BROWN ROBERT C MD
Form 4
January 06, 2011

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
BROWN ROBERT C MD

(Last) (First) (Middle)

16 SOUTH PENNSYLVANIA AVENUE

(Street)

OKLAHOMA CITY, OK 73107

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
LSB INDUSTRIES INC [LXU]

3. Date of Earliest Transaction (Month/Day/Year)
01/05/2011

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	01/05/2011		S		30,000	D	$ 25	31,160	I	By Trust and Spouse's Trust (1)
Common Stock	01/05/2011		S		18,442	D	$ 25	0	I	By RCB, M.D., Inc. Profit Shring Plan (2) (3)
Common Stock								50,727	I	By RCB, M.D., Inc. (3)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. D Se (I
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Nonqualified Stock Option (4)	$ 7.86							(4)	11/13/2018	Common Stock	5,000	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BROWN ROBERT C MD 16 SOUTH PENNSYLVANIA AVENUE OKLAHOMA CITY, OK 73107	X			

Signatures

Robert C. Brown, M.D.	01/06/2011
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) These shares were sold pursuant to a Rule 10b5-1 sales plan, dated March 15, 2010. These shares are held in a joint account owned by the Robert C. Brown Rev. Trust, DTD 08/27/99, of which the reporting person is settlor and trustee and the Zelda F. Brown Rev. Trust, DTD 08/27/99, of which the reporting person's spouse is settlor and trustee. This amount includes 1,644 shares which were transferred from the Robert C. Brown, M.D., Inc. Employee Profit Sharing Plan to the Robert C. Brown Rev. Trust, DTD 08/27/99 on December 17, 2008.

(2) These shares were sold pursuant to a Rule 10b5-1 sales plan, dated March 15, 2010. Dr. Brown is trustee of the Robert C. Brown, M.D., Inc. Employee Profit Sharing Plan and has a vested interest in the income or corpus of the trust.

(3) Dr. Brown's pecuniary interest in the issuer's common stock held by the Robert C. Brown, M.D., Inc. ("RCB M.D., Inc.") Employee Profit Sharing Plan and by RCB M.D., Inc. was last reported in the Schedule 14A Proxy Statement filed by the issuer on May 10, 2010, and the Form 4 filed by Dr. Brown on December 29, 2003.

(4) Nonqualified Stock Option ("NQSO") granted by the Issuer to the reporting person under the Issuer's 2008 Incentive Stock Plan. The NQSO is for a term of ten years from November 13, 2008, the date of grant, and the exercise price of the NQSO is based on the fair market value of the Issuer's common stock on the date of grant. This NQSO vests at the end of years one through six in the following amounts: 16.5%, 16.5%, 16.5%, 16.5%, 16.5% and 17.5%. This NQSO will be fully vested at the end of year six.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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In this quarterly report, references to Och-Ziff, our Company, the Company, we, us, or our refer, unless the context requires otherwise, to Och-Ziff Capital Management Group LLC, a Delaware limited liability company, and its consolidated subsidiaries, including the Och-Ziff Operating Group. References to the Och-Ziff Operating Group refer, collectively, to OZ Management LP, a Delaware limited partnership, which we refer to as OZ Management, OZ Advisors LP, a Delaware limited partnership, which we refer to as OZ Advisors, OZ Advisors II LP, a Delaware limited partnership, which we refer to as OZ Advisors II, and their consolidated subsidiaries. References to our intermediate holding companies refer, collectively, to Och-Ziff Holding Corporation, a Delaware corporation, which we refer to as Och-Ziff Corp, and Och-Ziff Holding LLC, a Delaware limited liability company, which we refer to as Och-Ziff Holding, both of which are wholly-owned subsidiaries of Och-Ziff Capital Management Group LLC.

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

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

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

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

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

Forward-Looking Statements

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

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

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

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

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

CONSOLIDATED BALANCE SHEETS UNAUDITED

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

See notes to consolidated financial statements.

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OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

CONSOLIDATED STATEMENTS OF OPERATIONS UNAUDITED

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

See notes to consolidated financial statements.

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OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY UNAUDITED

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

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

See notes to consolidated financial statements.

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OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED

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

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

See notes to consolidated financial statements.

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OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

MARCH 31, 2011

1. BUSINESS

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

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

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

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

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

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Recently Adopted Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends fair value disclosure requirements by requiring an entity to: (i) disclose separately the amounts of significant transfers in and out of Level I and Level II fair value measurements and describe the reasons for the transfers; and (ii) present separately information about purchases, sales, issuances and settlements in the roll forward of activity in Level III fair value measurements (i.e. gross presentation). Additionally, ASU 2010-06 clarifies

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OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

MARCH 31, 2011

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

Future Adoption of Accounting Pronouncements

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

3. REORGANIZATION EXPENSES AND OCH-ZIFF OPERATING GROUP OWNERSHIP

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

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

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

Och-Ziff Operating Group A Unit Transactions

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

	Paid-in Capital	Partners and Others Interests in Consolidated Subsidiaries

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

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OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

MARCH 31, 2011

Vesting of Class A Restricted Share Units

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

4. FAIR VALUE DISCLOSURES

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

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

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

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

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

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

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset or liability s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the 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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The following table summarizes the Company s assets and liabilities measured at fair value on a recurring basis within the fair value hierarchy:

	As of March 31, 2011			
	Level I	Level II	Level III	Total
	(dollars in thousands)			
Real estate investments	$	$	$ 289,008	$ 289,008
Structured products			147,732	147,732
Energy and natural resources limited partnerships			50,884	50,884
Other investments	4,193		31,009	35,202
Financial Assets, at Fair Value	**4,193**		**518,633**	**522,826**
Counterparty netting of derivative contracts	(109)			(109)
Fair Value Included Within Investments, at Fair Value	**$ 4,084**	**$**	**$ 518,633**	**$ 522,717**
Financial Liabilities, at Fair Value	**$ 109**	**$ 32**	**$ 12**	**$ 153**
Counterparty netting of derivative contracts	(109)			(109)
Fair Value Included Within Other Liabilities of Consolidated Och-Ziff Funds	**$**	**$ 32**	**$ 12**	**$ 44**
Deferred Balances, at Fair Value	**$**	**$**	**$ 2,892**	**$ 2,892**

	As of December 31, 2010			
	Level I	Level II	Level III	Total
	(dollars in thousands)			
Real estate investments	$	$	$ 288,444	$ 288,444
Structured products	5		66,716	66,721
Energy and natural resources limited partnerships			49,870	49,870
Other investments	337		13,994	14,331
Financial Assets, at Fair Value	**$ 342**	**$**	**$ 419,024**	**$ 419,366**
Deferred Balances, at Fair Value	**$**	**$**	**$ 2,913**	**$ 2,913**

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

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

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

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

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

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

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

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

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

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

	Balance as of December 31,	Investment Purchases	Investment Sales and Collection of	Net Gains of Consolidated Och-Ziff Funds	Balance as of March 31, 2010

	2009		**Deferred Balances (dollars in thousands)**		
Real estate investments	$ 295,626	$ 39,549	$ (15,452)	$ 6,191	$ 325,914
Energy and natural resources limited partnerships	4,605	2,823			7,428
Total, at Fair Value	**$ 300,231**	**$ 42,372**	**$ (15,452)**	**$ 6,191**	**$ 333,342**
Deferred Balances, at Fair Value	**$ 404,666**	**$**	**$ (389,309)**	**$**	**$ 15,357**

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

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

Fair Value of Other Financial Instruments

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

5. VARIABLE INTEREST ENTITIES

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

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

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

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

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

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

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

6. OTHER ASSETS AND OTHER LIABILITIES

Other Assets, Net

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

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

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

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Other Liabilities

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

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

7. DEBT OBLIGATIONS

Och-Ziff Real Estate Funds Credit Facility

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

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

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8. GENERAL, ADMINISTRATIVE AND OTHER

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

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

9. INCOME TAXES

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

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

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

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10. NET LOSS PER CLASS A SHARE

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

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

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

11. RELATED PARTY TRANSACTIONS

Due to Related Parties

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

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

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

Amounts Payable Under Tax Receivable Agreement

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

Deferred Balances and Related Taxes Payable

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

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Management Fees and Incentive Income Earned from Och-Ziff Funds

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