22,112	\$ 35,910	\$58,022
Adjustment to net (loss) income allocated to noncontrolling interests <sup>(1)</sup>	115,643	(54 )	115,589	(22,111 )	(35,910 )	(58,021 )
Net Loss (Income) Allocated to Noncontrolling Interests—Economic Income Basis—Non-GAAP	\$(3 )	\$ —	\$(3 )	\$1	\$—	\$1
	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Net (loss) income allocated to noncontrolling interests—GAAP	\$(203,667)	\$ 230	\$(203,437)	\$148,601	\$ 42,774	\$191,375
Adjustment to net (loss) income allocated to noncontrolling interests <sup>(1)</sup>	203,662	(230 )	203,432	(148,608 )	(42,774 )	(191,382 )
Net Loss Allocated to Noncontrolling Interests—Economic Income Basis—Non-GAAP	\$(5 )	\$ —	\$(5 )	\$(7 )	\$—	\$(7 )

Adjustment to exclude amounts allocated to our executive managing directors 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 of consolidated Och-Ziff funds in our consolidated statements of comprehensive (loss) income; however, a large portion 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 multi-strategy and opportunistic credit 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 these 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

Incentive income for our funds is generally based on a percentage of profits generated by our funds over a commitment period, 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 generally based on the net asset value of multi-strategy and opportunistic credit funds (plus unfunded commitments for certain closed-end opportunistic credit funds), and committed or invested capital for our real estate funds and certain other funds. A 10% change in the fair value of the net assets held by our funds as of June 30, 2016 and December 31, 2015, would have resulted in a change of approximately \$3.1 billion and \$3.5 billion, respectively, in our assets under management.

A 10% change in the fair value of the net assets held by our funds as of July 1, 2016 (the date management fees are calculated for the third quarter of 2016) would impact management fees charged on that day by approximately \$9.2 million. A 10% change in the fair value of the net assets held by our funds as of January 1, 2016, would have impacted management fees charged on that day by approximately \$11.4 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, as incentive income is generally based on a percentage of annual profits generated by our funds. We do not earn incentive income on unrealized gains attributable to Special Investments and certain other investments, and therefore a change in the fair value of those investments would have no effect on incentive income.

#### Exchange Rate Risk

Our funds hold investments denominated in non-U.S. dollar currencies, which may be affected by movements in the rate of exchange between the U.S. dollar and foreign currencies. We estimate that as of June 30, 2016 and December 31, 2015, 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 Notes and Aircraft Loan are fixed-rate borrowings. Our borrowings under the Revolving Credit Facility bear interest at rates indexed to LIBOR. As of June 30, 2016, we had \$120.0 million outstanding under the Revolving Credit Facility. We estimate that as of June 30, 2016 and December 31, 2015, a 10% increase or decrease in LIBOR would have no 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 indexed to LIBOR, were to increase by 10% over LIBOR as of June 30, 2016 and December 31, 2015, 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) under the Exchange Act, that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of June 30, 2016, 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 June 30, 2016.

##### 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 second quarter of 2016 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” below and “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,” “Item 1A. Risk Factors—Risks Related to Our Business—Increased regulatory focus in the United States could result in additional burdens on our business” and “Item 1A. Risk Factors—Risks Related to Our Business—Recent regulatory changes in jurisdictions outside the United States could adversely affect our business” in our Annual Report. See Note 15 to our consolidated financial statements included in this Form 10-Q for additional information.

### Item 1A. Risk Factors

Please see “Item 1A. Risk Factors” in our Annual Report for a discussion of the risks material to our business. Additionally, the risk factor below has been updated as a result of recent developments.

Investors in our funds have the right to redeem their investments in our funds on a regular basis and could redeem a significant amount of assets under management during any given quarterly period, which would result in significantly decreased revenues.

Subject to any specific redemption provisions applicable to a fund, investors in our multi-strategy hedge funds may generally redeem their investments in our funds on an annual or quarterly basis following the expiration of a specified period of time (typically between one and three years), although certain investors generally may redeem capital during such specified period upon the payment of a redemption fee and upon giving proper notice. In a declining market, during periods when the hedge fund industry generally experiences outflows, or in response to specific events that occur at the Company, we could experience increased redemptions and a consequent reduction in our assets under management. Recently, our assets under management have declined and we believe this trend will likely continue to some extent for some period of time following the resolution of the previously disclosed FCPA investigation. Furthermore, investors in our funds may also invest in funds managed by other alternative asset managers that have restricted or suspended redemptions or may in the future do so. Such investors may redeem capital from our funds, even if our performance is superior to such other alternative asset managers’ performance if they are restricted or prevented from redeeming capital from those other managers.

The decrease in revenues that would result from significant redemptions in our funds could have a material adverse effect on our business, financial condition or results of operations. During 2015, we experienced redemptions of approximately \$6.7 billion from our funds., and an additional \$3.3 billion during the first half of 2016. We may continue to experience elevated redemption levels if economic and market conditions remain uncertain or worsen, pressures on the hedge fund industry continue, or the FCPA investigation is not resolved promptly and on terms satisfactory to us.

Competitive pressures in the asset management business could materially adversely affect our business, financial condition or results of operations.

The asset management business remains intensely competitive, with competition based on a variety of factors, including investment performance, the quality of service and level of desired information provided to fund investors, brand recognition and business reputation. We compete for fund investors, highly qualified talent, including investment professionals, and for investment opportunities with a number of hedge funds, private equity firms, specialized funds, traditional asset managers, commercial banks, investment banks and other financial institutions. Across the hedge fund industry, management fees are experiencing downward pressure. We are also subject to this pressure and believe it is likely to result in decreased management fees in future periods.



A number of factors create competitive risks for us:

We compete in an international arena and, to remain competitive, we may need to further expand our business into new geographic regions or new business areas where our competitors may have a more established presence or greater experience and expertise.

A number of our competitors have greater financial, technical, marketing and other resources and more personnel than we do.

Several of our competitors have raised and continue to raise significant amounts of capital, and many of them have or may pursue investment objectives that are similar to ours, which would create additional competition for investment opportunities and may reduce the size and duration of pricing inefficiencies that many alternative investment strategies seek to exploit.

Some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and to bid more aggressively than us for investments that we may want to make.

Some of our competitors may be subject to less extensive regulation and thus may be better positioned to pursue certain investment objectives and/or be subject to lower expenses related to compliance and regulatory investigations than us.

Other industry participants will from time to time seek to recruit our active executive managing directors, investment professionals and other professional talent away from us.

We may lose fund investors in the future if we do not match or provide more attractive management fees, incentive income arrangements, structures and terms than those offered by competitors. However, we may experience decreased revenues if we match or provide more attractive management fees, incentive income arrangements, structures and terms offered by competitors. In addition, changes in the global capital markets could diminish the attractiveness of our funds relative to investments in other investment products. This competitive pressure could materially adversely affect our ability to make successful investments and limit our ability to raise future successful funds, either of which would materially adversely impact our business, financial condition or results of operations.

If our investment performance, including the level and consistency of returns or other performance criteria, does not meet the expectations of our fund investors, it will be difficult for our funds to retain or raise capital and for us to grow our business. Additionally, even if our fund performance is strong, it is possible that we will not be able to attract additional capital. Further, the allocation of increasing amounts of capital to alternative investment strategies over the long term by institutional and individual investors may lead to a reduction in profitable investment opportunities, including by driving prices for investments higher and increasing the difficulty of achieving consistent, positive, absolute returns.

Competition for fund investors is based on a variety of factors, including:

- Investment performance.
- Investor liquidity and willingness to invest.
- Investor perception of investment managers' ability, drive, focus and alignment of interest with them.
- Investor perception of robustness of business infrastructure and financial controls.
- Transparency with regard to portfolio composition.
- Investment and risk management processes.
- Quality of service provided to and duration of relationship with investors.
- Business reputation, including the reputation of a firm's investment professionals.
- Level of fees and incentive income charged for services.

If we are not able to compete successfully based on these and other factors, our assets under management, earnings and revenues may be significantly reduced and our business, financial condition or results of operations may be materially adversely affected. Furthermore, if we are forced to compete with other alternative asset managers on the basis of fees, we may not be able to maintain our current management fee and incentive income structures, which drive our revenues and earnings. We have historically competed for fund investors primarily on the investment performance of our funds and our reputation, and not on the level of our fees or incentive income relative to those of our competitors. However, as the alternative asset management sector continues to mature and addresses current market and competitive conditions, there is increasing downward pressure on management fees and there is a risk that incentive income rates will decline, without regard to the historical performance of a manager. Management fee or incentive income rate reductions on existing or future funds, particularly without corresponding increases in assets under management or decreases in our operating costs, could materially adversely affect our business, financial condition or results of operations.

In addition to the competitive pressures described above, as we diversify by offering new or enhanced products and investment platforms, the average management fee rate we earn on our assets under management may fall as a result of a larger proportion of our assets under management being invested in products that earn lower management fee rates. For example, our average management fee rate has fallen from 1.53% in 2013 to 1.28% in the second quarter of 2016. The decrease is primarily due to lower assets under management in our multi-strategy funds and an increase in our opportunistic credit funds and our Institutional Credit Strategies products as a percentage of total assets under management. These credit funds earn lower management fee rates than our multi-strategy funds, consistent with market convention for these products.

Even if we are able to compete successfully based on the factors noted above, it is possible we could lose assets under management to our competitors. It is possible that similar circumstances could cause us to experience unusually high redemptions or a decrease in inflows, even if our investment performance and other business attributes are otherwise competitive or superior.

We are subject to third-party litigation that could result in significant legal and other liabilities and reputational harm, which could materially adversely affect our business, financial condition or results of operations.

We face significant risks in our business that subject us to third-party litigation and legal liability. In general, we will be exposed to litigation risk in connection with any allegations of misconduct, negligence, dishonesty or bad faith arising from our management of any fund. We may also be subject to litigation arising from investor dissatisfaction with the performance of our funds, including certain losses due to the failure of a particular investment strategy or improper trading activity, if we violate restrictions in our funds' organizational documents or from allegations that we improperly exercised control or influence over companies in which our funds have large investments. In addition, we are exposed to risks of litigation relating to claims that we have not properly addressed conflicts of interest. Any litigation arising in such circumstances is likely to be protracted, expensive and surrounded by circumstances that could be materially damaging to our reputation and our business. Moreover, in such cases, we would be obligated to bear legal, settlement and other costs, which may be in excess of any available insurance coverage. In addition, although we are indemnified by our funds, our rights to indemnification may be challenged. If we are required to incur all or a portion of the costs arising out of any litigation or investigation as a result of inadequate insurance proceeds, if any, or fail to obtain indemnification from our funds, our business, financial condition or results of operations could be materially adversely affected.

Following any resolution of the FCPA investigation, it is possible that we will be exposed to increased civil litigation risk arising out of the events being investigated by the SEC and DOJ as part of the FCPA matter.

It is possible that we would be made a party to any lawsuit involving any of the fund-related litigation described above. As with the funds, while we maintain insurance, there can be no assurance that our insurance will prove to be adequate. If we are required to incur all or a portion of the costs arising out of litigation, our business, financial condition or results of operations could be materially adversely affected. Furthermore, any such litigation could be protracted, expensive and highly damaging to our reputation, which could result in a significant decline in our assets under management and revenues, even if the underlying claims are without merit. In addition, we may participate in transactions that involve litigation (including the enforcement of property rights) from time to time, and such

transactions may expose us to reputational risk and increased risk from countersuits.



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.

Our business is subject to extensive and complex regulation, including periodic examinations and regulatory investigations, by governmental and self-regulatory organizations in the jurisdictions in which we operate and trade around the world. As an investment adviser registered under the Investment Advisers Act of 1940, as amended (the “Advisers Act”) and a company subject to the registration and reporting provisions of the Exchange Act, we are subject to regulation and oversight by the SEC. As a company with a class of securities listed on the NYSE, we are subject to the rules and regulations of the NYSE. As a registered commodity pool operator and a registered commodity trading advisor, we are subject to regulation and oversight by the United States Commodity Futures Trading Commission (“CFTC”) and the National Futures Association. In addition, we are subject to regulation by the Department of Labor under the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”). In the U.K., our U.K. sub-adviser is subject to regulation by the U.K. Financial Conduct Authority. Our Asian operations, and our investment activities around the globe, are subject to a variety of other regulatory regimes that vary country by country, including the Securities and Futures Commission in Hong Kong, the Securities and Exchange Board of India and the Dubai Financial Services Authority.

The regulatory bodies with jurisdiction over us have the authority to grant, and in specific circumstances to cancel, permissions to carry on our business and to conduct investigations and administrative proceedings. Such investigations and administrative proceedings can result in fines, suspensions of personnel or other sanctions, including censure, the issuance of cease-and-desist orders or the suspension or expulsion of an investment adviser from registration or memberships. For example, a failure to comply with the obligations imposed by the Exchange Act or Advisers Act, including recordkeeping, advertising and operating requirements, disclosure obligations and prohibitions on fraudulent activities, or a failure to maintain our funds’ exemption from compliance with the Investment Company Act of 1940, as amended (the “1940 Act”) could result in investigations, sanctions and reputational damage, which could adversely affect our business, financial condition or results of operations. Our funds are involved regularly in trading activities that implicate a broad number of U.S. and foreign securities law regimes, including laws governing trading on inside information, market manipulation, anti-corruption, including the FCPA, and a broad number of technical trading requirements that implicate fundamental market regulation policies. Even if an investigation or proceeding did not result in a sanction or the sanction imposed against us or our personnel by a regulator were small in monetary amount, the adverse publicity relating to the investigation, proceeding or imposition of these sanctions could harm our reputation and cause us to lose existing investors or to fail to gain new investors. Furthermore, the legal, technology and other costs associated with regulatory investigations could increase to such a level that they could have a material impact on our business, financial condition or results of operations.

These global financial services regulators affect us not only with their regulations, but also with their examination, inspection and enforcement functions as well. We are routinely subject to examination and inspection and, although we make reasonable efforts to maintain effective compliance programs, there can be no assurances that any such inquiry would not result in a finding or sanction that would adversely affect our business, financial condition or results of operations. Likewise, enforcement investigations and administrative inquiries can be sweeping in nature. Cooperating with these investigations, as is our practice, can be expensive and time-consuming and could distract us from our business operations. In particular, U.S. regulators routinely investigate potentially serious matters such as possible insider trading, market manipulation, misleading disclosure, conflicts of interest, fraud, foreign corruption, including under the FCPA; lesser potential violations, such as books and records inaccuracies, weaknesses in internal controls; and compliance with general reporting and advertising regulations. For the past several years, we have cooperated with a number of ongoing regulatory investigations and examinations, both domestically and internationally, and we expect to be the subject of investigations and examinations in the future. There can be no assurances that ongoing or future investigations will not adversely affect our business, financial condition or results of operations. Enforcement actions and administrative proceedings can result in fines, or other sanctions, including censure, the issuance of a cease-and-desist order, suspension or expulsion of persons or firms from the industry. Such sanctions can harm our reputation and cause us to lose existing investors or fail to gain new investors, which could

adversely affect our business, financial condition or results of operations.

As previously disclosed, since 2011, we have been investigated by the SEC and the DOJ concerning possible violations of the FCPA and other laws. While we are unable to predict the full scope, duration or outcome of the SEC and DOJ investigations, based on discussions with the SEC and DOJ, we believe that the government will pursue civil and criminal sanctions. We are in discussions with the SEC and DOJ concerning resolution of these matters. We accrued \$200.0 million in the

first quarter of 2016 in connection with the disclosed investigations and recorded an additional charge of \$214.3 million in connection with the disclosed investigations for the second quarter of 2016. The probable estimated loss, which totals \$414.3 million, may be subject to change based on the terms of any final settlement with the SEC and DOJ relating to those matters. Any resolution could have a material adverse effect on our business, financial condition or results of operations.

In addition, we regularly rely on exemptions or exclusions from various requirements of the Securities Act, the Exchange Act, the 1940 Act, the Commodity Exchange Act and ERISA in conducting our asset management activities. These exemptions or exclusions are sometimes highly complex and may, in certain circumstances, depend on compliance by third parties whom we do not control. If for any reason these exemptions or exclusions were to become unavailable to us, we could become subject to regulatory action or third-party claims and our business, financial condition or results of operations could be materially adversely affected. Certain of the requirements imposed under the 1940 Act, the Advisers Act, ERISA and by non-U.S. regulatory authorities are designed primarily to ensure the integrity of the financial markets and to protect investors in our funds and are not designed to protect holders of our Class A Shares. At any time, the regulations applicable to us may be amended or expanded by the relevant regulatory authorities. If we are unable to correctly interpret and timely comply with any amended or expanded regulatory requirements, our business, financial condition or results of operations could be adversely impacted in a material way.

We may also be adversely affected if additional legislation or regulations are enacted, or by changes in the interpretation or enforcement of existing rules and regulations imposed by the SEC, other U.S. or foreign governmental regulatory authorities or self-regulatory organizations that supervise the financial markets and their participants. See “Item 1A. Risk Factors—Risks Related to Our Business—Increased regulatory focus in the United States could result in additional burdens on our business” and “—Recent regulatory changes in jurisdictions outside the United States could adversely affect our business” in our Annual Report for additional information. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. Compliance with additional new laws or regulations could be difficult and expensive and affect the manner in which we conduct business, and we may be unable to correctly interpret and timely comply with any amended or expanded regulatory requirements, which could have adverse impacts on our business, financial condition or results of operations.

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

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
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: August 2, 2016

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

By: /s/ Joel M. Frank  
Joel M. Frank  
Chief Financial Officer and Executive Managing Director