

**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, 2013**

**or**

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

**For the transition period from                      to                      .**

**Commission File Number 001-35500**

**Oaktree Capital Group, LLC**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**26-0174894**

(I.R.S. Employer  
Identification Number)

**333 South Grand Avenue, 28th Floor  
Los Angeles, CA 90071  
Telephone: (213) 830-6300**

(Address, zip code, and telephone number, including  
area code, of registrant's principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 and 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods 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 ☒

Smaller reporting company ☐

(Do not check if a 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 August 6, 2013, there were 38,239,441 Class A units and 112,755,276 Class B units of the registrant outstanding.

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## FORWARD-LOOKING STATEMENTS

This quarterly report contains forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), which reflect our current views with respect to, among other things, our future results of operations and financial performance. In some cases, you can identify forward-looking statements by words such as “anticipate,” “approximately,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “outlook,” “plan,” “potential,” “predict,” “seek,” “should,” “will” and “would” or the negative version of these words or other comparable or similar words. These statements identify prospective information. Important factors could cause actual results to differ, possibly materially, from those indicated in these statements. Forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. Such forward-looking statements are subject to risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business prospects, growth strategy and liquidity, including, but not limited to, changes in our anticipated revenue and income, which are inherently volatile; changes in the value of our investments; the pace of our raising of new funds; the timing and receipt of, and impact of taxes on, carried interest; distributions from and liquidation of our existing funds; changes in our operating or other expenses; the degree to which we encounter competition; and general economic and market conditions. The factors listed in the item captioned “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission (“SEC”) on March 14, 2013 (“annual report”), which is accessible on the SEC’s website at [www.sec.gov](http://www.sec.gov), provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations described in our forward-looking statements.

Forward-looking statements speak only as of the date of this quarterly report. Except as required by law, we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

In this quarterly report, unless the context otherwise requires:

“Oaktree,” “OCG,” “we,” “us,” “our” or “our company” refers to Oaktree Capital Group, LLC and, where applicable, its subsidiaries and affiliates.

“Oaktree Operating Group,” or “Operating Group,” refers collectively to the entities that control the general partners and investment advisors of our funds in which we have a minority economic interest and indirect control.

“OCGH” refers to Oaktree Capital Group Holdings, L.P., a Delaware limited partnership, which holds an interest in the Oaktree Operating Group and all of our Class B units.

“OCGH unitholders” refers collectively to our principals, current and former employees and certain other investors who hold their interest in the Oaktree Operating Group through OCGH.

“2007 Private Offering” refers to the sale completed on May 25, 2007 of 23,000,000 of our Class A units to Goldman, Sachs & Co., as initial purchaser, as more fully described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—The May 2007 Restructuring and The 2007 Private Offering—The 2007 Private Offering” in our annual report.

“assets under management,” or “AUM,” generally refers to the assets we manage and equals the NAV (as defined below) of the assets we manage, the fund-level leverage on which management fees are charged and the undrawn capital that we are entitled to call from investors in our funds pursuant to their capital commitments. Our AUM amounts include AUM for which we charge no fees. Our definition of AUM is not based on any definition contained in our operating agreement or the agreements governing the funds that we manage. Our calculation of AUM and the two AUM-related metrics described below may not be directly comparable to the AUM metrics of other investment managers.

- “management fee-generating assets under management,” or “management fee-generating AUM,” reflects the AUM on which we will earn management fees in the following quarter, as more fully described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Segment and Operating Metrics—Assets Under Management—Management Fee-generating Assets Under Management.”
- “incentive-creating assets under management,” or “incentive-creating AUM,” refers to the AUM that may eventually produce incentive income, as more fully described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Segment and Operating Metrics—Assets Under Management—Incentive-creating Assets Under Management.”

“consolidated funds” refers to those funds that Oaktree consolidates through a majority voting interest or otherwise, including those funds in which Oaktree as the general partner is presumed to have control.

“funds” refers to investment funds and, where applicable, separate accounts that are managed by us or our subsidiaries.

“initial public offering” refers to the listing of our Class A units on the New York Stock Exchange whereby Oaktree sold 7,888,864 Class A units and selling unitholders sold 954,159 Class A units, as more fully described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Initial Public Offering” in our annual report.

“Intermediate Holding Companies” collectively refers to the subsidiaries wholly owned by us.

“May 2007 Restructuring” refers to the series of transactions that occurred immediately prior to the 2007 Private Offering whereby OCGH contributed our business to the Oaktree Operating Group in exchange for limited partnership interests in each Oaktree Operating Group entity, as more fully described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—The May 2007 Restructuring and The 2007 Private Offering—The May 2007 Restructuring” in our annual report.

“net asset value,” or “NAV,” refers to the value of all the assets of a fund (including cash and accrued interest and dividends) less all liabilities of the fund (including accrued expenses and any reserves established by us, in our discretion, for contingent liabilities) without reduction for accrued incentives (fund level) because they are reflected in the partners’ capital of the fund.

“Relevant Benchmark” refers, with respect to:

- our U.S. high yield bond strategy, to the Citigroup U.S. High Yield Cash-Pay Capped Index;
- our European high yield bond strategy, to the BofA Merrill Lynch Global Non-Financial High Yield European Issuers excluding Russia 3% Constrained Index (USD Hedged);
- our U.S. senior loan strategy (with the exception of the closed-end funds), to the Credit Suisse Leveraged Loan Index;
- our European senior loan strategy, to the Credit Suisse Western European Leveraged Loan Index (EUR Hedged);
- our U.S. convertible securities strategy, to an Oaktree custom convertible index that represents the Credit Suisse Convertible Securities Index from inception through December 31, 1999, the Goldman Sachs/Bloomberg Convertible 100 Index from January 1, 2000 through June 30, 2004 and the BofA Merrill Lynch All U.S. Convertibles Index thereafter;
- our non-U.S. convertible securities strategy, to the JACI Global ex-U.S. (Local) Index;
- our high income convertible securities strategy, to the Citigroup U.S. High Yield Market Index; and
- our emerging markets equity strategy, to the Morgan Stanley Capital International Emerging Markets Index (Net).

“Sharpe Ratio” refers to a metric used to calculate risk-adjusted return. The Sharpe Ratio is the ratio of excess return to volatility, with excess return defined as the return above that of a riskless asset (based on the three-month U.S. Treasury bill, or for our European senior loan strategy, the Euro Overnight Index Average) divided by the standard deviation of such return. A higher Sharpe Ratio indicates a return that is higher than would be expected for the level of risk compared to the risk-free rate.

This quarterly report and its contents do not constitute and should not be construed as an offer of securities of any Oaktree funds.

# PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

### Oaktree Capital Group, LLC Condensed Consolidated Statements of Financial Condition (Unaudited) (\$ in thousands)

	June 30, 2013	December 31, 2012
<b>Assets</b>		
Cash and cash-equivalents .....	\$ 196,151	\$ 458,191
U.S. Treasury and government agency securities .....	938,070	370,614
Corporate investments, at equity .....	84,332	98,950
Due from affiliates .....	50,952	44,589
Deferred tax assets .....	293,579	159,171
Other assets .....	129,321	127,244
<i>Assets of consolidated funds:</i>		
Cash and cash-equivalents .....	2,693,423	2,470,335
Investments, at fair value .....	37,568,813	38,372,626
Dividends and interest receivable .....	152,327	177,746
Due from brokers .....	373,744	405,143
Receivable for securities sold .....	512,421	501,199
Derivative assets, at fair value .....	181,045	107,560
Other assets .....	721,239	576,630
Total assets .....	<u>\$ 43,895,417</u>	<u>\$ 43,869,998</u>
<b>Liabilities and Unitholders' Capital</b>		
<i>Liabilities:</i>		
Accrued compensation expense .....	\$ 143,752	\$ 118,921
Accounts payable, other accrued expenses and other liabilities .....	78,914	95,390
Due to affiliates .....	249,684	136,165
Debt obligations .....	591,964	615,179
<i>Liabilities of consolidated funds:</i>		
Accounts payable, accrued expenses and other liabilities .....	94,041	104,744
Payables for securities purchased .....	1,124,801	629,627
Securities sold short, at fair value .....	102,691	126,530
Derivative liabilities, at fair value .....	20,289	156,647
Distributions payable .....	258,376	330,446
Borrowings under credit facilities .....	1,511,836	491,625
Total liabilities .....	<u>4,176,348</u>	<u>2,805,274</u>
Commitments and contingencies (Note 12)		
Non-controlling redeemable interests in consolidated funds .....	<u>38,105,196</u>	<u>39,670,831</u>
<i>Unitholders' capital:</i>		
Class A units, no par value, unlimited units authorized, 38,239,441 and 30,180,933 units issued and outstanding as of June 30, 2013 and December 31, 2012, respectively .....	—	—
Class B units, no par value, unlimited units authorized, 112,749,526 and 120,267,503 units issued and outstanding as of June 30, 2013 and December 31, 2012, respectively .....	—	—
Paid-in capital .....	670,648	645,053
Accumulated deficit .....	(222,760)	(336,903)
Accumulated other comprehensive loss .....	(1,834)	(1,748)
Class A unitholders' capital .....	446,054	306,402
OCGH non-controlling interest in consolidated subsidiaries .....	1,167,819	1,087,491
Total unitholders' capital .....	<u>1,613,873</u>	<u>1,393,893</u>
Total liabilities and unitholders' capital .....	<u>\$ 43,895,417</u>	<u>\$ 43,869,998</u>

*Please see accompanying notes to condensed consolidated financial statements.*

**Oaktree Capital Group, LLC**  
**Condensed Consolidated Statements of Operations (Unaudited)**  
(in thousands, except per unit amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues:				
Management fees .....	\$ 50,097	\$ 29,207	\$ 92,636	\$ 61,227
Incentive income .....	2,317	—	2,317	5,048
Total revenues .....	52,414	29,207	94,953	66,275
Expenses:				
Compensation and benefits .....	(90,263)	(80,302)	(183,978)	(164,766)
Equity-based compensation .....	(7,105)	(7,795)	(13,557)	(19,984)
Incentive income compensation .....	(128,953)	(60,965)	(259,224)	(88,722)
Total compensation and benefits expense .....	(226,321)	(149,062)	(456,759)	(273,472)
General and administrative .....	(31,124)	(24,166)	(52,608)	(50,101)
Consolidated fund expenses .....	(28,095)	(33,780)	(51,678)	(51,002)
Total expenses .....	(285,540)	(207,008)	(561,045)	(374,575)
Other income (loss):				
Interest expense .....	(14,013)	(11,860)	(25,594)	(22,850)
Interest and dividend income .....	580,593	463,873	986,845	1,003,491
Net realized gain on consolidated funds' investments .....	831,989	733,521	2,030,249	1,807,659
Net change in unrealized appreciation (depreciation) on consolidated funds' investments .....	(111,795)	(180,216)	909,722	625,607
Investment income (loss) .....	(1,111)	3,705	11,132	9,385
Other income (expense), net .....	284	6,326	264	8,593
Total other income .....	1,285,947	1,015,349	3,912,618	3,431,885
Income before income taxes .....	1,052,821	837,548	3,446,526	3,123,585
Income taxes .....	(7,991)	(13,925)	(18,148)	(21,692)
Net income .....	1,044,830	823,623	3,428,378	3,101,893
Less:				
Net income attributable to non-controlling redeemable interests in consolidated funds .....	(762,487)	(673,673)	(2,826,452)	(2,798,445)
Net income attributable to OCGH non-controlling interest in consolidated subsidiaries .....	(225,766)	(125,231)	(487,783)	(260,121)
Net income attributable to Oaktree Capital Group, LLC .....	\$ 56,577	\$ 24,719	\$ 114,143	\$ 43,327
Distributions declared per Class A unit <sup>(1)</sup> .....	\$ 1.41	\$ 0.55	\$ 2.46	\$ 0.97
Net income per unit (basic and diluted):				
Net income per Class A unit .....	\$ 1.71	\$ 0.84	\$ 3.61	\$ 1.66
Weighted average number of Class A units outstanding .....	33,020	29,586	31,611	26,137

(1) All references to Class A units in these financial statements give effect to the conversion of previously outstanding 13 Class C units into Class A units on a one-for-one basis in April 2012.

*Please see accompanying notes to condensed consolidated financial statements.*

**Oaktree Capital Group, LLC**  
**Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)**  
(in thousands)

	Oaktree Capital Group, LLC	OCGH Non- controlling Interest in Consolidated Subsidiaries	Non- controlling Redeemable Interests in Consolidated Funds	Total
<b><u>Three Months Ended June 30, 2013</u></b>				
Net income .....	\$ 56,577	\$ 225,766	\$ 762,487	\$ 1,044,830
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments .....	(115)	(409)	—	(524)
Unrealized gain on interest-rate swap designated as cash- flow hedge .....	591	2,109	—	2,700
Other comprehensive income, net of tax .....	476	1,700	—	2,176
Total comprehensive income .....	57,053	227,466	762,487	1,047,006
Less: Comprehensive income attributable to non-controlling interests .....	—	(227,466)	(762,487)	(989,953)
Comprehensive income attributable to Oaktree Capital Group, LLC .....	\$ 57,053	\$ —	\$ —	\$ 57,053
<b><u>Three Months Ended June 30, 2012</u></b>				
Net income .....	\$ 24,719	\$ 125,231	\$ 673,673	\$ 823,623
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments .....	(200)	(818)	—	(1,018)
Unrealized loss on interest-rate swap designated as cash- flow hedge .....	(205)	(839)	—	(1,044)
Other comprehensive loss, net of tax .....	(405)	(1,657)	—	(2,062)
Total comprehensive income .....	24,314	123,574	673,673	821,561
Less: Comprehensive income attributable to non-controlling interests .....	—	(123,574)	(673,673)	(797,247)
Comprehensive income attributable to Oaktree Capital Group, LLC .....	\$ 24,314	\$ —	\$ —	\$ 24,314

*Please see accompanying notes to condensed consolidated financial statements.*



**Oaktree Capital Group, LLC**  
**Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited) — (Continued)**  
(in thousands)

	Oaktree Capital Group, LLC	OCGH Non- controlling Interest in Consolidated Subsidiaries	Non- controlling Redeemable Interests in Consolidated Funds	Total
<b><u>Six Months Ended June 30, 2013</u></b>				
Net income .....	\$ 114,143	\$ 487,783	\$ 2,826,452	\$ 3,428,378
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments .....	(785)	(3,078)	—	(3,863)
Unrealized gain on interest-rate swap designated as cash- flow hedge .....	699	2,541	—	3,240
Other comprehensive loss, net of tax .....	(86)	(537)	—	(623)
Total comprehensive income .....	114,057	487,246	2,826,452	3,427,755
Less: Comprehensive income attributable to non-controlling interests .....	—	(487,246)	(2,826,452)	(3,313,698)
Comprehensive income attributable to Oaktree Capital Group, LLC .....	\$ 114,057	\$ —	\$ —	\$ 114,057
<b><u>Six Months Ended June 30, 2012</u></b>				
Net income .....	\$ 43,327	\$ 260,121	\$ 2,798,445	\$ 3,101,893
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments .....	(69)	(100)	—	(169)
Unrealized loss on interest-rate swap designated as cash- flow hedge .....	(183)	(716)	—	(899)
Other comprehensive loss, net of tax .....	(252)	(816)	—	(1,068)
Total comprehensive income .....	43,075	259,305	2,798,445	3,100,825
Less: Comprehensive income attributable to non-controlling interests .....	—	(259,305)	(2,798,445)	(3,057,750)
Comprehensive income attributable to Oaktree Capital Group, LLC .....	\$ 43,075	\$ —	\$ —	\$ 43,075

*Please see accompanying notes to condensed consolidated financial statements.*

**Oaktree Capital Group, LLC**  
**Condensed Consolidated Statements of Cash Flows (Unaudited)**  
(in thousands)

	<u>Six Months Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Net income .....	\$ 3,428,378	\$ 3,101,893
Adjustments to reconcile net income to net cash provided by operating activities:		
Investment income .....	(11,132)	(9,385)
Depreciation and amortization .....	3,475	3,672
Equity-based compensation .....	13,557	19,984
Net realized and unrealized gains from consolidated funds' investments .....	(2,939,971)	(2,433,266)
Amortization of original issue and market discount of consolidated funds' investments ..	(43,421)	(61,374)
Income distributions from corporate investments in companies .....	27,683	—
Cash flows due to changes in operating assets and liabilities:		
Increase in other assets .....	(41,266)	(3,204)
Decrease in net due to affiliates .....	(7,091)	(9,815)
Increase (decrease) in accounts payable, other accrued expenses and other liabilities ..	1,614	(70,927)
<i>Cash flows due to changes in operating assets and liabilities of consolidated funds:</i>		
Decrease in dividends and interest receivable .....	25,419	52,945
Decrease in due from brokers .....	31,399	66,630
Increase in receivables for securities sold .....	(11,222)	(164,961)
Increase in payables for securities purchased .....	495,174	42,167
Purchases of securities .....	(8,384,631)	(6,779,452)
Proceeds from maturities and sales of securities .....	11,885,817	8,936,239
Net cash provided by operating activities .....	<u>4,473,782</u>	<u>2,691,146</u>
Cash flows from investing activities:		
Purchases of U.S. Treasury and government agency securities .....	(702,456)	(129,527)
Proceeds from maturities and sales of U.S. Treasury and government agency securities .....	135,000	135,000
Corporate investments in funds and companies .....	(3,432)	(7,292)
Distributions from corporate investments in funds and companies .....	1,501	12,468
Purchases of fixed assets .....	(1,389)	(3,517)
Net cash provided by (used in) investing activities .....	<u>(570,776)</u>	<u>7,132</u>

(continued)

*Please see accompanying notes to condensed consolidated financial statements.*

**Oaktree Capital Group, LLC**  
**Condensed Consolidated Statements of Cash Flows (Unaudited) — (Continued)**  
(in thousands)

	<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
Cash flows from financing activities:		
Repayments of debt obligations .....	\$ (23,215)	\$ (25,714)
Proceeds from issuance of Class A units, net .....	419,908	322,260
Purchase of OCGH units .....	(420,741)	(322,935)
Repurchase and cancellation of Class A units .....	—	(14,132)
Distributions to Class A unitholders .....	(74,257)	(26,347)
Distributions to OCGH unitholders .....	(339,951)	(166,022)
<i>Cash flows from financing activities of consolidated funds:</i>		
Contributions from non-controlling interests .....	3,069,748	3,281,270
Distributions to non-controlling interests .....	(7,577,863)	(5,842,026)
Borrowings on credit facilities .....	2,051,006	502,492
Repayments on credit facilities .....	(1,039,996)	(331,822)
Net cash used in financing activities .....	<u>(3,935,361)</u>	<u>(2,622,976)</u>
Effect of exchange rate changes on cash .....	(6,597)	(6,226)
Net increase (decrease) in cash and cash-equivalents .....	(38,952)	69,076
Cash and cash-equivalents, beginning balance .....	2,928,526	3,505,659
Cash and cash-equivalents, ending balance .....	<u>\$ 2,889,574</u>	<u>\$ 3,574,735</u>

*Please see accompanying notes to condensed consolidated financial statements.*

**Oaktree Capital Group, LLC**  
**Condensed Consolidated Statements of Changes in Unitholders' Capital (Unaudited)**  
(in thousands)

	Oaktree Capital Group, LLC						OCGH Non-controlling Interest in Consolidated Subsidiaries	Total Unitholders' Capital
	Class A Units	Class B Units	Class C Units	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)		
Unitholders' capital as of December 31, 2012 .....	30,181	120,268	—	\$ 645,053	\$ (336,903)	\$ (1,748)	\$ 1,087,491	\$ 1,393,893
Activity for the six months ended June 30, 2013:								
Issuance of Class A units .....	8,058	—	—	419,908	—	—	—	419,908
Issuance of Class B units .....	—	577	—	—	—	—	—	—
Cancellation of Class B units associated with forfeitures of OCGH units .....	—	(19)	—	—	—	—	—	—
Cancellation of Class B units .....	—	(8,076)	—	—	—	—	—	—
Purchase of OCGH units from OCGH unitholders .....	—	—	—	(419,908)	—	—	—	(419,908)
Deferred tax effect resulting from the purchase of OCGH units .....	—	—	—	20,161	—	—	—	20,161
Repurchase and cancellation of OCGH units .....	—	—	—	—	—	—	(833)	(833)
Equity reallocation between controlling and non-controlling interests .....	—	—	—	76,845	—	—	(76,845)	—
Capital increase related to equity-based compensation .....	—	—	—	2,846	—	—	10,711	13,557
Distributions declared .....	—	—	—	(74,257)	—	—	(339,951)	(414,208)
Net income .....	—	—	—	—	114,143	—	487,783	601,926
Foreign currency translation adjustment, net of tax .....	—	—	—	—	—	(785)	(3,078)	(3,863)
Unrealized gain on interest-rate swap designated as cash-flow hedge, net of tax .....	—	—	—	—	—	699	2,541	3,240
Unitholders' capital as of June 30, 2013 .....	<u>38,239</u>	<u>112,750</u>	<u>—</u>	<u>\$ 670,648</u>	<u>\$ (222,760)</u>	<u>\$ (1,834)</u>	<u>\$ 1,167,819</u>	<u>\$ 1,613,873</u>
Unitholders' capital as of December 31, 2011 .....	22,664	125,847	13	\$ 634,739	\$ (444,713)	\$ (1,884)	\$ 935,858	\$ 1,124,000
Activity for the six months ended June 30, 2012:								
Issuance of Class A units .....	7,904	—	—	322,260	—	—	—	322,260
Issuance of Class B units .....	—	2,313	—	—	—	—	—	—
Cancellation of Class B units associated with forfeitures of OCGH units .....	—	(5)	—	—	—	—	—	—
Conversion of Class C units into Class A units .....	13	—	(13)	—	—	—	—	—
Repurchase and cancellation of Class A units .....	(400)	—	—	(14,132)	—	—	—	(14,132)
Cancellation of Class B units .....	—	(7,904)	—	—	—	—	—	—
Purchase of OCGH units from OCGH unitholders .....	—	—	—	(322,260)	—	—	—	(322,260)
Deferred tax effect resulting from the purchase of OCGH units .....	—	—	—	15,490	—	—	—	15,490
Repurchase and cancellation of OCGH units .....	—	—	—	—	—	—	(675)	(675)
Equity reallocation between controlling and non-controlling interests .....	—	—	—	69,175	—	—	(69,175)	—
Capital increase related to equity-based compensation .....	—	—	—	3,367	—	—	16,617	19,984
Distributions declared .....	—	—	—	(26,347)	—	—	(166,022)	(192,369)
Net income .....	—	—	—	—	43,327	—	260,121	303,448
Foreign currency translation adjustment, net of tax .....	—	—	—	—	—	(69)	(100)	(169)
Unrealized loss on interest-rate swap designated as cash-flow hedge, net of tax .....	—	—	—	—	—	(183)	(716)	(899)
Unitholders' capital as of June 30, 2012 .....	<u>30,181</u>	<u>120,251</u>	<u>—</u>	<u>\$ 682,292</u>	<u>\$ (401,386)</u>	<u>\$ (2,136)</u>	<u>\$ 975,908</u>	<u>\$ 1,254,678</u>

*Please see accompanying notes to condensed consolidated financial statements.*

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
**(\$ in thousands, except where noted)**

## **1. ORGANIZATION AND BASIS OF PRESENTATION**

Oaktree Capital Group, LLC (together with its subsidiaries, “Oaktree” or the “Company”) is a leader among global investment managers specializing in alternative investments. Oaktree emphasizes an opportunistic, value-oriented and risk-controlled approach to investments in distressed debt, corporate debt (including high yield debt and senior loans), control investing, convertible securities, real estate and listed equities. Funds managed by Oaktree (the “Oaktree funds”) include both separate accounts and commingled funds. The commingled funds include open-end and closed-end limited partnerships in which the Company makes an investment and for which it serves as the general partner or, in certain limited cases, co-general partner.

Oaktree Capital Group, LLC was formed on April 13, 2007. Oaktree Capital Group Holdings GP, LLC acts as the Company's manager and is the general partner of Oaktree Capital Group Holdings, L.P. (“OCGH”), which owns 100% of the Company's outstanding Class B units. OCGH is owned by the Company's principals, current and former employees and certain other investors (the “OCGH unitholders”). The Company's operations are conducted through a group of operating entities collectively referred to as the Oaktree Operating Group. OCGH has a direct economic interest in the Oaktree Operating Group and the Company has an indirect economic interest in the Oaktree Operating Group. An Oaktree Operating Group unit is not a legal interest but represents one limited partnership interest in each of the Oaktree Operating Group entities. The Class B units are entitled to ten votes per unit and have no economic interest in the Company, whereas the Class A units are only entitled to one vote per unit. Consequently, the OCGH unitholders' economic interest in the Oaktree Operating Group is reflected as OCGH non-controlling interest in consolidated subsidiaries in the accompanying condensed consolidated financial statements.

### ***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information. The condensed consolidated financial statements, including these notes, are unaudited and exclude some of the disclosures required in annual financial statements. Management believes it has made all necessary adjustments (consisting of only normal recurring items) such that the condensed consolidated financial statements are presented fairly and that estimates made in preparing its condensed consolidated financial statements are reasonable and prudent. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. The condensed consolidated financial statements include the accounts of the Company, its wholly-owned or majority-owned subsidiaries, the consolidated entities that are considered to be variable interest entities and for which the Company is considered the primary beneficiary, and certain entities that are not considered variable interest entities but in which the Company has a controlling financial interest. All intercompany accounts and transactions have been eliminated through consolidation. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2012 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on March 14, 2013.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### ***Fair Value of Financial Instruments***

GAAP establishes a hierarchal disclosure framework that prioritizes the inputs used in measuring financial instruments at fair value into three levels based on their market observability. Market price observability is affected by a number of factors, such as the type of instrument and the characteristics specific to the instrument. Financial instruments with readily available quoted prices from an active market or for which fair value can be measured based on actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment inherent in measuring fair value.

Financial assets and liabilities measured and reported at fair value are classified as follows:

- *Level 1* – Quoted unadjusted prices for identical instruments in active markets to which the Company has access at the date of measurement. The types of investments in Level 1 include exchange-traded equities, debt and derivatives with quoted prices.

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
**(\$ in thousands, except where noted)**

- *Level II* – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are directly or indirectly observable. Level II inputs include prices in markets for which there are few transactions, the prices are not current, little public information exists or prices vary substantially over time or among brokered market makers. Other inputs include interest rates, yield curves, volatilities, prepayment risks, loss severities, credit risks and default rates. The types of investments in Level II generally include corporate bonds and loans, government and agency securities, less liquid and restricted equity investments, over-the-counter traded derivatives and other investments where the fair value is based on observable inputs.
- *Level III* – Model-derived valuations for which one or more significant inputs are unobservable. These inputs reflect the Company's assessment of the assumptions that market participants use to value the investment based on the best available information. The types of investments in Level III include non-publicly traded equity, debt, real estate and derivatives.

In some instances, an instrument may fall into multiple levels of the fair-value hierarchy. In such instances, the instrument's level within the fair-value hierarchy is based on the lowest of the three levels (with Level III being the lowest) that is significant to the fair-value measurement. The Company's assessment of the significance of an input requires judgment and considers factors specific to the instrument. The Company accounts for the transfer of assets into or out of each fair-value hierarchy level as of the beginning of the reporting period.

In the absence of observable market prices, the Company values Level III investments using valuation methodologies applied on a consistent basis. The quarterly valuation process for Level III investments begins with each portfolio company or security being valued by the investment and valuation teams. The valuations are then reviewed by the valuation committee of each investment strategy, which consists of senior members of the investment team. All Level III investment values are ultimately approved by the valuation committees and designated investment professionals, as well as the valuation officer, who is independent of the investment teams and reports directly to the Company's Managing Principal. For certain investments, the valuation process also includes a review by independent valuation parties, at least annually, to determine whether the fair values determined by management are reasonable. Results of the valuation process are evaluated each quarter, including an assessment of whether the underlying calculations should be adjusted or recalibrated. In connection with this process, the Company evaluates changes in fair-value measurements from period to period for reasonableness, considering items such as industry trends, general economic and market conditions, and factors specific to the investment.

### ***Investments, at Fair Value***

The consolidated funds are primarily investment companies that reflect their investments, including majority-owned and controlled investments (the "portfolio companies"), at fair value. The Company has retained the specialized investment company accounting guidance under GAAP for the consolidated funds with respect to consolidated investments. Thus, the consolidated investments are reflected on the condensed consolidated statements of financial condition at fair value, with unrealized gains and losses resulting from changes in fair value reflected as a component of net change in unrealized appreciation (depreciation) on consolidated funds' investments in the condensed consolidated statements of operations. Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price).

Non-publicly traded debt and equity securities and other securities or instruments for which reliable market quotations are not available, are valued by management using valuation methodologies applied on a consistent basis. These securities may initially be valued at the acquisition price as the best indicator of fair value. Subsequent valuations will depend on facts and circumstances known as of the valuation date and the application of valuation methodologies further described below under "—Non-publicly Traded Equity and Real Estate Investments."

### ***Exchange-traded Investments***

Securities listed on one or more national securities exchanges are valued at their last reported sales price on the date of valuation. If no sale occurred on the valuation date, the security is valued at the mean of the last "bid" and "ask" prices on the valuation date. Securities that are not marketable due to legal restrictions that may limit or restrict transferability are generally valued at a discount from quoted market prices. The discount would reflect the amount market participants would require due to the risk relating to the inability to access a public market for the

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
**(\$ in thousands, except where noted)**

security for the specified period and would vary depending on the nature and duration of the restriction and the risk and volatility of the underlying securities. Securities with longer duration restrictions or higher volatility are generally valued at a higher discount. Such discounts are generally estimated based on put option models or analysis of market studies. Instances where the Company has applied discounts to quoted prices of restricted listed securities have been infrequent. The impact of such discounts is not material to the Company's condensed consolidated statements of financial condition and results of operations for all periods presented.

***Credit-oriented Investments***

Investments in corporate and government debt which are not listed or admitted to trading on any securities exchange are valued at the mean of the last bid and ask prices on the valuation date based on quotations supplied by recognized quotation services or by reputable broker-dealers.

The market-yield approach is considered in the valuation of non-publicly traded debt securities, utilizing expected future cash flows, discounted using estimated current market rates. Discounted cash flow calculations may be adjusted to reflect current market conditions and/or the perceived credit risk of the borrowers. Consideration is also given to a borrower's ability to meet principal and interest obligations; this may include an evaluation of collateral and/or the underlying value of the borrower utilizing techniques described below under "—Non-publicly Traded Equity and Real Estate Investments."

***Non-publicly Traded Equity and Real Estate Investments***

The fair values of equity and real estate investments are determined by using a cost approach, market approach or an income approach. A cost approach is based upon the current cost of reproducing a real estate investment less deterioration and functional and economic obsolescence. A market approach utilizes valuations of comparable public companies and transactions and generally seeks to establish the enterprise value of the portfolio company or investment property using a market-multiple methodology. This approach takes into account a specific financial measure (such as EBITDA, adjusted EBITDA, free cash flow, net operating income, net income, book value or net asset value) believed to be most relevant for the given company or investment property. Consideration may also be given to such factors as acquisition price of the security or investment property, historical and projected operational and financial results for the portfolio company, the strengths and weaknesses of the portfolio company or investment property relative to its comparable companies or properties, industry trends, general economic and market conditions and other factors deemed relevant. The income approach is typically a discounted cash flow method that incorporates expected timing and level of cash flows. It incorporates assumptions in determining growth rates, income and expense projections, discount and capitalization rates, capital structure, terminal values and other factors. The applicability and weight assigned to market and income approaches are determined based on the availability of reliable projections and comparable companies and transactions.

The valuation of securities may be impacted by expectations of investors' receptiveness to a public offering of the securities, the size of the holding of the securities and any associated control, information with respect to transactions or offers for the securities (including the transaction pursuant to which the investment was made and the period of time elapsed from the date of the investment to the valuation date) and applicable restrictions on the transferability of the securities.

These valuation methodologies involve a significant degree of management judgment. Accordingly, valuations by the Company do not necessarily represent the amounts that may eventually be realized from sales or other dispositions of investments. Fair values may differ from the values that would have been used had a ready market for the investment existed, and the differences could be material to the condensed consolidated financial statements.

***Reclassifications***

Certain amounts reported in the prior period have been reclassified to conform to the current period presentation.

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
**(\$ in thousands, except where noted)**

**Recent Accounting Developments**

In December 2011, the Financial Accounting Standards Board ("FASB") issued amended guidance requiring enhanced disclosures that will enable users to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. In January 2013, the FASB issued additional guidance to clarify that ordinary receivables and payables are not in the scope of the amended guidance. The amendments were effective for the Company beginning January 1, 2013. The Company adopted this guidance in the first quarter of 2013 and determined that the adoption did not have a material impact on its condensed consolidated financial statements. Please see note 5 for required disclosures.

In February 2013, the FASB issued guidance on reporting amounts reclassified out of accumulated other comprehensive income ("AOCI"), which requires entities to disclose additional information about reclassification adjustments, including changes in AOCI balances by component and significant items reclassified out of AOCI. The guidance was effective for the Company beginning January 1, 2013 and applied prospectively. The Company adopted this guidance in the first quarter of 2013 and determined that the adoption did not have a material impact on its condensed consolidated financial statements.

In June 2013, the FASB issued guidance that amends the criteria determining whether an entity qualifies as an investment company for accounting purposes. The guidance also clarifies the characteristics of an investment company and provides measurement and disclosure requirements for an investment company. The amendment will be effective for the Company beginning January 1, 2014. The Company does not expect that adoption of this guidance will have a material impact on its condensed consolidated financial statements.



**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
(\$ in thousands, except where noted)

**3. INVESTMENTS, AT FAIR VALUE**

Investments held and securities sold short in the consolidated funds are summarized below:

	Fair Value as of		Fair Value as a Percentage of Investments of Consolidated Funds as of	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
<b>Investments:</b>				
United States:				
Fixed income securities:				
Consumer discretionary .....	\$ 3,627,897	\$ 5,072,283	9.7%	13.2%
Consumer staples .....	818,616	697,300	2.2	1.8
Energy .....	629,211	565,151	1.7	1.5
Financials .....	544,810	1,013,230	1.4	2.6
Health care .....	746,807	658,932	2.0	1.7
Industrials .....	1,877,253	1,957,259	5.0	5.1
Information technology .....	1,187,999	908,662	3.2	2.4
Materials .....	1,002,824	826,008	2.7	2.2
Telecommunication services .....	352,788	282,101	0.9	0.7
Utilities .....	1,938,516	1,717,978	5.1	4.5
Total fixed income securities (cost: \$12,577,581 and \$13,320,475 as of June 30, 2013 and December 31, 2012, respectively) .....	12,726,721	13,698,904	33.9	35.7
Equity securities:				
Consumer discretionary .....	3,020,122	3,289,347	8.0	8.6
Consumer staples .....	458,448	444,735	1.2	1.2
Energy .....	597,387	448,412	1.6	1.2
Financials .....	5,564,197	6,001,493	14.8	15.6
Health care .....	193,879	134,239	0.5	0.3
Industrials .....	1,375,824	1,201,156	3.7	3.1
Information technology .....	217,504	199,003	0.6	0.5
Materials .....	1,201,659	1,407,850	3.2	3.7
Telecommunication services .....	21,080	15,022	0.1	0.0
Utilities .....	188,750	140,037	0.5	0.4
Total equity securities (cost: \$10,508,977 and \$11,637,988 as of June 30, 2013 and December 31, 2012, respectively) .....	12,838,850	13,281,294	34.2	34.6

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
(\$ in thousands, except where noted)

	Fair Value as of		Fair Value as a Percentage of Investments of Consolidated Funds as of	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
<b>Investments:</b>				
Europe:				
Fixed income securities:				
Consumer discretionary .....	\$ 1,427,712	\$ 1,607,822	3.8%	4.2%
Consumer staples .....	114,911	486,037	0.3	1.3
Energy .....	271,014	272,079	0.7	0.7
Financials .....	512,532	627,161	1.4	1.6
Health care .....	18,108	19,585	0.0	0.0
Industrials .....	512,704	531,770	1.4	1.4
Information technology .....	23,164	5,397	0.1	0.0
Materials .....	675,318	717,294	1.8	1.9
Telecommunication services .....	169,021	190,369	0.4	0.5
Utilities .....	19,138	28,561	0.1	0.1
Total fixed income securities (cost: \$3,520,109 and \$4,383,068 as of June 30, 2013 and December 31, 2012, respectively) .....	3,743,622	4,486,075	10.0	11.7
Equity securities:				
Consumer discretionary .....	444,317	117,485	1.2	0.3
Consumer staples .....	1,468,019	1,336,420	3.9	3.5
Energy .....	77,426	91,724	0.2	0.2
Financials .....	2,009,062	1,553,598	5.3	4.1
Industrials .....	306,816	1,388	0.8	0.0
Information technology .....	933	335	0.0	0.0
Materials .....	368,147	374,169	1.0	1.0
Total equity securities (cost: \$4,030,768 and \$2,960,210 as of June 30, 2013 and December 31, 2012, respectively) .....	4,674,720	3,475,119	12.4	9.1
Asia and other:				
Fixed income securities:				
Consumer discretionary .....	125,177	680,273	0.3	1.8
Consumer staples .....	19,590	3,615	0.1	0.0
Energy .....	57,874	47,776	0.2	0.1
Financials .....	22,563	22,186	0.1	0.1
Health care .....	4,065	1,622	0.0	0.0
Industrials .....	498,158	290,639	1.3	0.8
Information technology .....	11,762	33,260	0.0	0.1
Materials .....	81,729	92,974	0.2	0.2
Telecommunication services .....	1,173	1,939	0.0	0.0
Utilities .....	119,338	129,474	0.3	0.3
Total fixed income securities (cost: \$929,852 and \$1,298,868 as of June 30, 2013 and December 31, 2012, respectively) .....	941,429	1,303,758	2.5	3.4

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
(\$ in thousands, except where noted)

	Fair Value as of		Fair Value as a Percentage of Investments of Consolidated Funds as of	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
<b><u>Investments:</u></b>				
Asia and other:				
Equity securities:				
Consumer discretionary .....	\$ 514,077	\$ 99,527	1.4%	0.3%
Consumer staples .....	42,625	42,688	0.1	0.1
Energy .....	246,439	213,490	0.7	0.6
Financials .....	991,447	973,745	2.6	2.5
Health care .....	564	71	0.0	0.0
Industrials .....	633,185	613,020	1.7	1.6
Information technology .....	74,683	75,583	0.2	0.2
Materials .....	55,772	51,296	0.1	0.1
Telecommunication services .....	6,963	6,044	0.0	0.0
Utilities .....	77,716	52,012	0.2	0.1
Total equity securities (cost: \$2,185,043 and \$1,726,145 as of June 30, 2013 and December 31, 2012, respectively) .....	2,643,471	2,127,476	7.0	5.5
Total fixed income securities.....	17,411,772	19,488,737	46.4	50.8
Total equity securities .....	20,157,041	18,883,889	53.6	49.2
Total investments, at fair value.....	<u>\$ 37,568,813</u>	<u>\$ 38,372,626</u>	<u>100.0%</u>	<u>100.0%</u>
<b><u>Securities Sold Short:</u></b>				
Securities sold short – equities .....	<u>\$ (102,691)</u>	<u>\$ (126,530)</u>		

As of June 30, 2013 and December 31, 2012, no single issuer or investment had a fair value that exceeded 5% of Oaktree's total consolidated net assets.

***Net Gains From Investment Activities of Consolidated Funds***

Net gains from investment activities in the condensed consolidated statements of operations consist primarily of the realized and unrealized gains and losses on the consolidated funds' investments (including foreign exchange gains and losses attributable to foreign-denominated investments and related activities) and other financial instruments. Unrealized gains or losses result from changes in the fair value of these investments and other financial instruments during a period. Upon disposition of an investment, previously recognized unrealized gains or losses are reversed and an offsetting realized gain or loss is recognized in the current period.

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
(\$ in thousands, except where noted)

The following table summarizes net gains (losses) from investment activities:

	Three Months Ended June 30,			
	2013		2012	
	Net Realized Gain (Loss) on Investments	Net Change in Unrealized Appreciation (Depreciation) on Investments	Net Realized Gain (Loss) on Investments	Net Change in Unrealized Appreciation (Depreciation) on Investments
Investments and other financial instruments .....	\$ 775,505	\$ (163,157)	\$ 726,150	\$ (302,518)
Total-return, credit-default and interest-rate swaps <sup>(1)</sup> .....	1,556	11,767	19,538	18,938
Foreign currency forward contracts <sup>(1)</sup> .....	55,541	36,102	(1,913)	98,624
Options and futures <sup>(1)</sup> .....	(613)	3,493	(10,254)	4,740
Total .....	<u>\$ 831,989</u>	<u>\$ (111,795)</u>	<u>\$ 733,521</u>	<u>\$ (180,216)</u>

  

	Six Months Ended June 30,			
	2013		2012	
	Net Realized Gain (Loss) on Investments	Net Change in Unrealized Appreciation (Depreciation) on Investments	Net Realized Gain (Loss) on Investments	Net Change in Unrealized Appreciation (Depreciation) on Investments
Investments and other financial instruments .....	\$ 2,012,624	\$ 692,393	\$ 1,726,808	\$ 587,203
Total-return, credit-default and interest-rate swaps <sup>(1)</sup> .....	3,883	24,759	30,464	36,122
Foreign currency forward contracts <sup>(1)</sup> .....	19,552	183,991	62,904	(2,194)
Options and futures <sup>(1)</sup> .....	(5,810)	8,579	(12,517)	4,476
Total .....	<u>\$ 2,030,249</u>	<u>\$ 909,722</u>	<u>\$ 1,807,659</u>	<u>\$ 625,607</u>

(1) Please see note 5 for additional information.

#### 4. FAIR VALUE

##### *Fair Value of Financial Assets and Liabilities*

Carrying value approximates fair value for cash and cash-equivalents, U.S. Treasury and government agency securities, receivables and accounts payable due to the short-term nature of these items. The fair value of the Company's debt obligations, which is carried at amortized cost, is a Level III valuation that is estimated based on a discounted cash-flow calculation using estimated rates that would be offered to Oaktree for debt of similar terms and maturities. The fair value of these debt obligations was \$626.5 million and \$652.9 million as of June 30, 2013 and December 31, 2012, respectively, utilizing average borrowing rates of 3.1% and 3.1%, respectively. A 10% increase in the average borrowing rate assumption would lower the estimated fair value as of June 30, 2013 to \$618.5 million, while a 10% decrease would increase the estimated fair value to \$634.8 million. The fair values of the Company's interest-rate swaps and foreign exchange contracts are Level II valuations and are included in accounts payable, other accrued expenses and other liabilities. As of June 30, 2013 and December 31, 2012, the fair value of the interest-rate swaps was a net liability of \$4.6 million and \$7.9 million, respectively, and the fair value of the foreign exchange contracts was a net liability of \$0.7 million and \$0.8 million, respectively.

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
(\$ in thousands, except where noted)

***Fair Value of Financial Instruments Held By Consolidated Funds***

The table below summarizes the valuation of investments and other financial instruments of the consolidated funds by fair-value hierarchy levels:

<u>As of June 30, 2013:</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Corporate debt – bank debt .....	\$ —	\$ 7,882,293	\$ 1,711,680	\$ 9,593,973
Corporate debt – all other .....	—	5,282,519	2,535,280	7,817,799
Equities – common stock .....	4,253,411	379,196	7,373,118	12,005,725
Equities – preferred stock .....	3,827	3,279	663,523	670,629
Real estate .....	255,074	19,275	5,199,534	5,473,883
Real estate loan portfolio .....	—	—	1,989,515	1,989,515
Other .....	1,786	987	14,516	17,289
Total investments .....	<u>\$ 4,514,098</u>	<u>\$ 13,567,549</u>	<u>\$ 19,487,166</u>	<u>\$ 37,568,813</u>
Securities sold short – equities .....	<u>\$ (102,691)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (102,691)</u>
Options written (net) .....	\$ —	\$ 6,367	\$ —	\$ 6,367
Swaps (net) .....	—	7,977	55,817	63,794
Forward contracts (net) .....	—	90,102	—	90,102
Futures (net) .....	493	—	—	493
 <u>As of December 31, 2012:</u>	 <u>Level I</u>	 <u>Level II</u>	 <u>Level III</u>	 <u>Total</u>
Corporate debt – bank debt .....	\$ —	\$ 7,412,691	\$ 2,253,476	\$ 9,666,167
Corporate debt – all other .....	—	6,663,519	3,159,051	9,822,570
Equities – common stock .....	3,362,742	1,055,465	8,101,051	12,519,258
Equities – preferred stock .....	2,520	2,133	650,096	654,749
Real estate .....	—	—	3,946,142	3,946,142
Real estate loan portfolio .....	—	—	1,737,822	1,737,822
Other .....	1,933	8,438	15,547	25,918
Total investments .....	<u>\$ 3,367,195</u>	<u>\$ 15,142,246</u>	<u>\$ 19,863,185</u>	<u>\$ 38,372,626</u>
Securities sold short – equities .....	<u>\$ (126,530)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (126,530)</u>
Options written (net) .....	\$ —	\$ 5,520	\$ —	\$ 5,520
Swaps (net) .....	—	(5,539)	44,705	39,166
Forward contracts (net) .....	—	(93,863)	—	(93,863)
Futures (net) .....	90	—	—	90

**Oaktree Capital Group, LLC**  
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The following tables set forth a summary of changes in the fair value of the Level III investments:

	Corporate Debt – Bank Debt	Corporate Debt – All Other	Equities – Common Stock	Equities – Preferred Stock	Real Estate	Real Estate Loan Portfolio	Swaps	Other	Total
<b>Three Months Ended June 30, 2013:</b>									
Beginning balance .....	\$ 2,067,438	\$ 2,912,838	\$ 7,247,846	\$ 647,832	\$ 4,498,926	\$ 1,730,384	\$ 54,674	\$ 15,490	\$ 19,175,428
Transfers into Level III .....	114,178	5,289	64,838	141,133	15,055	—	—	—	340,493
Transfers out of Level III .....	(403,319)	(103,319)	(6,198)	—	—	—	—	—	(512,836)
Purchases .....	160,012	83,967	300,132	68,094	624,867	371,248	—	—	1,608,320
Sales .....	(244,240)	(445,312)	(288,841)	(133,626)	(322,271)	(170,240)	—	—	(1,604,530)
Realized gains (losses), net .....	16,441	68,050	98,511	26,787	154,523	10,858	—	—	375,170
Unrealized appreciation (depreciation), net .....	1,170	13,767	(43,170)	(86,697)	228,434	47,265	1,143	(974)	160,938
Ending balance .....	<u>\$ 1,711,680</u>	<u>\$ 2,535,280</u>	<u>\$ 7,373,118</u>	<u>\$ 663,523</u>	<u>\$ 5,199,534</u>	<u>\$ 1,989,515</u>	<u>\$ 55,817</u>	<u>\$ 14,516</u>	<u>\$ 19,542,983</u>
Net change in unrealized appreciation (depreciation) attributable to assets still held at end of period .....	<u>\$ (45,765)</u>	<u>\$ 51,480</u>	<u>\$ (11,556)</u>	<u>\$ (113,550)</u>	<u>\$ 199,652</u>	<u>\$ 47,265</u>	<u>\$ 1,149</u>	<u>\$ (974)</u>	<u>\$ 127,701</u>
<b>Three Months Ended June 30, 2012:</b>									
Beginning balance .....	\$ 2,720,357	\$ 3,570,969	\$ 6,359,330	\$ 1,056,770	\$ 3,055,954	\$ 618,455	\$ —	\$ 18,839	\$ 17,400,674
Transfers into Level III .....	68,038	44,376	286,535	1,761	17,275	—	—	—	417,985
Transfers out of Level III .....	(186,414)	(81,365)	(8,088)	(11,873)	—	—	—	—	(287,740)
Purchases .....	189,629	293,499	431,292	32,109	586,331	69,222	—	—	1,602,082
Sales .....	(333,151)	(853,066)	(14,603)	(3,411)	(595,561)	(38,891)	—	—	(1,838,683)
Realized gains (losses), net .....	9,510	95,070	(32,685)	989	244,300	9,463	—	—	326,647
Unrealized appreciation (depreciation), net .....	(43,953)	(14,806)	159,045	(29,367)	(176,074)	53,896	—	1,126	(50,133)
Ending balance .....	<u>\$ 2,424,016</u>	<u>\$ 3,054,677</u>	<u>\$ 7,180,826</u>	<u>\$ 1,046,978</u>	<u>\$ 3,132,225</u>	<u>\$ 712,145</u>	<u>\$ —</u>	<u>\$ 19,965</u>	<u>\$ 17,570,832</u>
Net change in unrealized appreciation (depreciation) attributable to assets still held at end of period .....	<u>\$ 115,529</u>	<u>\$ 20,447</u>	<u>\$ 131,129</u>	<u>\$ (24,640)</u>	<u>\$ 1,463</u>	<u>\$ 53,896</u>	<u>\$ —</u>	<u>\$ 1,126</u>	<u>\$ 298,950</u>

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	Corporate Debt – Bank Debt	Corporate Debt – All Other	Equities – Common Stock	Equities – Preferred Stock	Real Estate	Real Estate Loan Portfolio	Swaps	Other	Total
<b>Six Months Ended June 30, 2013:</b>									
Beginning balance .....	\$ 2,253,476	\$ 3,159,051	\$ 8,101,051	\$ 650,096	\$ 3,946,142	\$ 1,737,822	\$ 44,705	\$ 15,547	\$ 19,907,890
Transfers into Level III .....	163,909	11,420	593,152	266,603	15,055	—	—	—	1,050,139
Transfers out of Level III .....	(597,129)	(201,194)	(404,976)	—	—	—	—	—	(1,203,299)
Purchases .....	294,851	117,551	351,171	97,394	932,136	595,673	—	—	2,388,776
Sales .....	(427,476)	(643,908)	(1,416,604)	(311,946)	(349,105)	(453,422)	—	—	(3,602,461)
Realized gains (losses), net .....	(573)	91,305	525,048	55,821	145,198	17,932	—	—	834,731
Unrealized appreciation (depreciation), net .....	24,622	1,055	(375,724)	(94,445)	510,108	91,510	11,112	(1,031)	167,207
Ending balance .....	<u>\$ 1,711,680</u>	<u>\$ 2,535,280</u>	<u>\$ 7,373,118</u>	<u>\$ 663,523</u>	<u>\$ 5,199,534</u>	<u>\$ 1,989,515</u>	<u>\$ 55,817</u>	<u>\$ 14,516</u>	<u>\$ 19,542,983</u>
Net change in unrealized appreciation (depreciation) attributable to assets still held at end of period .....	<u>\$ (12,406)</u>	<u>\$ 79,215</u>	<u>\$ 134,065</u>	<u>\$ (81,059)</u>	<u>\$ 478,875</u>	<u>\$ 91,510</u>	<u>\$ 11,119</u>	<u>\$ (1,032)</u>	<u>\$ 700,287</u>
<b>Six Months Ended June 30, 2012:</b>									
Beginning balance .....	\$ 1,978,637	\$ 3,155,241	\$ 6,164,025	\$ 1,090,107	\$ 2,786,862	\$ 479,690	\$ —	\$ 18,824	\$ 15,673,386
Transfers into Level III .....	375,612	372,016	464,639	6,987	17,275	—	—	—	1,236,529
Transfers out of Level III .....	(219,645)	(200,775)	(359,682)	(100,064)	(5,353)	—	—	—	(885,519)
Purchases .....	703,629	412,072	614,620	43,561	720,220	227,496	—	—	2,721,598
Sales .....	(363,540)	(863,895)	(71,237)	(3,857)	(604,216)	(63,855)	—	—	(1,970,600)
Realized gains (losses), net .....	9,893	100,293	(61,011)	(3,199)	244,164	14,918	—	—	305,058
Unrealized appreciation (depreciation), net .....	(60,570)	79,725	429,472	13,443	(26,727)	53,896	—	1,141	490,380
Ending balance .....	<u>\$ 2,424,016</u>	<u>\$ 3,054,677</u>	<u>\$ 7,180,826</u>	<u>\$ 1,046,978</u>	<u>\$ 3,132,225</u>	<u>\$ 712,145</u>	<u>\$ —</u>	<u>\$ 19,965</u>	<u>\$ 17,570,832</u>
Net change in unrealized appreciation (depreciation) attributable to assets still held at end of period .....	<u>\$ (9,546)</u>	<u>\$ 132,093</u>	<u>\$ 261,937</u>	<u>\$ 14,295</u>	<u>\$ 126,574</u>	<u>\$ 53,896</u>	<u>\$ —</u>	<u>\$ 1,141</u>	<u>\$ 580,390</u>

Total realized and unrealized gains and losses recorded for Level III investments are included in net realized gain on consolidated funds' investments or net change in unrealized appreciation on consolidated funds' investments in the condensed consolidated statements of operations.

There were no transfers between Level I and Level II positions for the three months ended June 30, 2013. Transfers between Level I and Level II positions for the six months ended June 30, 2013 included \$1,066.8 million from Level II to Level I, as an investment in common equity began trading on an exchange. There were no transfers between Level I and Level II positions for the three and six months ended June 30, 2012.

Transfers out of Level III were generally attributable to certain investments that experienced a more significant level of market activity during the period and thus were valued using observable inputs. Transfers into Level III were typically due to certain investments that experienced a less significant level of market activity during

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the period or portfolio companies that undertook restructurings or bankruptcy proceedings and thus were valued in the absence of observable inputs.

The following table sets forth a summary of valuation techniques and quantitative information utilized in determining the fair value of the Company's Level III investments as of June 30, 2013:

Investment Type	Fair Value	Valuation Technique	Significant Unobservable Inputs <sup>(10)(11)(12)</sup>
Credit-oriented investments:			
	\$ 1,283,083	Discounted cash flow <sup>(1)</sup>	Discount rate (range: 7% - 22%)
	1,181,727	Market approach (comparable companies) <sup>(2)</sup>	Earnings multiple <sup>(3)</sup> (range: 4x - 12x)
	189,737	Market approach (value of underlying assets) <sup>(2)(4)</sup>	Underlying asset multiple (range: 0.9x - 1.1x)
	525,882	Recent transaction price <sup>(5)</sup>	Not applicable
	381,058	Discounted cash flow <sup>(1)</sup> / Sales approach <sup>(8)</sup>	Discount rate (range: 14% - 18%)
	741,290	Recent market information <sup>(6)</sup>	Market transactions Quoted prices / discount (discount not applicable)
Equity investments:			
	5,186,722	Market approach (comparable companies) <sup>(2)</sup>	Earnings multiple <sup>(3)</sup> (range: 3x - 13x)
	742,385	Market approach (value of underlying assets) <sup>(2)(4)</sup>	Underlying asset multiple (range: 1x - 1.3x)
	1,328,443	Recent transaction price <sup>(5)</sup>	Not applicable
	122,966	Discounted cash flow <sup>(1)</sup>	Discount rate (range: 11% - 12%)
	656,125	Recent market information <sup>(6)</sup>	Quoted prices / discount (discount not applicable)
Real estate-oriented investments:			
	1,604,454	Discounted cash flow <sup>(1)(7)</sup>	Discount rate (range: 9% - 40%) Terminal capitalization rate (range: 6% - 15%) Direct capitalization rate (range: 7% - 9%) Net operating income growth rate (range: 1% - 31%) Absorption rate (range: 17% - 33%)
	1,032,676	Market approach (comparable companies) <sup>(2)</sup>	Earnings multiple <sup>(3)</sup> (range: 6x - 14x)
	315,485	Market approach (value of underlying assets) <sup>(2)(4)</sup>	Underlying asset multiple (range: 1x - 1.2x)
	723,156	Recent transaction price <sup>(5)</sup>	Not applicable
	289,113	Sales approach <sup>(8)</sup>	Market transactions
	1,234,650	Recent market information <sup>(6)</sup>	Quoted prices / discount (discount range: 0% - 7%)
Real estate loan portfolios:			
	878,674	Recent transaction price <sup>(5)</sup>	Not applicable
	721,081	Discounted cash flow <sup>(1)</sup>	Discount rate (range: 12% - 17%)
	389,760	Recent market information / sales approach <sup>(9)</sup>	Quoted prices / discount (discount not applicable) / market transactions
Other .....	14,516		
Total Level III investments.....	<u>\$ 19,542,983</u>		



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- (1) A discounted cash flow method is generally used to value performing credit-oriented investments in which the consolidated funds do not have a controlling interest in the underlying issuer, certain equity investments, certain real estate-oriented investments and certain real estate loan portfolios.
- (2) A market approach is generally used to value distressed investments and investments in which the consolidated funds have a controlling interest in the underlying issuer.
- (3) Earnings multiples are based on comparable public companies and transactions with comparable companies. The Company typically utilizes multiples of EBITDA, however in certain cases the Company may use other earnings multiples believed to be most relevant for the investment. The Company typically applies the multiple to trailing twelve month EBITDA. However, in certain cases other earnings measures, such as pro forma EBITDA, may be utilized if deemed to be more relevant.
- (4) A market approach using the value of underlying assets utilizes a multiple, based on comparable companies, of underlying assets or the net book value of the portfolio company. The Company typically obtains the value of underlying assets from the underlying portfolio company's financial statements or from pricing vendors. In some cases, the Company may value the underlying assets by using prices and other relevant information generated by market transactions involving comparable assets.
- (5) Certain investments are valued based on recent transactions, generally defined as investments purchased or sold within six months of the valuation date, adjusted when appropriate based on consideration of any changes in significant unobservable inputs, valuations of comparable companies and other similar transactions. In other cases, the fair value may be based on a pending transaction expected to occur after the valuation date.
- (6) Certain investments are valued using quoted prices for the subject security or similar securities. Generally, investments valued in this manner are classified as Level III because the quoted prices may be indicative in nature for securities that are in an inactive market, may be for similar securities, or may require adjustment for investment-specific factors or restrictions. Quoted prices include exchange listed prices and prices obtained from brokers or pricing vendors. Prices obtained from brokers or pricing vendors are evaluated based on trading activity of the subject security or similar securities or comparable yield analysis.
- (7) The discounted cash flow model for certain real estate-oriented investments contains a sell-out analysis. In these cases, the discounted cash flow is based on the expected timing and prices of sales of the underlying properties. The Company's determination of the sales prices of these properties typically includes consideration of prices and other relevant information generated by market transactions involving comparable properties.
- (8) The sales approach uses prices and other relevant information generated by market transactions involving comparable assets. The significant unobservable inputs used in the sales approach generally include adjustments to transactions involving comparable assets or properties, adjustments to external or internal appraised values and the Company's assumptions regarding market trends or other relevant factors.
- (9) Certain real estate loan portfolios are valued utilizing a combination of recent market information for similar loan pools as well as an evaluation of the underlying collateral, which is typically performed using a sales approach. In evaluating the loan pools as a whole, inputs can include recent market transactions and/or broker quotations involving similar loan pools. In evaluating the value of the underlying collateral, the sales approach uses prices and other relevant information generated by market transactions involving comparable assets. The significant unobservable inputs used in the sales approach generally include adjustments to transactions involving comparable properties, adjustments to external or internal appraised values and the Company's assumptions regarding market trends or other relevant factors.
- (10) The significant unobservable input used in the fair-value measurement of performing credit-oriented investments in which the consolidated funds do not have a controlling interest in the underlying issuer, certain equity investments and certain real estate loan portfolios is the discount rate. A significant increase (decrease) in the discount rate would result in a significantly lower (higher) fair-value measurement.
- (11) The significant unobservable input used in the market approach for the fair-value measurement of distressed credit-oriented investments, credit-oriented investments in which the consolidated funds have a controlling interest in the underlying issuer, equity investments and certain real estate-oriented investments is a multiple of earnings or a multiple of underlying assets. A significant increase (decrease) in these multiples would result in a significantly higher (lower) fair-value measurement.
- (12) The significant unobservable inputs used in the fair-value measurement of real estate investments valued using a discounted cash flow analysis can include a discount rate, terminal capitalization rate, direct capitalization rate, net operating income growth rate and/or absorption rate. A significant increase (decrease) in a discount rate, terminal capitalization rate or direct capitalization rate would result in a significantly lower (higher) fair-value measurement. A significant increase (decrease) in a net operating income growth rate or absorption rate would result in a significantly higher (lower) fair-value measurement. Generally, a change in a net operating income growth rate or absorption rate would be accompanied by a directionally similar change in the discount rate.

The use of unobservable inputs, including assessing the accuracy of source data, and the results of pricing models require a significant degree of judgment. The Company assesses the accuracy and reliability of the sources it uses to obtain unobservable inputs. These sources may include third-party vendors that the Company believes are reliable and commonly utilized by other market place participants. In addition to the unobservable inputs described above, other factors, as described in note 2, have a significant impact on investment valuations.

During the six months ended June 30, 2013, the valuation technique for one real estate-oriented investment changed from a market approach (based on the value of underlying assets) to a valuation based on recent market information, and considers a quoted price as the investee commenced trading on an exchange, adjusted for factors

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specific to the structure of the equity interests owned by the consolidated funds. There were no other changes in techniques utilized to value Level III investments. During the six months ended June 30, 2012, there were no changes in techniques utilized to value Level III investments.

## 5. HEDGES AND OTHER DERIVATIVE FINANCIAL INSTRUMENTS

The Company is exposed to risks associated with fluctuations in interest rates and foreign currency exchange rates in the normal course of business. The Company addresses these risks as part of its overall risk management strategy that may include the use of derivative financial instruments to economically hedge or reduce these exposures. From time to time, the Company may enter into (a) currency option and forward contracts to reduce earnings and cash flow volatility associated with changes in foreign exchange rates or (b) interest-rate swaps to manage all or a portion of the interest-rate risk associated with its variable rate borrowings. As a result of the use of derivative contracts, the Company is exposed to the risk that counterparties will fail to fulfill their contractual obligations. To mitigate such counterparty risk, the Company enters into contracts with certain major financial institutions that have investment-grade ratings. Counterparty credit risk is evaluated in determining the fair value of derivative instruments.

In January 2013, the Company entered into an interest-rate swap with a notional value of \$175.0 million, of which \$168.8 million was designated to hedge a portion of the interest-rate risk associated with its variable-rate borrowings. In conjunction with the Company's existing interest-rate swap, this effectively fixed the annual interest rate at a blended rate of 2.60% on the bulk of the first four years of the Company's term loan facility (please see note 6), based on the Company's current credit ratings.

As of June 30, 2013, the Company had two interest-rate swaps designated as cash-flow hedges with a combined notional value of \$393.8 million. As of December 31, 2012, the Company had one interest-rate swap designated as a cash-flow hedge with a notional value of \$240.0 million. These hedges continued to be effective as of June 30, 2013.

Freestanding derivatives are instruments that the Company enters into as part of its overall risk management strategy but does not designate as hedging instruments for accounting purposes, such as foreign exchange contracts, interest-rate swaps and other derivative contracts. The fair value of freestanding derivative assets and liabilities is recorded within the same caption as the underlying hedged items in the condensed consolidated statements of financial condition.

The Company's freestanding derivatives consisted of the following net forward currency sell contracts:

	Contract Amount in Local Currency	Contract Amount in U.S. Dollars	Market Value in U.S. Dollars	Net Unrealized Appreciation (Depreciation)
<b>As of June 30, 2013:</b>				
Euro, expiring 7/3/13-4/30/14 .....	96,900	\$ 125,246	\$ 126,445	\$ (1,199)
USD (buy GBP), expiring 7/3/13-4/8/14 .....	51,733	51,733	52,918	(1,185)
Japanese Yen, expiring 7/31/13-10/31/14 .....	3,753,800	39,625	37,938	1,687
Total .....		<u>\$ 216,604</u>	<u>\$ 217,301</u>	<u>\$ (697)</u>
<b>As of December 31, 2012:</b>				
Euro, expiring 1/7/13-10/31/13 .....	93,500	\$ 104,155	\$ 105,997	\$ (1,842)
Japanese Yen, expiring 2/28/13-5/31/13 .....	1,330,000	16,418	15,379	1,039
Total .....		<u>\$ 120,573</u>	<u>\$ 121,376</u>	<u>\$ (803)</u>

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The impact of freestanding derivative instruments (including both realized and unrealized gains and losses) on the condensed consolidated statement of operations was as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Foreign Currency Forward Contracts:</b>				
General and administrative expenses <sup>(1)</sup>	\$ 490	\$ 2,260	\$ 4,849	\$ 3,024

- (1) To the extent that the Company's freestanding derivatives are utilized to hedge its exposure to investment income and management fees earned from consolidated funds, the related hedged items are eliminated in consolidation with the derivative impact (a positive number reflects a reduction of expenses) reflected in consolidated general and administrative expenses.

As of June 30, 2013 and December 31, 2012, the Company had not designated any derivatives as fair-value hedges or hedges of net investments in foreign operations.

**Derivatives Held By Consolidated Funds**

Certain consolidated funds utilize derivative instruments in ongoing investment operations. These derivatives primarily consist of foreign currency forward contracts utilized to manage currency risk, options and futures used to hedge exposure for specific securities, and total-return swaps and credit-default swaps utilized mainly to obtain exposure to leveraged loans or to participate in foreign markets not readily accessible to the consolidated funds. None of the derivative instruments is accounted for as a hedging instrument utilizing hedge accounting.

The impact of derivative instruments held by the consolidated funds on the condensed consolidated statements of operations for the three and six months ended June 30, 2013 and 2012 was as follows:

	Three Months Ended June 30,			
	2013		2012	
	Net Realized Gain (Loss) on Investments	Net Change in Unrealized Appreciation (Depreciation) on Investments	Net Realized Gain (Loss) on Investments	Net Change in Unrealized Appreciation (Depreciation) on Investments
Total-return, credit-default and interest-rate swaps .....	\$ 1,556	\$ 11,767	\$ 19,538	\$ 18,938
Foreign currency forward contracts .....	55,541	36,102	(1,913)	98,624
Options and futures .....	(613)	3,493	(10,254)	4,740
Total .....	<u>\$ 56,484</u>	<u>\$ 51,362</u>	<u>\$ 7,371</u>	<u>\$ 122,302</u>

  

	Six Months Ended June 30,			
	2013		2012	
	Net Realized Gain (Loss) on Investments	Net Change in Unrealized Appreciation (Depreciation) on Investments	Net Realized Gain (Loss) on Investments	Net Change in Unrealized Appreciation (Depreciation) on Investments
Total-return, credit-default and interest-rate swaps .....	\$ 3,883	\$ 24,759	\$ 30,464	\$ 36,122
Foreign currency forward contracts .....	19,552	183,991	62,904	(2,194)
Options and futures .....	(5,810)	8,579	(12,517)	4,476
Total .....	<u>\$ 17,625</u>	<u>\$ 217,329</u>	<u>\$ 80,851</u>	<u>\$ 38,404</u>

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The Company has derivative instruments subject to enforceable master netting arrangements with certain counterparties which allow for the derivative instruments to be offset in the condensed consolidated statements of financial condition. However, the Company generally presents derivative instruments on a gross basis in its condensed consolidated statements of financial condition. The table below sets forth the rights of setoff and related arrangements associated with the Company's derivative instruments, which are primarily held by the consolidated funds, as of June 30, 2013 and December 31, 2012:

As of June 30, 2013	Gross Amounts of Assets (Liabilities)	Gross Amounts Offset in Assets (Liabilities)	Net Amounts of Assets (Liabilities) Presented	Gross Amounts Not Offset in Statements of Financial Condition		Net Amount
				Derivative Assets (Liabilities)	Cash Collateral Received (Pledged)	
<b>Derivative Assets:</b>						
Foreign currency forward contracts...	\$ 3,008	\$ 1,902	\$ 1,106	\$ 983	\$ —	\$ 123
<i>Derivative assets of consolidated funds:</i>						
Foreign currency forward contracts...	109,237	3,720	105,517	6,457	—	99,060
Total-return, credit-default and interest-rate swaps .....	63,838	—	63,838	408	—	63,430
Options and futures .....	9,801	—	9,801	—	—	9,801
Swaptions .....	1,889	—	1,889	—	—	1,889
Subtotal .....	184,765	3,720	181,045	6,865	—	174,180
Total .....	<u>\$ 187,773</u>	<u>\$ 5,622</u>	<u>\$ 182,151</u>	<u>\$ 7,848</u>	<u>\$ —</u>	<u>\$ 174,303</u>
<b>Derivative Liabilities:</b>						
Foreign currency forward contracts...	\$ (3,705)	\$ (1,902)	\$ (1,803)	\$ (1,191)	\$ —	\$ (612)
Interest-rate swaps .....	(4,600)	—	(4,600)	208	—	(4,808)
Subtotal .....	(8,305)	(1,902)	(6,403)	(983)	—	(5,420)
<i>Derivative liabilities of consolidated funds:</i>						
Foreign currency forward contracts...	(19,135)	(3,720)	(15,415)	(6,457)	—	(8,958)
Total-return, credit-default and interest-rate swaps .....	(1,933)	—	(1,933)	(408)	—	(1,525)
Options and futures .....	(2,941)	—	(2,941)	—	—	(2,941)
Subtotal .....	(24,009)	(3,720)	(20,289)	(6,865)	—	(13,424)
Total .....	<u>\$ (32,314)</u>	<u>\$ (5,622)</u>	<u>\$ (26,692)</u>	<u>\$ (7,848)</u>	<u>\$ —</u>	<u>\$ (18,844)</u>

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As of December 31, 2012	Gross Amounts of Assets (Liabilities)	Gross Amounts Offset in Assets (Liabilities)	Net Amounts of Assets (Liabilities) Presented	Gross Amounts Not Offset in Statements of Financial Condition		Net Amount
				Derivative Assets (Liabilities)	Cash Collateral Received (Pledged)	
<b>Derivative Assets:</b>						
Foreign currency forward contracts...	\$ 1,558	\$ 1,558	\$ —	\$ (549)	\$ —	\$ 549
<i>Derivative assets of consolidated funds:</i>						
Foreign currency forward contracts...	52,663	—	52,663	34,139	—	18,524
Total-return, credit-default and interest-rate swaps .....	48,727	—	48,727	312	340	48,075
Options and futures .....	6,170	—	6,170	—	—	6,170
Subtotal .....	107,560	—	107,560	34,451	340	72,769
Total .....	\$ 109,118	\$ 1,558	\$ 107,560	\$ 33,902	\$ 340	\$ 73,318
<b>Derivative Liabilities:</b>						
Foreign currency forward contracts...	\$ (2,361)	\$ (1,558)	\$ (803)	\$ 654	\$ —	\$ (1,457)
Interest-rate swaps .....	(7,900)	—	(7,900)	(105)	—	(7,795)
Subtotal .....	(10,261)	(1,558)	(8,703)	549	—	(9,252)
<i>Derivative liabilities of consolidated funds:</i>						
Foreign currency forward contracts...	(146,526)	—	(146,526)	(34,139)	(632)	(111,755)
Total-return, credit-default and interest-rate swaps .....	(9,561)	—	(9,561)	(312)	(1,828)	(7,421)
Options and futures .....	(560)	—	(560)	—	(47)	(513)
Subtotal .....	(156,647)	—	(156,647)	(34,451)	(2,507)	(119,689)
Total .....	\$ (166,908)	\$ (1,558)	\$ (165,350)	\$ (33,902)	\$ (2,507)	\$ (128,941)

## 6. DEBT OBLIGATIONS AND CREDIT FACILITIES

The Company had the following debt obligations as of June 30, 2013 and December 31, 2012:

	As of	
	June 30, 2013	December 31, 2012
\$75,000, 5.03%, issued in June 2004, payable in seven equal annual installments starting June 14, 2008 .....	\$ 10,714	\$ 21,429
\$50,000, 6.09%, issued in June 2006, payable on June 6, 2016 .....	50,000	50,000
\$50,000, 5.82%, issued in November 2006, payable on November 8, 2016 .....	50,000	50,000
\$250,000, 6.75%, issued in November 2009, payable on December 2, 2019 .....	250,000	250,000
\$250,000, rate as described below, term loan issued in December 2012, payable 2.5% per quarter through September 2017, final \$125,000 payment on December 21, 2017 .....	231,250	243,750
Total remaining principal .....	<u>\$ 591,964</u>	<u>\$ 615,179</u>

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
(\$ in thousands, except where noted)

Future principal payments of debt obligations as of June 30, 2013 were as follows:

Remainder of 2013 .....	\$ 12,500
2014 .....	35,714
2015 .....	25,000
2016 .....	125,000
2017 .....	143,750
Thereafter .....	250,000
Total .....	<u>\$ 591,964</u>

The Company was in compliance with all financial covenants associated with its senior notes and credit facility as of June 30, 2013 and December 31, 2012.

In December 2012, the Company's subsidiaries Oaktree Capital Management, L.P., Oaktree Capital II, L.P., Oaktree AIF Investments, L.P. and Oaktree Capital I, L.P. entered into a credit agreement (the "Credit Facility") with a bank syndicate for senior unsecured credit facilities, consisting of a \$250.0 million fully-funded term loan (the "Term Loan") and a \$500.0 million revolving credit facility (the "Revolver"), each with a five-year term. The Credit Facility replaced the previous credit facility and the Term Loan replaced the prior amortizing term loan, which had a principal balance of \$247.5 million. The Term Loan amortizes quarterly in an amount equal to 2.5% of the original principal amount of \$250.0 million, with principal payments due in March, June, September and December of each year, and the remaining principal payable upon maturity in December 2017. Borrowings under the Credit Facility generally bear interest at a spread to either LIBOR or an alternative base rate. Based on the current credit ratings of Oaktree Capital Management, L.P., the interest rate on borrowings is LIBOR plus 1.00% per annum and the commitment fee on the unused portions of the Revolver is 0.125% per annum. Utilizing interest-rate swaps, the bulk of the first four years of the Term Loan's annual interest rate is fixed at 2.60%, based on the current credit ratings of Oaktree Capital Management, L.P. The Credit Facility contains customary financial covenants and restrictions, including ones regarding a maximum leverage ratio of 3.0-to-1.0, minimum fixed charge coverage ratio of 2.5-to-1.0 and minimum required levels of assets under management and net worth (as defined in the credit agreement) of \$50 billion and \$600 million, respectively. As of June 30, 2013, the Company had no outstanding borrowings under the Revolver and was able to draw the full amount available without violating any financial covenants.

***Credit Facilities of the Consolidated Funds***

Certain of the consolidated funds maintain revolving credit facilities to fund investments between capital drawdowns. These facilities generally (a) are collateralized by the unfunded capital commitments of the consolidated funds' limited partners, (b) bear an annual commitment fee based on unfunded commitments, and (c) contain various affirmative and negative covenants and reporting obligations, including restrictions on additional indebtedness, liens, margin stock, affiliate transactions, dividends and distributions, release of capital commitments, and portfolio asset dispositions. The obligations of the consolidated funds are nonrecourse to the Company. For all periods presented, carrying value approximates fair value of the credit facilities due to their short-term nature or their recent issuance date. As of and for the six months ended June 30, 2013, the consolidated funds were in compliance with all covenants.

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
(\$ in thousands, except where noted)

The consolidated funds had the following revolving credit facilities and term loans outstanding:

Credit agreement	Outstanding Amount as of		Facility Capacity	LIBOR Margin <sup>(1)</sup>	Maturity	Commitment Fee Rate	L/C Fee <sup>(2)</sup>
	June 30, 2013	December 31, 2012					
Credit facility <sup>(3)(4)</sup> .....	\$ 115,000	\$ 63,000	\$ 750,000	1.25%	8/28/2015	N/A	N/A
Senior variable rate notes <sup>(4)</sup> .....	249,500	249,500	\$ 249,500	1.55%	10/20/2022	N/A	N/A
Senior variable rate notes <sup>(4)</sup> .....	498,712	—	\$ 500,000	1.20%	4/20/2023	N/A	N/A
Senior variable rate notes <sup>(4)</sup> .....	402,352	—	\$ 402,500	1.20%	7/20/2023	N/A	N/A
Senior variable rate notes <sup>(4)</sup> .....	64,500	—	\$ 64,500	1.65%	7/20/2023	N/A	N/A
Revolving credit facility .....	—	—	\$ 200,000	1.60%	6/26/2015	0.25%	N/A
Multi-currency term loan <sup>(5)</sup> .....	11,143	49,158	\$ 275,000	3.00%	12/23/2013	N/A	N/A
Revolving credit facility .....	110,000	38,000	\$ 150,000	1.75%	12/15/2013	0.35%	N/A
Revolving credit facility .....	50,230	8,625	\$ 125,000	1.75%	5/20/2014	0.35%	N/A
Revolving credit facility .....	—	19,400	\$ 55,000	2.00%	9/15/2013	0.35%	2.00%
Revolving credit facility .....	—	—	\$ 40,000	1.50%	12/11/2013	0.30%	1.50%
Euro-denominated revolving credit facility .....	10,399	63,942	€ 100,000	1.75%	12/17/2015	0.30%	2.00%
Revolving credit facility .....	—	—	\$ 10,000	2.25%	9/1/2013	0.38%	N/A
Revolving credit facility .....	—	—	\$ 250,000	1.65%	3/22/2015	0.25%	N/A
	<u>\$1,511,836</u>	<u>\$ 491,625</u>					

- (1) The facilities bear interest, at the borrower's option, at (a) an annual rate of LIBOR plus the applicable margin or (b) an alternate base rate, as defined in the respective credit agreement.
- (2) Certain facilities allow for the issuance of letters of credit at an applicable annual fee. As of June 30, 2013 and December 31, 2012, outstanding standby letters of credit totaled \$67,336 and \$76,975, respectively.
- (3) Libor margin equals 1.25% through August 28, 2013 and 2.50% thereafter.
- (4) The credit facility is collateralized by the portfolio investments and cash and cash-equivalents of the fund.
- (5) The loan is guaranteed by the fund and, with certain limited exceptions, all of the subsidiaries of the fund, and is collateralized by both the unfunded capital commitments of the partners and, with certain exceptions, the portfolio investments of the fund and its subsidiaries.

## 7. NON-CONTROLLING REDEEMABLE INTERESTS IN CONSOLIDATED FUNDS

The following table sets forth a summary of changes in the non-controlling redeemable interests in the consolidated funds:

	Six Months Ended June 30,	
	2013	2012
Beginning balance .....	\$ 39,670,831	\$ 41,048,607
Contributions .....	3,069,748	3,281,270
Distributions .....	(7,577,863)	(5,842,026)
Net income .....	2,826,452	2,798,445
Change in distributions payable .....	72,070	209,367
Change in accrued or deferred contributions .....	98,105	41,000
Foreign currency translation and other .....	(54,147)	(78,325)
Ending balance .....	<u>\$ 38,105,196</u>	<u>\$ 41,458,338</u>

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
(\$ in thousands, except where noted)

**8. UNITHOLDERS' CAPITAL**

The OCGH unitholders' economic interest in the Oaktree Operating Group is reflected as OCGH non-controlling interest in consolidated subsidiaries and is based on the proportionate share of Oaktree Operating Group units held by the OCGH unitholders. As of June 30, 2013 and December 31, 2012, respectively, OCGH units represented 112,749,526 of the total 150,988,967 Oaktree Operating Group units and 120,267,503 units of the total 150,448,436 Oaktree Operating Group units. Based on total Oaktree Operating Group capital of \$1,563,889 and \$1,360,331 as of June 30, 2013 and December 31, 2012, respectively, the OCGH non-controlling interest was \$1,167,819 and \$1,087,491.

The net income attributable to OCGH non-controlling interest in consolidated subsidiaries is determined at the Oaktree Operating Group level, based on the weighted average proportionate share of Oaktree Operating Group units held by the OCGH unitholders. Certain expenses, such as income tax and related administrative expenses of Oaktree Capital Group, LLC and its Intermediate Holding Companies, are solely attributable to the Class A unitholders.

The following table sets forth a summary of the net income attributable to the OCGH non-controlling interest and to the Class A unitholders:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Weighted average Oaktree Operating Group units outstanding (in thousands):				
OCGH non-controlling interest.....	117,977	121,205	119,295	124,479
Class A unitholders .....	33,020	29,586	31,611	26,137
Total weighted average units outstanding.....	<u>150,997</u>	<u>150,791</u>	<u>150,906</u>	<u>150,616</u>
Oaktree Operating Group net income:				
Net income attributable to OCGH non-controlling interest .....	\$ 225,766	\$ 125,231	\$ 487,783	\$ 260,121
Net income attributable to Class A unitholders .....	63,187	30,569	128,756	54,524
Oaktree Operating Group net income .....	<u>\$ 288,953</u>	<u>\$ 155,800</u>	<u>\$ 616,539</u>	<u>\$ 314,645</u>
Net income attributable to Oaktree Capital Group, LLC:				
Oaktree Operating Group net income attributable to Class A unitholders .....	\$ 63,187	\$ 30,569	\$ 128,756	\$ 54,524
Non-Operating Group other income .....	—	6,260	—	6,260
Non-Operating Group expenses .....	(466)	(100)	(676)	(278)
Income tax expense of Intermediate Holding Companies .....	(6,144)	(12,010)	(13,937)	(17,179)
Net income attributable to Oaktree Capital Group, LLC .....	<u>\$ 56,577</u>	<u>\$ 24,719</u>	<u>\$ 114,143</u>	<u>\$ 43,327</u>

Set forth below are the effects of changes in the Company's ownership interest in the Oaktree Operating Group on the Company's capital:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income attributable to Oaktree Capital Group, LLC .....	\$ 56,577	\$ 24,719	\$ 114,143	\$ 43,327
Equity reallocation between controlling and non-controlling interests .....	77,732	71,647	76,845	69,175
Change from net income attributable to Oaktree Capital Group, LLC and transfers from non-controlling interest ....	<u>\$ 134,309</u>	<u>\$ 96,366</u>	<u>\$ 190,988</u>	<u>\$ 112,502</u>



**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
(\$ in thousands, except where noted)

On May 29, 2013, the Company issued and sold 8,050,000 Class A units in a public offering at a price to the public of \$53.50 per Class A unit (the "May 2013 Offering"), resulting in \$419.9 million in net proceeds to the Company, after deducting underwriting discounts and commissions. The Company did not retain any proceeds from the sale of Class A units in the May 2013 Offering. The net proceeds from the May 2013 Offering were used to acquire interests in the Company's business from certain of the Company's directors, employees and other investors, including certain principals and other members of the Company's senior management.

Please see notes 9 and 10 for additional information regarding transactions that impacted unitholders' capital.

## 9. EARNINGS PER UNIT

The computations of net income per Class A unit are set forth below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands, except per unit amounts)			
Weighted average units outstanding:				
Class A units outstanding.....	33,020	29,586	31,611	26,137
OCGH units exchangeable into Class A units <sup>(1)</sup> .....	—	—	—	—
Total weighted average units outstanding.....	<u>33,020</u>	<u>29,586</u>	<u>31,611</u>	<u>26,137</u>
Net income per Class A unit:				
Net income .....	<u>\$ 56,577</u>	<u>\$ 24,719</u>	<u>\$ 114,143</u>	<u>\$ 43,327</u>
Weighted average units outstanding .....	<u>33,020</u>	<u>29,586</u>	<u>31,611</u>	<u>26,137</u>
Basic and diluted net income per Class A unit .....	<u>\$ 1.71</u>	<u>\$ 0.84</u>	<u>\$ 3.61</u>	<u>\$ 1.66</u>

- (1) Vested OCGH units are potentially exchangeable on a one-for-one basis into Class A units. As of June 30, 2013, there were 112,749,526 OCGH units outstanding, accordingly, the Company may cumulatively issue up to 112,749,526 additional Class A units through March 1, 2023 if all such units were exchanged. For all periods presented, OCGH units have been excluded from the calculation of diluted earnings per unit given that the exchange of these units would proportionally increase Oaktree Capital Group, LLC's interests in the Oaktree Operating Group and may have an anti-dilutive effect on earnings per unit to the extent that additional expenses, particularly tax-related expenses, are incurred by the Company as a result of the exchange.

## 10. EQUITY-BASED COMPENSATION

The Company granted 577,000 restricted OCGH units to certain of its employees and 8,508 Class A units to certain of its directors during the first six months of 2013, subject to equal annual vesting over periods of five or ten years. The grant date fair value of all OCGH units awarded in 2013 was determined by applying a discount ranging from 25% to 30% to the Class A unit trading price on the New York Stock Exchange and assumes a forfeiture rate of up to 1.5% annually, based on expected employee turnover.

As of June 30, 2013, the Company expected to recognize compensation expense on its unvested equity-based awards of \$107.5 million over a weighted average recognition period of 5.3 years.

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
(\$ in thousands, except where noted)

A summary of the status of the Company's unvested equity-based awards as of June 30, 2013 and a summary of changes for the six months then ended are presented below (actual dollars per unit):

	Class A Units		OCGH Units	
	Number of Units	Weighted Average Grant Date Fair Value	Number of Units	Weighted Average Grant Date Fair Value
Balance, December 31, 2012 .....	11,669	\$ 41.91	4,902,348	\$ 28.17
Granted .....	8,508	47.83	577,000	32.96
Vested .....	(2,784)	39.85	(1,062,819)	23.86
Exchanged .....	—	—	—	—
Forfeited .....	—	—	(19,350)	32.98
Balance, June 30, 2013 .....	<u>17,393</u>	<u>\$ 45.13</u>	<u>4,397,179</u>	<u>\$ 29.82</u>

As of June 30, 2013, unvested units were expected to vest as follows:

	Number of Units	Weighted Average Remaining Service Term (Years)
Class A units .....	17,393	3.9
OCGH units .....	4,397,179	5.3

## 11. INCOME TAXES AND RELATED PAYMENTS

Oaktree is a publicly traded partnership and Oaktree Holdings, Inc. and Oaktree AIF Holdings, Inc., two of its Intermediate Holding Companies, are wholly-owned corporate subsidiaries. Income earned by these corporate subsidiaries is subject to U.S. federal and state income taxation and taxed at prevailing rates. Income earned by non-corporate subsidiaries is not subject to U.S. federal corporate income tax and is allocated to the Oaktree Operating Group's unitholders. The Company's effective income tax rate is dependent on many factors, including the estimated nature of many amounts and the mix of revenues and expenses between the two corporate subsidiaries that are subject to income taxes and the three other subsidiaries that are not; consequently, the effective income tax rate is subject to significant variation from period to period. The Company's effective income tax rate used for interim periods is based on the estimated full-year income tax rate.

U.S. and non-U.S. taxing authorities are currently examining certain income tax returns of Oaktree, with some of these examinations at an advanced stage. The Company believes that it is reasonably possible that one outcome of these current examinations may be to reduce in the next 12 months approximately \$6 million to \$8 million of previously accrued Operating Group income taxes. The Company believes that it has adequately provided for any reasonably foreseeable outcomes related to its tax examinations and that any settlements related thereto will not have a material adverse effect on the Company's financial position or results of operations. However, there can be no assurances as to the possible outcomes.

### ***Tax Receivable Agreement***

The exchange of OCGH units in connection with the May 2013 Offering resulted in increases in the tax basis of the tangible and intangible assets of the Oaktree Operating Group. As a result, the Company recorded a deferred tax asset of \$134.4 million and an associated liability of \$114.2 million for payments to OCGH unitholders under the tax receivable agreement, which together increased capital by \$20.2 million. These payments are expected to occur over the period ending approximately in 2035.

No amounts were paid under the tax receivable agreement during the six months ended June 30, 2013.

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
**(\$ in thousands, except where noted)**

## **12. COMMITMENTS AND CONTINGENCIES**

In the normal course of business, Oaktree enters into contracts that contain certain representations, warranties and indemnifications. The Company's exposure under these arrangements would involve future claims that have not yet been asserted. Inasmuch as no such claims currently exist or are expected to arise, the Company has not accrued any liability in connection with these indemnifications.

### ***Legal Actions***

Periodically, the Company is a party to legal actions arising in the ordinary course of business. The Company is currently not subject to any pending actions that either individually or in the aggregate are expected to have a material impact on its results of operations, cash flows or financial condition.

On June 8, 2011, *Kaplan Industry, Inc. v. Oaktree Capital Management, L.P.* was filed in the U.S. District Court for the Southern District of Florida. In *Kaplan*, the plaintiff alleges that Oaktree Capital Management, L.P. tortiously interfered with a business relationship and engaged in a civil conspiracy through the actions of Gulmar Offshore Middle East, LLC ("Gulmar"), a business acquired by subsidiaries of OCM European Principal Opportunities Fund II, L.P. ("EPOF II"). Oaktree Capital Management, L.P. serves as investment manager to EPOF II. The complaint alleges that Gulmar breached a consortium agreement between Gulmar and Kaplan Industry, Inc. relating to the consortium's performance of services to Petróleos de Venezuela, S.A., the state-owned oil producer of Venezuela. The plaintiff alleges that Oaktree is responsible for these breaches by Gulmar. The complaint seeks damages in excess of \$800 million. The substance of the claim relates almost exclusively to actions by Gulmar prior to EPOF II's acquisition and the basis of the claim is currently subject to an ongoing arbitration in the United Kingdom between Kaplan and Gulmar. On August 18, 2011, the court granted Oaktree Capital Management, L.P.'s motion to stay pending the completion of a related arbitration proceeding in London. Oaktree Capital Management, L.P. believes the case is without merit and that any exposure to loss is remote.

### ***Incentive Income***

In addition to the incentive income recognized by the Company, certain of its funds have amounts recorded as potentially allocable to the Company as its share of potential future incentive income, based on each fund's NAV. Inasmuch as this incentive income is contingent upon future investment activity and other factors, it is not recognized by the Company until it is fixed or otherwise determinable. As of June 30, 2013 and December 31, 2012, the aggregate of such amounts recorded at the fund level in excess of incentive income recognized by the Company was \$2,127,500 and \$2,137,798, respectively, for which related direct incentive income compensation expense was estimated to be \$904,881 and \$855,604, respectively.

### ***Commitments to Funds***

As of June 30, 2013 and December 31, 2012, the Company, generally in the capacity as general partner, had undrawn capital commitments of \$258,299 and \$265,401, respectively, including commitments to both non-consolidated and consolidated funds.

### ***Investment Commitments of Consolidated Funds***

The consolidated funds are parties to certain credit agreements, providing for the issuance of letters of credit and revolving loans, which may require the consolidated funds to extend additional loans to investee companies. The consolidated funds use the same investment criteria in making these unrecorded commitments as they do for investments that are included in the condensed consolidated statements of financial condition. The unfunded liability associated with these credit agreements is equal to the amount by which the contractual loan commitment exceeds the sum of the amount of funded debt and cash held in escrow, if any. As of June 30, 2013 and December 31, 2012, the consolidated funds had aggregate potential credit and investment commitments of \$906,797 and \$912,001, respectively. These commitments will be funded by the funds' aggregate cash balance, asset sales proceeds or drawdowns against existing capital commitments.

A consolidated fund may agree to guarantee the repayment obligations of certain investee companies. On December 20, 2012, certain consolidated funds ("Funds") entered into a £200 million revolving credit facility (the "RCF") pursuant to which certain portfolio companies of the Funds ("the borrowers") will be able to draw under the RCF during a three-year period. The RCF has an annual commitment fee on unused commitments of 1.0% and

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
(\$ in thousands, except where noted)

bears interest at an annual rate equal to Libor or Euribor, as applicable, plus 2.0%. The Funds guarantee the payment and other obligations of the borrowers under the RCF. The amounts borrowed, accrued interest and other costs of the RCF will be paid by the portfolio companies. As of June 30, 2013 and December 31, 2012, there were \$106.7 million and zero borrowings outstanding, respectively. The Funds, as guarantors, must maintain compliance with certain financial covenants at all times. As of and for the six months ended June 30, 2013, the Funds were in compliance with these financial covenants.

The aggregate amounts guaranteed in addition to those described for the RCF were not material to the condensed consolidated financial statements as of June 30, 2013 and December 31, 2012.

### **13. RELATED PARTY TRANSACTIONS**

The Company considers its principals, employees and non-consolidated Oaktree funds to be affiliates. Amounts due from and to affiliates were comprised of the following:

	As of	
	June 30, 2013	December 31, 2012
Due from affiliates:		
Loans .....	\$ 42,925	\$ 38,091
Amounts due from non-consolidated funds .....	1,334	661
Payments made on behalf of non-consolidated entities .....	3,644	3,444
Non-interest bearing advances made to certain non-controlling interest holders and employees .....	3,049	2,393
Total due from affiliates .....	<u>\$ 50,952</u>	<u>\$ 44,589</u>
Due to affiliates:		
Due to OCGH unitholders in connection with the tax receivable agreement (please see note 11) .....	\$ 249,200	\$ 134,953
Amounts due to principals, certain non-controlling interest holders and employees ...	484	1,212
Total due to affiliates .....	<u>\$ 249,684</u>	<u>\$ 136,165</u>

#### **Loans**

Loans primarily consist of interest-bearing advances made to certain non-controlling interest holders, primarily the Company's employees, to meet tax obligations related to vesting of equity awards. The notes, which are generally recourse to the borrower or secured by vested equity and other collateral, bear interest at the Company's cost of capital and generated interest income of \$891 and \$609 for the six months ended June 30, 2013 and 2012, respectively.

#### **Due From Oaktree Funds and Portfolio Companies**

In the normal course of business, the Company pays certain expenses on behalf of the Oaktree funds, for which it is reimbursed. Amounts advanced on behalf of consolidated funds are eliminated in consolidation. Certain expenses initially paid by the Company, primarily employee travel and other costs associated with particular portfolio company holdings, are reimbursed by the portfolio companies.

#### **Other Investment Transactions**

The Company's principals, directors and senior professionals are permitted to invest their own capital (or the capital of family trusts or other estate planning vehicles they control) in Oaktree funds, for which they pay the particular fund's full management fee but not its incentive allocation. The Company waives any right to incentive income that would ordinarily be earned on such investments but assesses the normal management fee. To facilitate the funding of capital calls by funds in which certain employees are invested, the Company advances on a short-term basis the capital calls on their behalves. These advances are generally reimbursed toward the end of the

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
**(\$ in thousands, except where noted)**

calendar quarter in which the capital calls occurred. Amounts temporarily advanced by the Company are included in non-interest bearing advances made to certain non-controlling interest holders and employees.

***Aircraft Services***

A subsidiary of the Company leases an airplane for business purposes. The Company's Chairman may use this aircraft for personal travel and, pursuant to a policy adopted by such subsidiary relating to such personal use, the Company is reimbursed by the Company's Chairman for the costs of using the aircraft for personal travel. Additionally, the Company occasionally makes use of an airplane owned by one of its principals for business purposes at a price to the Company that is based on market rates.

***Special Allocations***

Certain principals receive special allocations based on a percentage of profits of the Oaktree Operating Group. These special allocations, which are recorded as compensation expense, are made on a current basis only for so long as they remain principals of the Company.

***Transactions With Meyer Memorial Trust***

One of the Company's directors, Mr. Pierson, is the Chief Financial and Investment Officer of Meyer Memorial Trust. Meyer Memorial Trust invests in certain Oaktree funds on the same terms as the other investors in those funds.

**14. SEGMENT REPORTING**

The Company's business is comprised of one segment, the investment management segment. As a global investment manager, the Company provides investment management services through funds and separate accounts. Management makes operating decisions and assesses business performance based on financial and operating metrics and data that are presented without the consolidation of any funds.

The Company conducts its investment management business primarily in the United States, where substantially all of its revenues are generated.

***Adjusted Net Income***

The Company's chief operating decision maker uses adjusted net income ("ANI") to evaluate the financial performance of, and make resource allocations and other operating decisions for, the investment management segment. The components of revenues and expenses used in the determination of ANI do not give effect to the consolidation of the funds that the Company manages. In addition, ANI excludes the effect of (a) non-cash equity-based compensation charges related to unit grants made before the Company's initial public offering, (b) income taxes, (c) other income or expenses applicable to Oaktree Capital Group, LLC or its Intermediate Holding Companies and (d) the adjustment for the OCGH non-controlling interest. ANI is calculated at the Oaktree Operating Group level.

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
(\$ in thousands, except where noted)

ANI was as follows for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues:				
Management fees .....	\$ 182,487	\$ 188,843	\$ 366,701	\$ 380,105
Incentive income .....	338,057	129,018	665,241	191,687
Investment income .....	34,576	23,241	116,626	87,581
Total revenues .....	<u>555,120</u>	<u>341,102</u>	<u>1,148,568</u>	<u>659,373</u>
Expenses:				
Compensation and benefits .....	(90,166)	(80,303)	(183,783)	(164,707)
Equity-based compensation .....	(924)	—	(1,576)	—
Incentive income compensation .....	(128,953)	(60,965)	(259,224)	(88,722)
General and administrative .....	(29,512)	(24,398)	(53,500)	(49,236)
Depreciation and amortization .....	(1,732)	(1,929)	(3,475)	(3,672)
Total expenses .....	<u>(251,287)</u>	<u>(167,595)</u>	<u>(501,558)</u>	<u>(306,337)</u>
Adjusted net income before interest and other income (expense) .....	303,833	173,507	647,010	353,036
Interest expense, net of interest income <sup>(1)</sup> .....	(7,136)	(8,063)	(14,543)	(16,227)
Other income (expense), net .....	284	66	264	2,333
Adjusted net income .....	<u>\$ 296,981</u>	<u>\$ 165,510</u>	<u>\$ 632,731</u>	<u>\$ 339,142</u>

- (1) Interest income was \$0.9 million and \$0.6 million for the three months ended June 30, 2013 and 2012, respectively, and \$1.5 million and \$1.1 million for the six months ended June 30, 2013 and 2012, respectively.

A reconciliation of net income attributable to Oaktree Capital Group, LLC to adjusted net income of the investment management segment is presented below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income attributable to Oaktree Capital Group, LLC .....	\$ 56,577	\$ 24,719	\$ 114,143	\$ 43,327
Equity-based compensation <sup>(1)</sup> .....	6,181	7,795	11,981	19,984
Income taxes <sup>(2)</sup> .....	7,991	13,925	18,148	21,692
Non-Operating Group other income <sup>(3)</sup> .....	—	(6,260)	—	(6,260)
Non-Operating Group expenses <sup>(3)</sup> .....	466	100	676	278
OCGH non-controlling interest <sup>(3)</sup> .....	225,766	125,231	487,783	260,121
Adjusted net income .....	<u>\$ 296,981</u>	<u>\$ 165,510</u>	<u>\$ 632,731</u>	<u>\$ 339,142</u>

- (1) This adjustment adds back the effect of equity-based compensation charges related to unit grants made before the Company's initial public offering, which is excluded from adjusted net income because it is a non-cash charge that does not affect the Company's financial position.
- (2) Because adjusted net income is a pre-tax measure, this adjustment eliminates the effect of income tax expense.
- (3) Because adjusted net income is calculated at the Operating Group level, this adjustment adds back the effect of items applicable to OCG, its Intermediate Holding Companies or the OCGH non-controlling interest.

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
(\$ in thousands, except where noted)

The following tables reconcile the Company's segment information to the condensed consolidated financial statements:

	As of or for the Three Months Ended June 30, 2013		
	Segment	Adjustments	Consolidated
Management fees <sup>(1)</sup> .....	\$ 182,487	\$ (132,390)	\$ 50,097
Incentive income <sup>(1)</sup> .....	338,057	(335,740)	2,317
Investment income (loss) <sup>(1)</sup> .....	34,576	(35,687)	(1,111)
Total expenses <sup>(2)</sup> .....	(251,287)	(34,253)	(285,540)
Interest expense, net <sup>(3)</sup> .....	(7,136)	(6,877)	(14,013)
Other income, net .....	284	—	284
Other income of consolidated funds <sup>(4)</sup> .....	—	1,300,787	1,300,787
Income taxes .....	—	(7,991)	(7,991)
Net income attributable to non-controlling redeemable interests in consolidated funds .....	—	(762,487)	(762,487)
Net income attributable to OCGH non-controlling interest in consolidated subsidiaries .....	—	(225,766)	(225,766)
Adjusted net income/net income attributable to Oaktree Capital Group, LLC .....	<u>\$ 296,981</u>	<u>\$ (240,404)</u>	<u>\$ 56,577</u>
Corporate investments, at equity <sup>(5)</sup> .....	<u>\$ 1,061,793</u>	<u>\$ (977,461)</u>	<u>\$ 84,332</u>
Total assets <sup>(6)</sup> .....	<u>\$ 2,678,187</u>	<u>\$ 41,217,230</u>	<u>\$ 43,895,417</u>

- (1) The adjustment represents the elimination of amounts attributable to the consolidated funds.
- (2) The expense adjustment consists of (a) equity-based compensation charges of \$6,181 related to unit grants made before the Company's initial public offering, (b) consolidated fund expenses of \$27,606 and (c) expenses incurred by the Intermediate Holding Companies of \$466.
- (3) The interest expense adjustment represents the inclusion of interest expense attributable to non-controlling interests of the consolidated funds and the exclusion of segment interest income.
- (4) The adjustment to other income of consolidated funds primarily represents the inclusion of interest, dividend and other investment income attributable to non-controlling interests of the consolidated funds.
- (5) The adjustment to corporate investments is to remove from segment assets the consolidated funds that are treated as equity method investments for segment reporting purposes.
- (6) The total assets adjustment represents the inclusion of investments and other assets of the consolidated funds, net of segment assets eliminated in consolidation, which are primarily corporate investments in funds and incentive income receivable.

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
(\$ in thousands, except where noted)

	As of or for the Three Months Ended June 30, 2012		
	Segment	Adjustments	Consolidated
Management fees <sup>(1)</sup> .....	\$ 188,843	\$ (159,636)	\$ 29,207
Incentive income <sup>(1)</sup> .....	129,018	(129,018)	—
Investment income <sup>(1)</sup> .....	23,241	(19,536)	3,705
Total expenses <sup>(2)</sup> .....	(167,595)	(39,413)	(207,008)
Interest expense, net <sup>(3)</sup> .....	(8,063)	(3,797)	(11,860)
Other income, net <sup>(4)</sup> .....	66	6,260	6,326
Other income of consolidated funds <sup>(5)</sup> .....	—	1,017,178	1,017,178
Income taxes .....	—	(13,925)	(13,925)
Net income attributable to non-controlling redeemable interests in consolidated funds .....	—	(673,673)	(673,673)
Net income attributable to OCGH non-controlling interest in consolidated subsidiaries .....	—	(125,231)	(125,231)
Adjusted net income/net income attributable to Oaktree Capital Group, LLC .....	<u>\$ 165,510</u>	<u>\$ (140,791)</u>	<u>\$ 24,719</u>
Corporate investments, at equity <sup>(6)</sup> .....	<u>\$ 1,195,084</u>	<u>\$ (1,069,050)</u>	<u>\$ 126,034</u>
Total assets <sup>(7)</sup> .....	<u>\$ 2,194,709</u>	<u>\$ 42,576,060</u>	<u>\$ 44,770,769</u>

- (1) The adjustment represents the elimination of amounts attributable to the consolidated funds.
- (2) The expense adjustment consists of (a) equity-based compensation charges of \$7,795 related to unit grants made before the Company's initial public offering, (b) consolidated fund expenses of \$31,518 and (c) expenses incurred by the Intermediate Holding Companies of \$100.
- (3) The interest expense adjustment represents the inclusion of interest expense attributable to non-controlling interests of the consolidated funds and the exclusion of segment interest income.
- (4) The other income, net adjustment represents other income or expenses of OCG or its Intermediate Holding Companies. This amount is attributable to a reduction in the amount of the deferred tax asset under the tax receivable agreement associated with the 2007 Private Offering, which reduced the tax receivable agreement liability payable to OCGH unitholders.
- (5) The adjustment to other income of consolidated funds primarily represents the inclusion of interest, dividend and other investment income attributable to non-controlling interests of the consolidated funds.
- (6) The adjustment to corporate investments is to remove from segment assets the consolidated funds that are treated as equity method investments for segment reporting purposes.
- (7) The total assets adjustment represents the inclusion of investments and other assets of the consolidated funds, net of segment assets eliminated in consolidation, which are primarily corporate investments in funds and incentive income receivable.



**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
(\$ in thousands, except where noted)

	As of or for the Six Months Ended June 30, 2013		
	Segment	Adjustments	Consolidated
Management fees <sup>(1)</sup> .....	\$ 366,701	\$ (274,065)	\$ 92,636
Incentive income <sup>(1)</sup> .....	665,241	(662,924)	2,317
Investment income <sup>(1)</sup> .....	116,626	(105,494)	11,132
Total expenses <sup>(2)</sup> .....	(501,558)	(59,487)	(561,045)
Interest expense, net <sup>(3)</sup> .....	(14,543)	(11,051)	(25,594)
Other income, net .....	264	—	264
Other income of consolidated funds <sup>(4)</sup> .....	—	3,926,816	3,926,816
Income taxes .....	—	(18,148)	(18,148)
Net income attributable to non-controlling redeemable interests in consolidated funds .....	—	(2,826,452)	(2,826,452)
Net income attributable to OCGH non-controlling interest in consolidated subsidiaries .....	—	(487,783)	(487,783)
Adjusted net income/net income attributable to Oaktree Capital Group, LLC .....	<u>\$ 632,731</u>	<u>\$ (518,588)</u>	<u>\$ 114,143</u>
Corporate investments, at equity <sup>(5)</sup> .....	<u>\$ 1,061,793</u>	<u>\$ (977,461)</u>	<u>\$ 84,332</u>
Total assets <sup>(6)</sup> .....	<u>\$ 2,678,187</u>	<u>\$ 41,217,230</u>	<u>\$ 43,895,417</u>

- (1) The adjustment represents the elimination of amounts attributable to the consolidated funds.
- (2) The expense adjustment consists of (a) equity-based compensation charges of \$11,981 related to unit grants made before the Company's initial public offering, (b) consolidated fund expenses of \$46,830 and (c) expenses incurred by the Intermediate Holding Companies of \$676.
- (3) The interest expense adjustment represents the inclusion of interest expense attributable to non-controlling interests of the consolidated funds and the exclusion of segment interest income.
- (4) The adjustment to other income of consolidated funds primarily represents the inclusion of interest, dividend and other investment income attributable to non-controlling interests of the consolidated funds.
- (5) The adjustment to corporate investments is to remove from segment assets the consolidated funds that are treated as equity method investments for segment reporting purposes.
- (6) The total assets adjustment represents the inclusion of investments and other assets of the consolidated funds, net of segment assets eliminated in consolidation, which are primarily corporate investments in funds and incentive income receivable.

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
(\$ in thousands, except where noted)

	As of or for the Six Months Ended June 30, 2012		
	Segment	Adjustments	Consolidated
Management fees <sup>(1)</sup> .....	\$ 380,105	\$ (318,878)	\$ 61,227
Incentive income <sup>(1)</sup> .....	191,687	(186,639)	5,048
Investment income <sup>(1)</sup> .....	87,581	(78,196)	9,385
Total expenses <sup>(2)</sup> .....	(306,337)	(68,238)	(374,575)
Interest expense, net <sup>(3)</sup> .....	(16,227)	(6,623)	(22,850)
Other income, net <sup>(4)</sup> .....	2,333	6,260	8,593
Other income of consolidated funds <sup>(5)</sup> .....	—	3,436,757	3,436,757
Income taxes .....	—	(21,692)	(21,692)
Net income attributable to non-controlling redeemable interests in consolidated funds .....	—	(2,798,445)	(2,798,445)
Net income attributable to OCGH non-controlling interest in consolidated subsidiaries .....	—	(260,121)	(260,121)
Adjusted net income/net income attributable to Oaktree Capital Group, LLC .....	<u>\$ 339,142</u>	<u>\$ (295,815)</u>	<u>\$ 43,327</u>
Corporate investments, at equity <sup>(6)</sup> .....	<u>\$ 1,195,084</u>	<u>\$ (1,069,050)</u>	<u>\$ 126,034</u>
Total assets <sup>(7)</sup> .....	<u>\$ 2,194,709</u>	<u>\$ 42,576,060</u>	<u>\$ 44,770,769</u>

- (1) The adjustment represents the elimination of amounts attributable to the consolidated funds.
- (2) The expense adjustment consists of (a) equity-based compensation charges of \$19,984 related to unit grants made before the Company's initial public offering, (b) consolidated fund expenses of \$47,976 and (c) expenses incurred by the Intermediate Holding Companies of \$278.
- (3) The interest expense adjustment represents the inclusion of interest expense attributable to non-controlling interests of the consolidated funds and the exclusion of segment interest income.
- (4) The other income, net adjustment represents other income or expenses of OCG or its Intermediate Holding Companies. This amount is attributable to a reduction in the amount of the deferred tax asset under the tax receivable agreement associated with the 2007 Private Offering, which reduced the tax receivable agreement liability payable to OCGH unitholders.
- (5) The adjustment to other income of consolidated funds primarily represents the inclusion of interest, dividend and other investment income attributable to non-controlling interests of the consolidated funds.
- (6) The adjustment to corporate investments is to remove from segment assets the consolidated funds that are treated as equity method investments for segment reporting purposes.
- (7) The total assets adjustment represents the inclusion of investments and other assets of the consolidated funds, net of segment assets eliminated in consolidation, which are primarily corporate investments in funds and incentive income receivable.

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
**(\$ in thousands, except where noted)**

**15. SUBSEQUENT EVENTS**

On August 6, 2013, the Company declared a distribution of \$1.51 per Class A unit. This distribution, which is related to the second quarter of 2013, will be paid on August 20, 2013 to Class A unitholders of record as of the close of business on August 16, 2013.

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

*The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements of Oaktree Capital Group, LLC and the related notes included within this quarterly report. This discussion contains forward-looking statements that are subject to risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business prospects, growth strategy and liquidity. The factors listed under "Risk Factors" and "Forward-Looking Statements" in this quarterly report and under "Risk Factors" in our annual report provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations described in any forward-looking statements.*

### Business Overview

Oaktree is a leader among global investment managers specializing in alternative investments, with \$76.4 billion in AUM as of June 30, 2013. The firm emphasizes an opportunistic, value-oriented and risk-controlled approach to investments in distressed debt, corporate debt (including high yield debt and senior loans), control investing, convertible securities, real estate and listed equities. Over more than a quarter-century we have developed a large and growing client base through our ability to identify and capitalize on opportunities for attractive investment returns in less efficient markets. Our investment approach, based on the primacy of risk control, and the strong risk-adjusted performance record it has produced appeal to the many investors who seek attractive returns with less-than-commensurate risk. Oaktree's growth and success are byproducts of our proven investment approach and our policy of putting clients' interests first.

We manage assets on behalf of many of the most significant institutional investors in the world. Our clientele has nearly doubled over the past decade, to over 1,800, including 75 of the 100 largest U.S. pension plans, 38 states in the United States, approximately 400 corporations, over 300 university, charitable and other endowments and foundations, 10 sovereign wealth funds and over 250 other non-U.S. institutional investors. We serve these clients with over 750 employees, including over 190 employee-owners who operate out of 13 offices in 10 countries, of which the largest offices are in Los Angeles (headquarters), London, New York and Hong Kong.

Our business is comprised of one segment, our investment management segment, which consists of the investment management services that we provide to our clients. Our segment revenue flows from the management fees and incentive income generated by the funds that we manage, as well as the investment income from the funds we manage and other third-party funds and companies in which we invest. The management fees that we receive are based on the contractual terms of the relevant fund and are typically calculated as a fixed percentage of the capital commitments (as adjusted for distributions during a fund's liquidation period) or NAV of the particular fund. Incentive income represents our share (typically 20%) of the investors' profits in most of the closed-end and evergreen funds. Investment income refers to the investment return on a mark-to-market basis on the amounts that we invest in Oaktree and third-party funds, as well as our equity income participation from investments in other companies.

### Business Environment and Developments

As a global investment manager, we are affected by myriad factors, including the condition of the economy and financial markets; the relative attractiveness of our investment strategies and investors' demand for them; and regulatory or other governmental policies or actions. The diversified nature of both our array of investment strategies and our revenue mix historically has allowed us to benefit from both strong and weak environments. Weak economies and the declining financial markets that typically accompany them tend to dampen our revenues from asset-based management fees, investment realizations or price appreciation, but their prospect can result in our raising relatively large amounts of capital for certain strategies, especially distressed debt. Additionally, during weak financial markets there often is expanded availability of bargain investments for purchase, and our risk-controlled investment approach generally allows us to take maximum advantage of them. Conversely, the strong phase of the economic cycle generally increases the value of our investments and therefore the fees from strategies that are based on asset value, and creates favorable exit opportunities (and often incentive income). At the same time, however, this motivates us to be more restrained in sizing funds in distress-oriented strategies.

U.S. financial markets maintained their generally strong start to 2013 well into the second quarter, before slumping amid concern that tapering of the Federal Reserve's bond-buying program would start sooner and to greater negative impact than had been previously anticipated. For the quarter, the S&P 500 Index gained 2.9%. U.S. high yield bonds declined in price to provide record-low yields on historically average spreads before finishing the quarter with a total return of -1.3% (as measured by the Citigroup U.S. High Yield Cash-Pay Capped Index). The leveraged loan market fared better than high yield bonds, as investors sought safety in those instruments'

floating interest rates. In Europe, equity markets were mixed as the eurozone continued to face recessionary headwinds. Emerging market equities fell in reaction to the prospect of both rising interest rates and decelerating growth in China and elsewhere.

We continued to harvest profitable investments during the quarter, resulting in \$4.7 billion of distributions by our distressed debt and other closed-end funds. Given the strong financing environment and increased asset prices, attractive buying opportunities were relatively scarce, particularly in our distress-oriented funds, which have been distributing more than they have been investing. While this scarcity of investment opportunities is typical for this phase of the cycle, attractive risk-adjusted opportunities exist in a few pockets of dislocation, where access to capital has been restricted by traditional lenders. Among these promising areas are middle-market companies in Europe, certain commercial real estate sectors, and the shipping and power industries. We are capitalizing on these and other opportunities through our real estate and control investing funds, as well as our newer strategies and funds, such as Strategic Credit and Oaktree Enhanced Income Fund, L.P. ("EIF").

## **Understanding Our Results – Consolidation of Oaktree Funds**

GAAP requires that we consolidate substantially all of our closed-end, commingled open-end and evergreen funds in our financial statements, notwithstanding the fact that our equity investments in those funds do not typically exceed 2.5% of any fund's interests. Consolidated funds consist of those funds in which we hold a general partner interest that gives us substantive control rights over such funds. With respect to our consolidated funds, we generally have operational discretion and control over the funds, and investors do not hold any substantive rights that would enable them to impact the funds' ongoing governance and operating activities. The funds that we manage that were not consolidated, primarily separately managed accounts, represented 33.2% of our AUM as of June 30, 2013, and 27.5% and 25.3% of our segment management fees and 9.6% and 8.3% of our segment revenues for the three and six months ended June 30, 2013, respectively.

When a fund is consolidated, we reflect the assets, liabilities, revenues, expenses and cash flows of the fund on a gross basis, subject to eliminations in consolidation. Those eliminations have the effect of reclassifying from consolidated revenues to consolidated non-controlling interests the management fees and other revenues that we earn from consolidated funds, because interests in the consolidated funds held by third-party investors are treated as non-controlling interests. Conversely, the presentation of incentive income compensation expense and other expenses associated with generating such reclassified revenue is not affected by the consolidation process. The assets, liabilities, revenues and expenses attributable to non-controlling interests are presented as non-controlling redeemable interests in consolidated entities in the condensed consolidated statements of financial condition and as net income attributable to non-controlling redeemable interests in consolidated entities in the condensed consolidated statements of operations.

The elimination of consolidated funds from our consolidated revenues means that going forward consolidated revenues are expected to be significantly impacted by fund flows and fluctuations in the market value of our separately managed accounts, as well as the revenues earned from one of our power opportunities funds which we do not consolidate. The "Segment Reporting" note to our condensed consolidated financial statements included elsewhere in this quarterly report includes information regarding our segment on a stand-alone basis. For a more detailed discussion of the factors that affect the results of operations of our segment, please see "— Segment Analysis" below.

## **Revenues**

Our business generates three types of segment revenue: management fees, incentive income and investment income. Management fees are billed monthly or quarterly based on annual rates. While we typically earn management fees for each of the funds that we manage, the contractual terms of those management fees generally vary by fund structure. We also have the opportunity to earn incentive income from most of our closed-end funds and evergreen funds. Our closed-end funds generally provide that our incentive allocation is equal to 20% of our investors' profits, after the investors (including us, as general partner) receive the return of all of their contributed capital plus an annual preferred return, typically 8%. Once this occurs, we receive 80% of all distributions otherwise attributable to our investors and the investors receive the remaining 20% until we have received, in the aggregate, 20% of all such distributions in excess of contributed capital from the inception of the fund. Thereafter, all such future distributions are distributed 80% to the investors and 20% to us. Our third segment revenue source, investment income, represents our pro rata share of income or loss from our investments, generally in our capacity as general partner in our funds and third-party managed funds and companies. Our consolidated revenues exclude investment income, which is presented within the other income (loss) section of our

condensed consolidated statements of operations. Please see “Business—Structure and Operation of Our Business—Structure of Funds” in our annual report for a detailed discussion of the structure of our funds.

## **Expenses**

### ***Compensation and Benefits***

Compensation and benefits reflects all compensation-related items not directly related to incentive income or the vesting of OCGH and Class A units, including salaries, bonuses, compensation based on management fees or a definition of profits and employee benefits.

### ***Equity-based Compensation***

Equity-based compensation expense reflects the non-cash charge associated with both the OCGH units held by our principals and employees at the time of the 2007 Private Offering and subsequent grants of Class A and OCGH units. Starting with the year ended December 31, 2007, the non-cash compensation expense for units held at the time of the 2007 Private Offering was charged equally over the five-year vesting period that ended January 2, 2012, based on the units’ value as of the 2007 Private Offering. The remaining \$5.1 million of unrecognized compensation expense relating to the 2007 Private Offering as of December 31, 2011 was recognized in the first quarter of 2012. As of June 30, 2013, we had \$107.5 million of unrecognized compensation expense relating to unit grants subsequent to the 2007 Private Offering that we expect to recognize in our condensed consolidated financial statements over their weighted average remaining vesting period of 5.3 years.

### ***Incentive Income Compensation***

Incentive income compensation expense includes compensation directly related to segment incentive income, which generally consists of percentage interests (sometimes referred to as “points”) that we grant to our investment professionals associated with the particular fund that generated the segment incentive income. There is no fixed percentage for this compensation expense, either by fund or strategy. In general, within a particular strategy more recent funds have a higher percentage of aggregate incentive compensation expense than do older funds. The percentage that consolidated incentive income compensation expense represents of the particular period’s consolidated incentive income is not meaningful because of the fact that most segment incentive income is eliminated in consolidation, whereas no incentive income compensation expense is eliminated in consolidation. For a meaningful percentage relationship, please see “—Segment Analysis” below. Additionally, note 12 to our condensed consolidated financial statements contains the estimated incentive income compensation expense related to accrued incentives (fund level).

### ***General and Administrative***

General and administrative expenses include costs related to occupancy, accountants, tax professionals, legal advisors, consultants, travel, communications and information services, foreign exchange activity, depreciation and amortization and other general operating items. These expenses are not borne by fund investors and are not offset by credits attributable to fund investors’ non-controlling redeemable interests in consolidated funds. Until April 2012, we operated as a private company. As we have incurred additional expenses associated with being a public company, general and administrative expenses have increased as compared with periods before we became a public company. Examples of such expenses include insurance for our directors and officers and costs to comply with SEC reporting requirements, stock exchange listing standards, the Dodd-Frank Act and the Sarbanes-Oxley Act.

### ***Consolidated Fund Expenses***

Consolidated fund expenses consist primarily of costs incurred by our consolidated funds, including travel expenses, professional fees, research expenses and other costs associated with administering these funds. Inasmuch as most of these fund expenses are borne by third-party fund investors, they are offset by credits attributable to the fund investors’ non-controlling redeemable interests in consolidated funds.

## **Other Income (Loss)**

### ***Interest Expense***

Interest expense reflects the interest expense of Oaktree and its operating subsidiaries, as well as interest expense of the consolidated funds.

### *Interest and Dividend Income*

Interest and dividend income consists of interest and dividend income earned on the investments held by our consolidated funds, the consolidated funds' net operating income from real estate-related activities and interest income earned by Oaktree and its operating subsidiaries.

### *Net Realized Gain on Consolidated Funds' Investments*

Net realized gain on consolidated funds' investments consists of realized gains and losses arising from dispositions of investments held by our consolidated funds.

### *Net Change in Unrealized Appreciation (Depreciation) on Consolidated Funds' Investments*

Net change in unrealized appreciation on consolidated funds' investments reflects, for our consolidated funds, both unrealized gains and losses on investments and the reversal upon disposition of investments of unrealized gains and losses previously recognized for those investments.

### *Investment Income (Loss)*

Investment income represents our pro rata share of income or loss from our investments, generally in our capacity as general partner in our funds and as an investor in other third-party managed funds and companies.

### *Other Income (Expense), Net*

Other income (expense), net primarily reflects the settlement of an arbitration award we received relating to a former principal and portfolio manager of our real estate group who left us in 2005. Additionally, the second quarter of 2012 includes the impact of a reduction to the tax receivable agreement liability as a result of a remeasurement of the deferred tax asset associated with the 2007 Private Offering.

### **Income Taxes**

Oaktree is a publicly traded partnership that meets the qualifying income exception, allowing it to be treated as a partnership for U.S. federal income tax purposes that is not taxable as a corporation. Oaktree Holdings, Inc. and Oaktree AIF Holdings, Inc., two of our five Intermediate Holding Companies, which were established as our wholly owned subsidiaries, are subject to U.S. federal and state income taxes. The remainder of Oaktree's income is generally not subject to corporate-level taxation.

Oaktree's effective tax rate is directly impacted by the proportion of Oaktree's income subject to tax compared to income not subject to tax. Oaktree's non-U.S. income (loss) before taxes is generally not significant in relation to total pre-tax income (loss) and is generally more predictable because, unlike U.S. pre-tax income, it is not significantly impacted by unrealized gains or losses. Non-U.S. tax expense typically comprises a disproportionately large percentage of total income tax expense, because nearly all of our non-U.S. income or loss is subject to corporate-level income tax, whereas a substantial portion of our U.S. income or loss is not subject to corporate-level taxes. In addition, changes in the proportion of non-U.S. pre-tax income to total pre-tax income impact Oaktree's effective tax rate to the extent non-U.S. rates differ from the combined U.S. federal and state tax rate.

Income taxes are accounted for using the liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax bases using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

### **Net Income Attributable to Non-controlling Interests**

Net income attributable to non-controlling interests represents the ownership interests that third parties hold in entities that are consolidated in our financial statements. These interests fall into two categories:

- **Net Income Attributable to Non-controlling Redeemable Interests in Consolidated Funds.** This represents the non-controlling interests that third-party investors hold in consolidated funds, which interests are primarily driven by the investment performance of the consolidated funds. In comparison to net income, this measure excludes segment results, income taxes, expenses that OCG or its Intermediate Holding Companies bear directly and the impact of equity-based compensation expense; and

- **Net Income Attributable to OCGH Non-controlling Interest in Consolidated Subsidiaries.** This represents the economic interest in the Oaktree Operating Group owned by OCGH, which interest is determined at the Oaktree Operating Group level based on the weighted average proportionate share of Oaktree Operating Group units held by the OCGH unitholders. Inasmuch as the number of outstanding Oaktree Operating Group units corresponds with the total number of outstanding OCGH units and Class A units, changes in the economic interest held by the OCGH unitholders are driven by our additional grants of OCGH units and our issuance, if any, of additional Class A units, as well as repurchases of OCGH units and Class A units. Certain of our expenses, such as income tax and related administrative expenses of Oaktree Capital Group, LLC and its Intermediate Holding Companies, are solely attributable to the Class A unitholders. Please see note 8 to our condensed consolidated financial statements included elsewhere in this quarterly report for additional information on the economic interest in the Oaktree Operating Group owned by OCGH.

## Segment and Operating Metrics

Our business is comprised of one segment, our investment management segment, which consists of the investment management services that we provide to our clients. Management makes operating decisions and assesses the performance of our business based on financial and operating metrics and data that are presented without the consolidation of any funds. For a detailed reconciliation of the segment results of operations to our condensed consolidated results of operations, please see “—Segment Analysis” below and the “Segment Reporting” note to our condensed consolidated financial statements included elsewhere in this quarterly report. The data most important to our chief operating decision maker in assessing our performance are adjusted net income, adjusted net income-OCG, distributable earnings, distributable earnings-OCG, fee-related earnings and fee-related earnings-OCG.

We monitor certain operating metrics that are either common to the alternative asset management industry or that we believe provide important data regarding our business. As described below, these operating metrics include assets under management, management fee-generating assets under management, incentive-creating assets under management, incentives created (fund level), accrued incentives (fund level) and uncalled capital commitments.

## Adjusted Net Income

Our chief operating decision maker uses adjusted net income (“ANI”) to evaluate the financial performance of, and make resource allocations and other operating decisions for, our segment. The components of revenues and expenses used in the determination of ANI do not give effect to the consolidation of the funds that we manage. In addition, ANI excludes the effect of (a) non-cash equity-based compensation charges related to unit grants made before our initial public offering, (b) income taxes, (c) other income or expenses applicable to OCG or its Intermediate Holding Companies and (d) the adjustment for the OCGH non-controlling interest. ANI is calculated at the Operating Group level.

Among other factors, our accounting policy for recognizing incentive income and inclusion of non-cash equity-based compensation charges related to unit grants made after our initial public offering will likely make our calculations of ANI not directly comparable to economic net income (“ENI”) or other similarly named measures for other asset managers.

We calculate adjusted net income-OCG, or adjusted net income per Class A unit, a non-GAAP measure, to provide Class A unitholders with a measure that shows the portion of ANI attributable to their ownership. Adjusted net income-OCG represents ANI including the effect of (a) the OCGH non-controlling interest, (b) other income or expenses, such as income tax expense, applicable to OCG or its Intermediate Holding Companies and (c) any Oaktree Operating Group income taxes attributable to OCG. Two of our Intermediate Holding Companies incur U.S. federal and state income taxes for their share of Operating Group income. Generally, those two corporate entities hold an interest in the Operating Group’s management fee-generating assets and a small portion of its incentive and investment income-generating assets. As a result, historically our fee-related earnings generally have been subject to corporate-level taxation, and most of our incentive income and investment income generally has not been subject to corporate-level taxation. Thus, the blended effective income tax rate has generally tended to be higher to the extent that fee-related earnings represented a larger proportion of our ANI. Myriad other factors affect income tax expense and the effective income tax rate, and there can be no assurance that this historical relationship will continue going forward.



## ***Distributable Earnings***

Distributable earnings is a non-GAAP performance measure derived from our segment results that we use to measure our earnings at the Oaktree Operating Group level without the effects of the consolidated funds for the purpose of, among other things, assisting in the determination of equity distributions from the Operating Group. However, the declaration, payment and determination of the amount of equity distributions, if any, is at the sole discretion of our board of directors, which may change our distribution policy at any time.

In accordance with GAAP, certain of our funds are consolidated into our condensed consolidated financial statements, notwithstanding the fact that we have only a minority economic interest in these funds. Consequently, our condensed consolidated financial statements reflect the results of our consolidated funds on a gross basis. In addition, our segment results include investment income (loss), which under the equity method of accounting represents our pro rata share of income or loss from our investments, generally in our capacity as general partner in our funds and as an investor in other third-party managed funds and companies, and which is largely non-cash in nature. By excluding the results of our consolidated funds and segment investment income (loss), which are not directly available to fund our operations or make equity distributions, and including the portion of distributions from Oaktree and non-Oaktree funds to us that represents the income or loss component of the distributions and not a return of our capital contributions, as well as distributions from our investments in companies, distributable earnings aids us in measuring amounts that are actually available to meet our obligations under the tax receivable agreement and our liabilities for expenses incurred at OCG and the Intermediate Holding Companies, as well as for distributions to Class A and OCGH unitholders.

Distributable earnings differs from ANI in that it excludes segment investment income (loss) and includes the receipt of investment income or loss from distributions by our investments in funds and companies. In addition, distributable earnings differs from ANI in that it is net of Operating Group income taxes and, beginning in 2013, excludes non-cash equity-based compensation charges related to unit grants made after our initial public offering. In contrast to the GAAP measure of net income or loss attributable to OCG, distributable earnings also excludes the effect of (a) non-cash equity-based compensation charges related to unit grants made before our initial public offering, (b) income taxes and expenses that OCG or its Intermediate Holding Companies bear directly and (c) the adjustment for the OCGH non-controlling interest.

Distributable earnings-OCG, or distributable earnings per Class A unit, is a non-GAAP measure calculated to provide Class A unitholders with a measure that shows the portion of distributable earnings attributable to their ownership. Distributable earnings-OCG represents distributable earnings including the effect of (a) OCGH non-controlling interest, (b) expenses, such as current income tax expense, applicable to OCG or its Intermediate Holding Companies and (c) amounts payable under a tax receivable agreement. The income tax expense included in distributable earnings-OCG represents the implied current provision for income taxes calculated using an approach similar to that which is used in calculating the income tax provision for adjusted net income-OCG.

## ***Fee-related Earnings***

Fee-related earnings is a non-GAAP measure that we use to monitor the baseline earnings of our business. Fee-related earnings is comprised of segment management fees less segment operating expenses other than incentive income compensation expense. This calculation is considered baseline because it applies all bonus and other general expenses to management fees, even though a significant portion of those expenses is attributable to incentive and investment income. Fee-related earnings include non-cash equity-based compensation charges related to unit grants made after our initial public offering. Fee-related earnings is presented before income taxes.

Fee-related earnings-OCG, or fee-related earnings per Class A unit, is a non-GAAP measure calculated to provide Class A unitholders with a measure that shows the portion of fee-related earnings attributable to their ownership. Fee-related earnings-OCG represents fee-related earnings including the effect of (a) the OCGH non-controlling interest, (b) other income or expenses, such as income tax expense, applicable to OCG or its Intermediate Holding Companies and (c) any Operating Group income taxes attributable to OCG. Fee-related earnings-OCG income taxes are calculated excluding any segment incentive income or investment income (loss).

Among other factors, the inclusion of non-cash equity-based compensation charges related to unit grants made after our initial public offering may make our calculations of fee-related earnings and fee-related earnings-OCG not directly comparable to similarly named measures for other asset managers.

## ***Assets Under Management***

AUM generally refers to the assets we manage and equals the NAV of the assets we manage, the fund-level leverage on which management fees are charged and the undrawn capital that we are entitled to call from investors in our funds pursuant to their capital commitments. Our AUM amounts include AUM for which we charge no fees. Our definition of AUM is not based on any definition contained in our operating agreement or the agreements governing the funds that we manage. Our calculation of AUM and the two AUM-related metrics below may not be directly comparable to the AUM metrics of other asset managers.

- ***Management Fee-generating Assets Under Management.*** Management fee-generating AUM reflects the AUM on which we will earn management fees in the following quarter. Our closed-end funds typically pay management fees based on committed capital during the investment period, without regard to changes in NAV or the pace of capital drawdowns, and during the liquidation period on the lesser of (a) total funded capital and (b) the cost basis of assets remaining in the fund. The annual management fee rate remains unchanged from the investment period through the liquidation period. Our open-end and evergreen funds pay management fees based on their NAV.
- ***Incentive-creating Assets Under Management.*** Incentive-creating AUM refers to the AUM that may eventually produce incentive income. It represents the NAV of our funds for which we are entitled to receive an incentive allocation, excluding investments made by us and our employees and directors (which are not subject to an incentive allocation). All funds for which we are entitled to receive an incentive allocation are included in incentive-creating AUM, regardless of whether or not they are currently generating incentives. Incentive-creating AUM does not include undrawn capital commitments because they are not part of the NAV.

## ***Accrued Incentives (Fund Level)***

Our funds record as accrued incentives the incentive income that would be paid to us if the funds were liquidated at their reported values as of the date of the financial statements. Incentives created (fund level) refers to the gross amount of potential incentives generated by the funds during the period. We refer to the amount of incentive income recognized as revenue by us as segment incentive income. We recognize incentive income when it becomes fixed or determinable, all related contingencies have been removed and collection is reasonably assured. Amounts recognized by us as incentive income no longer are included in accrued incentives (fund level), the term we use for remaining fund-level accruals.

The same performance and market risks inherent in incentives created (fund level) affect the ability to ultimately realize accrued incentives (fund level). One consequence of the accounting method we follow for incentives created (fund level) is that accrued incentives (fund level) is an off-balance sheet metric, rather than being an on-balance sheet receivable that could require reduction if fund performance suffers. We track accrued incentives (fund level) because it provides an indication of potential future value, though the timing and ultimate realization of that value are uncertain.

## ***Incentives Created (Fund Level)***

Incentives created (fund level), incentive income and accrued incentives (fund level) are presented gross, without deduction for direct compensation expense that is owed to our investment professionals associated with the particular fund when we earn the incentive income. We call that charge “incentive income compensation expense.” Incentive income compensation expense varies by the investment strategy and vintage of the particular fund, among other factors. In addition to incentive income compensation expense, the magnitude of the annual bonus pool is indirectly affected by the level of incentive income, net of its associated incentive income compensation expense. The total charge related to the annual bonus pool, including the portion attributable to our incentive income, is reflected in the financial statement line item “compensation and benefits expense.”

Incentives created (fund level) often reflects investments measured at fair value and therefore is subject to risk of substantial fluctuation by the time the underlying investments are liquidated. We earn the incentive income, if any, that the fund is then obligated to pay us with respect to our incentive interest (generally 20%) in the limited partner investors’ profits, subject to an annual preferred return of typically 8%. Although GAAP allows the equivalent of incentives created (fund level) to be recognized as revenue by us under Method 2, we have always followed the Method 1 approach offered by GAAP that is dependent on additional factors, including the incentive allocations becoming fixed or determinable, so as to reduce by a substantial degree the possibility that revenue recognized by us would be reversed in a subsequent period. Consequently, during the active life of a fund, the amounts of incentives created (fund level) and incentives we receive or recognize are not expected to move in tandem because

of the disparity, inherent in the method of accounting we utilize under GAAP, between the time that potential incentives are created at the fund level and the time that the revenue recognition criteria is met. We track incentives created (fund level) because it provides an indication of the value for us currently being created by our investment activities and facilitates comparability with those companies in our industry that utilize the alternative accrual-based Method 2 for recognizing incentive income in their financial statements.

### **Uncalled Capital Commitments**

Uncalled capital commitments represent undrawn capital commitments by partners (including Oaktree as general partner) of our closed-end funds in their investment periods and certain evergreen funds. If a fund distributes capital during its investment period, that capital is typically subject to possible recall, in which case it is included in uncalled capital commitments.

### **Consolidated Results of Operations**

The following table sets forth our unaudited condensed consolidated results of operations for the three and six months ended June 30, 2013 and 2012:

<b>Condensed Consolidated Statements of Operations</b>	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>(in thousands)</b>			
<b>Revenues:</b>				
Management fees .....	\$ 50,097	\$ 29,207	\$ 92,636	\$ 61,227
Incentive income .....	2,317	—	2,317	5,048
Total revenues .....	52,414	29,207	94,953	66,275
<b>Expenses:</b>				
Compensation and benefits .....	(90,263)	(80,302)	(183,978)	(164,766)
Equity-based compensation .....	(7,105)	(7,795)	(13,557)	(19,984)
Incentive income compensation .....	(128,953)	(60,965)	(259,224)	(88,722)
Total compensation and benefits expense .....	(226,321)	(149,062)	(456,759)	(273,472)
General and administrative .....	(31,124)	(24,166)	(52,608)	(50,101)
Consolidated fund expenses .....	(28,095)	(33,780)	(51,678)	(51,002)
Total expenses .....	(285,540)	(207,008)	(561,045)	(374,575)
<b>Other income (loss):</b>				
Interest expense .....	(14,013)	(11,860)	(25,594)	(22,850)
Interest and dividend income .....	580,593	463,873	986,845	1,003,491
Net realized gain on consolidated funds' investments .....	831,989	733,521	2,030,249	1,807,659
Net change in unrealized appreciation (depreciation) on consolidated funds' investments .....	(111,795)	(180,216)	909,722	625,607
Investment income (loss) .....	(1,111)	3,705	11,132	9,385
Other income (expense), net .....	284	6,326	264	8,593
Total other income .....	1,285,947	1,015,349	3,912,618	3,431,885
Income before income taxes .....	1,052,821	837,548	3,446,526	3,123,585
Income taxes .....	(7,991)	(13,925)	(18,148)	(21,692)
Net income .....	1,044,830	823,623	3,428,378	3,101,893
<b>Less:</b>				
Net income attributable to non-controlling redeemable interests in consolidated funds .....	(762,487)	(673,673)	(2,826,452)	(2,798,445)
Net income attributable to OCGH non-controlling interest in consolidated subsidiaries .....	(225,766)	(125,231)	(487,783)	(260,121)
Net income attributable to Oaktree Capital Group, LLC ...	<u>\$ 56,577</u>	<u>\$ 24,719</u>	<u>\$ 114,143</u>	<u>\$ 43,327</u>

## **Three Months Ended June 30, 2013 Compared to the Three Months Ended June 30, 2012**

### **Revenues**

#### **Management Fees**

Management fees increased \$20.9 million, or 71.6%, to \$50.1 million for the three months ended June 30, 2013, from \$29.2 million for the three months ended June 30, 2012. The increase reflected \$5.5 million in higher fees earned across our U.S. high yield bond, U.S. convertible securities and senior loan strategies, and \$15.2 million in greater advisory, director and certain other transaction fees for the benefit of our consolidated funds. We reduce our management fees by the amount of such ancillary fees so that our funds' investors share pro rata in the economic benefit of the ancillary fees. Thus, in our condensed consolidated financial statements, they are treated as being attributable to non-controlling redeemable interests in consolidated entities and have no impact on the net income attributable to OCG.

#### **Incentive Income**

Incentive income was \$2.3 million for the three months ended June 30, 2013 compared to zero for the three months ended June 30, 2012. The \$2.3 million of incentive income in the current-year period reflected realizations attributable to the unconsolidated OCM/GFI Power Opportunities Fund II, L.P. ("Power Fund II") and from a separately managed account.

### **Expenses**

#### **Compensation and Benefits**

Compensation and benefits increased \$10.0 million, or 12.5%, to \$90.3 million for the three months ended June 30, 2013, from \$80.3 million for the three months ended June 30, 2012. The increase primarily reflected growth in headcount of 9.2% between June 30, 2012 and June 30, 2013, and secondarily reflected \$4.5 million of higher phantom equity plan expense (to \$1.3 million in the current-year period) tied to changes in our Class A unit trading price.

#### **Equity-based Compensation**

Equity-based compensation expense decreased \$0.7 million, or 9.0%, to \$7.1 million for the three months ended June 30, 2013, from \$7.8 million for the three months ended June 30, 2012, primarily reflecting the full vesting in the prior-year period of certain unit grants.

#### **Incentive Income Compensation**

Incentive income compensation expense increased \$68.0 million, or 111.5%, to \$129.0 million for the three months ended June 30, 2013, from \$61.0 million for the three months ended June 30, 2012. The increase primarily resulted from the 162.1% increase in segment incentive income over the same period. The increase in incentive income compensation expense would have been \$21.2 million greater had we not acquired and expensed in 2011 a small portion of certain investment professionals' carried interest in OCM Opportunities Fund VIIb, L.P. ("Opps VIIb").

#### **General and Administrative**

General and administrative expenses increased \$6.9 million, or 28.5%, to \$31.1 million for the three months ended June 30, 2013, from \$24.2 million for the three months ended June 30, 2012. Excluding the impact of foreign currency-related items, general and administrative expenses increased \$4.3 million, or 16.4%, to \$30.5 million from \$26.2 million. The increase reflected costs associated with corporate growth and being a public company.

#### **Consolidated Fund Expenses**

Consolidated fund expenses decreased \$5.7 million, or 16.9%, to \$28.1 million for the three months ended June 30, 2013, from \$33.8 million for the three months ended June 30, 2012. The decrease reflected lower professional fees and administrative costs related to managing our funds.

### **Other Income (Loss)**

#### **Interest Expense**

Interest expense increased \$2.1 million, or 17.6%, to \$14.0 million for the three months ended June 30, 2013, from \$11.9 million for the three months ended June 30, 2012. The increase was primarily attributable to a \$2.8 million increase in aggregate interest expense from our consolidated funds, partially offset by \$0.7 million in

lower interest expense related to Oaktree and its operating subsidiaries, reflecting scheduled repayments of certain long-term debt and a lower weighted-average interest rate on outstanding borrowings resulting from both Oaktree's improved credit rating and refinancing our credit facility in the fourth quarter of 2012.

#### *Interest and Dividend Income*

Interest and dividend income increased \$116.7 million, or 25.2%, to \$580.6 million for the three months ended June 30, 2013, from \$463.9 million for the three months ended June 30, 2012. The increase reflected \$116.4 million of higher interest and dividend income related to the consolidated funds, as well as a \$0.3 million increase in interest income for Oaktree and its operating subsidiaries. The \$116.4 million increase related to the consolidated funds was largely due to \$173.3 million of higher interest and dividend income from control investing funds, partially offset by \$53.0 million of lower interest and dividend income from distressed debt funds.

#### *Net Realized Gain on Consolidated Funds' Investments*

Net realized gain on consolidated funds' investments increased \$98.5 million, or 13.4%, to \$832.0 million for the three months ended June 30, 2013, from \$733.5 million for the three months ended June 30, 2012. Of the \$832.0 million net realized gain in the current-year period, \$486.1 million was attributable to distressed debt funds, including \$128.9 million from Opps VIIb, \$135.2 million was from control investing funds and \$131.5 million arose from real estate funds. Of the \$733.5 million net realized gain in the prior-year period, \$445.2 million was attributable to distressed debt funds, including \$136.8 million from Opps VIIb, \$124.0 million was from control investing funds and \$121.4 million was from real estate funds.

#### *Net Change in Unrealized Appreciation (Depreciation) on Consolidated Funds' Investments*

The net change in unrealized appreciation (depreciation) on consolidated funds' investments improved by \$68.4 million, to a loss of \$111.8 million for the three months ended June 30, 2013, from a loss of \$180.2 million for the three months ended June 30, 2012. Excluding the \$98.5 million increase in net realized gain on consolidated funds' investments, the net change in unrealized appreciation on consolidated funds' investments increased \$166.9 million, to \$720.2 million for the three months ended June 30, 2013, from \$553.3 million for the three months ended June 30, 2012. Of the \$720.2 million net gain in the current-year period, \$422.6 million was attributable to distressed debt funds, \$314.3 million was from control investing funds and \$119.8 million was from real estate funds, partially offset by a loss of \$119.1 million from our high yield bond strategies. Of the \$553.3 million net gain in the prior-year period, \$277.8 million was attributable to control investing funds, \$149.4 million was from distressed debt funds and \$96.7 million arose from real estate funds.

#### *Investment Income (Loss)*

Investment income (loss) decreased \$4.8 million to a loss of \$1.1 million for the three months ended June 30, 2013, from a gain of \$3.7 million for the three months ended June 30, 2012. The decrease was primarily attributable to our one-fifth ownership interest in DoubleLine Capital LP and its affiliates (collectively, "DoubleLine"), which accounted for an investment loss of \$1.0 million and investment income of \$4.8 million in the current-year and prior-year periods, respectively. Our investment in the DoubleLine Opportunistic Income LP fund accounted for a loss of \$0.2 million and income of \$0.8 million in the current-year and prior-year periods, respectively. In the current-year period, DoubleLine incurred a placement fee associated with the launch of a closed-end fund and a non-cash charge related to the firm's employee ownership interests; excluding the effect of those two expenses, the current-year period's investment loss of \$1.0 million would have been investment income of approximately \$10 million. Our share of performance fees from DoubleLine generated investment income of \$1.0 million and \$0.8 million in the current-year and prior-year periods, respectively. The DoubleLine fund primarily responsible for generating performance fees was below its high-water mark as of June 30, 2013.

#### *Other Income (Expense), Net*

Other income decreased to income of \$0.3 million for the three months ended June 30, 2013, from income of \$6.3 million for the three months ended June 30, 2012. The current-year income reflected the net results of operating the portfolio of properties received as part of an arbitration award in 2010 related to a former principal and portfolio manager of our real estate group who left in 2005. The prior-year income primarily reflected a reduction to the tax receivable agreement liability as a result of a remeasurement of the deferred tax asset associated with the 2007 Private Offering.

## *Income Taxes*

Income taxes decreased \$5.9 million, or 42.4%, to \$8.0 million for the three months ended June 30, 2013, from \$13.9 million for the three months ended June 30, 2012. This expense declined, despite an increase in income before income taxes related to Class A unitholders, because of a year-over-year decrease in the effective tax rate related to Class A unitholders and because the prior-year period included a nonrecurring tax expense of \$7.1 million stemming from a remeasurement of deferred tax assets. The effective tax rate related to Class A unitholders for the three months ended June 30, 2013 was 11%, based on an estimated annual rate of 12%. The effective tax rate related to Class A unitholders for the three months ended June 30, 2012 was 17%, based on an estimated annual rate of 19%, without the \$7.1 million nonrecurring tax expense, and 33%, based on an estimated annual rate of 25%, with it. The effective income tax rate used for interim fiscal periods is based on the estimated full-year income tax rate and is a function of the mix of income and other factors that often vary significantly within or between years, each of which can have a material impact on the particular year's income tax expense. Please see “— Understanding Our Results – Consolidation of Oaktree Funds.”

### ***Net Income Attributable to Oaktree Capital Group, LLC***

Net income attributable to Oaktree Capital Group, LLC increased \$31.9 million, or 129.1%, to \$56.6 million for the three months ended June 30, 2013, from \$24.7 million for the three months ended June 30, 2012. The increase resulted primarily from higher segment revenues, partially offset by higher segment expenses.

### ***Net Income Attributable to Non-controlling Redeemable Interests in Consolidated Funds***

Net income attributable to non-controlling redeemable interests in consolidated funds increased \$88.8 million, or 13.2%, to \$762.5 million for the three months ended June 30, 2013, from \$673.7 million for the three months ended June 30, 2012, primarily as a result of higher interest and dividend income and higher net gains on investments. These effects are described in more detail under “—Other Income (Loss)” above.

## ***Six Months Ended June 30, 2013 Compared to the Six Months Ended June 30, 2012***

### ***Revenues***

#### ***Management Fees***

Management fees increased \$31.4 million, or 51.3%, to \$92.6 million for the six months ended June 30, 2013, from \$61.2 million for the six months ended June 30, 2012. The increase reflected \$10.2 million in higher fees earned across our U.S. high yield bond, U.S. convertible securities and senior loan strategies, and \$20.7 million in greater advisory, director and certain other transaction fees for the benefit of our consolidated funds. We reduce our management fees by the amount of such ancillary fees so that our funds' investors share pro rata in the economic benefit of the ancillary fees. Thus, in our condensed consolidated financial statements, they are treated as being attributable to non-controlling redeemable interests in consolidated entities and have no impact on the net income attributable to OCG.

#### ***Incentive Income***

Incentive income decreased \$2.7 million, or 54.0%, to \$2.3 million for the six months ended June 30, 2013, from \$5.0 million for the six months ended June 30, 2012, primarily reflecting a decline in realizations attributable to the unconsolidated Power Fund II.

### ***Expenses***

#### ***Compensation and Benefits***

Compensation and benefits increased \$19.2 million, or 11.7%, to \$184.0 million for the six months ended June 30, 2013, from \$164.8 million for the six months ended June 30, 2012. The increase primarily reflected growth in headcount of 9.2% between June 30, 2012 and June 30, 2013, and secondarily reflected \$5.8 million of higher phantom equity plan expense (to \$3.8 million in the current-year period) tied to changes in our Class A unit trading price.

#### ***Equity-based Compensation***

Equity-based compensation expense decreased \$6.4 million, or 32.0%, to \$13.6 million for the six months ended June 30, 2013, from \$20.0 million for the six months ended June 30, 2012. The decline was primarily attributable to the final vesting of pre-2007 Private Offering units on January 2, 2012.

### *Incentive Income Compensation*

Incentive income compensation expense increased \$170.5 million, or 192.2%, to \$259.2 million for the six months ended June 30, 2013, from \$88.7 million for the six months ended June 30, 2012. The increase primarily resulted from the 247.0% increase in segment incentive income over the same period. The increase in incentive income compensation expense would have been \$36.4 million greater had we not acquired and expensed in 2011 a small portion of certain investment professionals' carried interest in Opps VIIb.

### *General and Administrative*

General and administrative expenses increased \$2.5 million, or 5.0%, to \$52.6 million for the six months ended June 30, 2013, from \$50.1 million for the six months ended June 30, 2012. Excluding the impact of foreign currency-related items, as well as \$2.1 million in non-recurring costs associated with our initial public offering that were incurred in the prior-year period, general and administrative expenses increased \$6.8 million, or 13.5%, to \$57.2 million from \$50.4 million. The increase reflected costs associated with corporate growth and being a public company.

### *Consolidated Fund Expenses*

Consolidated fund expenses increased \$0.7 million, or 1.4%, to \$51.7 million for the six months ended June 30, 2013, from \$51.0 million for the six months ended June 30, 2012, reflecting slightly higher professional fees and administrative costs related to managing our funds.

### ***Other Income (Loss)***

#### *Interest Expense*

Interest expense increased \$2.7 million, or 11.8%, to \$25.6 million for the six months ended June 30, 2013, from \$22.9 million for the six months ended June 30, 2012. The increase was primarily attributable to a \$4.0 million increase in aggregate interest expense from our consolidated funds, partially offset by \$1.3 million in lower interest expense related to Oaktree and its operating subsidiaries, reflecting scheduled repayments of certain long-term debt and a lower weighted-average interest rate on outstanding borrowings resulting from both Oaktree's improved credit rating and refinancing our credit facility in the fourth quarter of 2012.

#### *Interest and Dividend Income*

Interest and dividend income decreased \$16.7 million, or 1.7%, to \$986.8 million for the six months ended June 30, 2013, from \$1,003.5 million for the six months ended June 30, 2012. The decrease reflected \$17.1 million of lower interest and dividend income related to the consolidated funds, as well as a \$0.4 million increase in interest income for Oaktree and its operating subsidiaries. The \$17.1 million decline related to the consolidated funds was primarily attributable to \$187.7 million of lower interest and dividend income from distressed debt funds, largely offset by \$155.9 million of higher interest and dividend income from control investing funds.

### *Net Realized Gain on Consolidated Funds' Investments*

Net realized gain on consolidated funds' investments increased \$222.5 million, or 12.3%, to \$2,030.2 million for the six months ended June 30, 2013, from \$1,807.7 million for the six months ended June 30, 2012. Of the \$2,030.2 million net realized gain in the current-year period, \$1,249.2 million was attributable to distressed debt funds, including \$520.8 million from Opps VIIb, \$456.1 million was from control investing funds and \$160.4 million arose from real estate funds. Of the \$1,807.7 million net realized gain in the prior-year period, \$1,383.3 million was attributable to distressed debt funds, with Opps VIIb accounting for \$907.6 million, \$236.6 million was from control investing funds and \$134.6 million arose from real estate funds.

### *Net Change in Unrealized Appreciation (Depreciation) on Consolidated Funds' Investments*

The net change in unrealized appreciation on consolidated funds' investments increased \$284.1 million, or 45.4%, to \$909.7 million for the six months ended June 30, 2013, from \$625.6 million for the six months ended June 30, 2012. Excluding the \$222.5 million increase in net realized gain on consolidated funds' investments, the net change in unrealized appreciation on consolidated funds' investments increased \$506.6 million, to \$2,939.9 million for the six months ended June 30, 2013, from \$2,433.3 million for the six months ended June 30, 2012. Of the \$2,939.9 million net gain in the current-year period, \$1,950.9 million was attributable to distressed debt funds, including \$493.2 million from Opps VIIb. Of the remaining \$989.0 million net gain, \$709.8 million was attributable to control investing funds and \$293.0 million was from real estate funds. Of the \$2,433.3 million net gain in the prior-year period, \$1,615.7 million was attributable to distressed debt funds, including \$761.1 million from Opps VIIb. Of

the remaining \$817.6 million net gain, \$376.4 million was attributable to control investing funds, \$219.7 million arose from real estate funds and \$124.0 was from our high yield bond strategies.

#### *Investment Income (Loss)*

Investment income increased \$1.7 million, or 18.1%, to \$11.1 million for the six months ended June 30, 2013, from \$9.4 million for the six months ended June 30, 2012. The increase was primarily attributable to the inclusion of a \$2.5 million loss in the prior-year period resulting from our investment in Apson Global Fund L.P. Our one-fifth ownership interest in DoubleLine contributed \$10.0 million and \$8.9 million of investment income in the current-year and prior-year periods, respectively, and our investment in the DoubleLine Opportunistic Income LP fund accounted for income of \$0.9 million and \$3.0 million in the current-year and prior-year periods, respectively. In the current-year period, DoubleLine incurred a placement fee associated with the launch of a closed-end fund and a non-cash charge related to the firm's employee ownership interests; excluding the effect of those two expenses, the current-year period's investment income of \$10.0 million would have been investment income of approximately \$21 million. Our share of performance fees from DoubleLine generated investment income of \$3.0 million and \$2.4 million in the current-year and prior-year periods, respectively. The DoubleLine fund primarily responsible for generating performance fees was below its high-water mark as of June 30, 2013.

#### *Other Income (Expense), Net*

Other income decreased to income of \$0.3 million for the six months ended June 30, 2013, from income of \$8.6 million for the six months ended June 30, 2012. The current-year income reflected the net results of operating the portfolio of properties received as part of an arbitration award in 2010 related to a former principal and portfolio manager of our real estate group who left in 2005. The prior-year income of \$8.6 million included a \$6.3 million reduction to the tax receivable agreement liability as a result of a remeasurement of the deferred tax asset associated with the 2007 Private Offering. The remaining \$2.3 million primarily represented a gain on the sale of a real estate property received as part of the 2010 arbitration award.

#### *Income Taxes*

Income taxes decreased \$3.6 million, or 16.6%, to \$18.1 million for the six months ended June 30, 2013, from \$21.7 million for the six months ended June 30, 2012. This expense declined, despite an increase in income before income taxes related to Class A unitholders, because of a year-over-year decrease in the effective tax rate related to Class A unitholders and because the prior-year period included a nonrecurring tax expense of \$7.1 million stemming from a remeasurement of deferred tax assets. The effective tax rate related to Class A unitholders for the six months ended June 30, 2013 was 12%, based on an estimated annual rate of 12%. The effective tax rate related to Class A unitholders for the six months ended June 30, 2012 was 19%, based on an estimated annual rate of 19%, without the \$7.1 million nonrecurring tax expense, and 29%, based on an estimated annual rate of 25%, with it. The effective income tax rate used for interim fiscal periods is based on the estimated full-year income tax rate and is a function of the mix of income and other factors that often vary significantly within or between years, each of which can have a material impact on the particular year's income tax expense. Please see “— Understanding Our Results – Consolidation of Oaktree Funds.”

#### ***Net Income Attributable to Oaktree Capital Group, LLC***

Net income attributable to Oaktree Capital Group, LLC increased \$70.8 million, or 163.5%, to \$114.1 million for the six months ended June 30, 2013, from \$43.3 million for the six months ended June 30, 2012. The increase resulted primarily from higher segment revenues, partially offset by higher segment expenses.

#### ***Net Income Attributable to Non-controlling Redeemable Interests in Consolidated Funds***

Net income attributable to non-controlling redeemable interests in consolidated funds increased \$28.1 million, to \$2,826.5 million for the six months ended June 30, 2013, from \$2,798.4 million for the six months ended June 30, 2012, primarily as a result of higher net gains on investments, partially offset by lower interest and dividend income. These effects are described in more detail under “—Other Income (Loss)” above.



## Segment Financial Data

The following table presents segment financial data as of or for the three and six months ended June 30, 2013 and 2012:

Segment Statements of Operations Data: <sup>(1)</sup>	As of or for the Three Months Ended June 30,		As of or for the Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands, except per unit data or as otherwise indicated)			
Revenues:				
Management fees .....	\$ 182,487	\$ 188,843	\$ 366,701	\$ 380,105
Incentive income .....	338,057	129,018	665,241	191,687
Investment income .....	34,576	23,241	116,626	87,581
Total revenues .....	<u>555,120</u>	<u>341,102</u>	<u>1,148,568</u>	<u>659,373</u>
Expenses:				
Compensation and benefits .....	(90,166)	(80,303)	(183,783)	(164,707)
Equity-based compensation .....	(924)	—	(1,576)	—
Incentive income compensation .....	(128,953)	(60,965)	(259,224)	(88,722)
General and administrative .....	(29,512)	(24,398)	(53,500)	(49,236)
Depreciation and amortization .....	(1,732)	(1,929)	(3,475)	(3,672)
Total expenses .....	<u>(251,287)</u>	<u>(167,595)</u>	<u>(501,558)</u>	<u>(306,337)</u>
Adjusted net income before interest and other income (expense) .....	303,833	173,507	647,010	353,036
Interest expense, net of interest income <sup>(2)</sup> .....	(7,136)	(8,063)	(14,543)	(16,227)
Other income (expense), net .....	284	66	264	2,333
Adjusted net income .....	<u>\$ 296,981</u>	<u>\$ 165,510</u>	<u>\$ 632,731</u>	<u>\$ 339,142</u>
Adjusted net income-OCG .....	\$ 57,928	\$ 26,247	\$ 116,655	\$ 46,694
Adjusted net income per Class A unit .....	1.75	0.89	3.69	1.79
Distributable earnings .....	313,157	176,355	608,184	313,684
Distributable earnings-OCG .....	63,966	30,073	118,042	45,300
Distributable earnings per Class A unit .....	1.94	1.02	3.73	1.73
Fee-related earnings .....	60,153	82,213	124,367	162,490
Fee-related earnings-OCG .....	11,512	12,120	21,919	21,388
Fee-related earnings per Class A unit .....	0.35	0.41	0.69	0.82
Weighted average number of Operating Group units outstanding .....	150,997	150,791	150,906	150,616
Weighted average number of Class A units outstanding....	33,020	29,586	31,611	26,137
<b>Operating Metrics:</b>				
<i>Assets under management (in millions):</i>				
Assets under management .....	\$ 76,400	\$ 78,713	\$ 76,400	\$ 78,713
Management fee-generating assets under management .....	64,614	66,311	64,614	66,311
Incentive-creating assets under management .....	32,095	35,996	32,095	35,996
Uncalled capital commitments .....	10,986	13,737	10,986	13,737
<i>Accrued incentives (fund level):</i>				
Incentives created (fund level) .....	195,243	(9,116)	654,943	256,046
Incentives created (fund level), net of associated incentive income compensation expense .....	96,694	(589)	359,452	158,846
Accrued incentives (fund level) .....	2,127,500	1,751,326	2,127,500	1,751,326
Accrued incentives (fund level), net of associated incentive income compensation expense .....	1,222,619	1,070,597	1,222,619	1,070,597

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- (1) Our business is comprised of one segment, our investment management segment, which consists of the investment management services that we provide to our clients. The components of revenues and expenses used in determining adjusted net income do not give effect to the consolidation of the funds that we manage. In addition, adjusted net income excludes the effect of (a) non-cash equity-based compensation charges related to unit grants made before our initial public offering, (b) income taxes, (c) other income or expenses applicable to OCG or its Intermediate Holding Companies and (d) the adjustment for the OCGH non-controlling interest. Adjusted net income is calculated at the Operating Group level. For a detailed description of our segment and operating metrics, please see “—Segment and Operating Metrics” above.
- (2) Interest income was \$0.9 million and \$0.6 million for the three months ended June 30, 2013 and 2012, respectively, and \$1.5 million and \$1.1 million for the six months ended June 30, 2013 and 2012, respectively.

## Operating Metrics

We monitor certain operating metrics that are either common to the alternative asset management industry or that we believe provide important data regarding our business. These operating metrics include assets under management, management fee-generating assets under management, incentive-creating assets under management, incentives created (fund level), accrued incentives (fund level) and uncalled capital commitments.

### Assets Under Management

AUM as of June 30, 2013, March 31, 2013 and June 30, 2012 are set forth below:

	As of		
	June 30, 2013	March 31, 2013	June 30, 2012
	(in millions)		
<b>Assets Under Management:</b>			
Closed-end funds .....	\$ 44,197	\$ 46,381	\$ 49,795
Open-end funds .....	29,271	29,837	26,542
Evergreen funds .....	2,932	2,583	2,376
Total .....	\$ 76,400	\$ 78,801	\$ 78,713

The change in AUM for the three and six months ended June 30, 2013 and 2012 is set forth below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in millions)			
<b>Change in Assets Under Management:</b>				
Beginning balance .....	\$ 78,801	\$ 77,850	\$ 77,051	\$ 74,857
Closed-end funds:				
New capital commitments .....	722	3,466	1,937	5,200
Distributions for a realization event/other .....	(4,711)	(2,723)	(7,891)	(5,301)
Foreign currency translation .....	65	(259)	(68)	(120)
Change in market value <sup>(1)</sup> .....	1,185	752	3,420	2,646
Change in applicable leverage .....	555	(19)	1,099	(55)
Open-end funds:				
Contributions .....	965	823	2,092	1,997
Redemptions .....	(1,364)	(1,105)	(2,593)	(1,991)
Foreign currency translation .....	7	(146)	(87)	(70)
Change in market value <sup>(1)</sup> .....	(174)	137	767	1,564
Evergreen funds:				
Contributions or new capital commitments .....	485	4	722	4
Redemptions .....	(144)	(76)	(161)	(141)
Distributions from restructured funds .....	(17)	—	(32)	(34)
Foreign currency translation .....	1	(2)	—	(1)
Change in market value <sup>(1)</sup> .....	24	11	144	158
Ending balance .....	\$ 76,400	\$ 78,713	\$ 76,400	\$ 78,713

(1) Change in market value represents the change in NAV of our funds resulting from current income and realized and unrealized gains/losses on investments, less management fees and other fund expenses.

### Management Fee-generating Assets Under Management

Management fee-generating AUM as of June 30, 2013, March 31, 2013 and June 30, 2012 are set forth below:

	As of		
	June 30, 2013	March 31, 2013	June 30, 2012
	(in millions)		
<b>Management Fee-generating Assets Under Management:</b>			
Closed-end funds .....	\$ 33,119	\$ 34,412	\$ 37,709
Open-end funds .....	29,235	29,799	26,523
Evergreen funds .....	2,260	2,139	2,079
Total .....	\$ 64,614	\$ 66,350	\$ 66,311

The change in management fee-generating AUM for the three and six months ended June 30, 2013 and 2012 is set forth below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in millions)			
<b>Change in Management Fee-generating Assets Under Management:</b>				
Beginning balance .....	\$ 66,350	\$ 67,973	\$ 66,784	\$ 66,964
Closed-end funds:				
New capital commitments to funds that pay fees based on committed capital .....	551	—	932	251
Capital drawn by funds that pay fees based on drawn capital or NAV .....	610	427	1,312	514
Change for funds that pay fees based on the lesser of funded capital or cost basis during liquidation <sup>(1)</sup> .....	(2,859)	(1,521)	(5,606)	(2,622)
Distributions by funds that pay fees based on NAV .....	(57)	(137)	(118)	(292)
Foreign currency translation .....	42	(123)	(103)	(113)
Change in market value <sup>(2)</sup> .....	(125)	63	(133)	157
Change in applicable leverage .....	545	(19)	1,085	(54)
Open-end funds:				
Contributions .....	965	824	2,092	1,998
Redemptions .....	(1,364)	(1,106)	(2,593)	(1,991)
Foreign currency translation .....	7	(146)	(87)	(70)
Change in market value .....	(172)	136	767	1,562
Evergreen funds:				
Contributions or capital drawn by funds that pay fees based on drawn capital or NAV .....	240	4	311	4
Redemptions .....	(144)	(76)	(161)	(141)
Change in market value .....	25	12	132	144
Ending balance .....	\$ 64,614	\$ 66,311	\$ 64,614	\$ 66,311

(1) For most closed-end funds, management fees are charged during the liquidation period on the lesser of (a) total funded capital and (b) the cost basis of assets remaining in the fund, with the cost basis of assets generally calculated by excluding cash balances. Thus, changes in fee basis during the liquidation period are not dependent on distributions made from the fund; rather, they are tied to the cost basis of the fund's investments, which generally declines as the fund sells assets.

(2) The change in market value reflects certain funds that pay management fees based on NAV and leverage, as applicable.

As compared with AUM, management fee-generating AUM generally excludes the following:

- Differences between AUM and either committed capital or cost basis for most closed-end funds, other than for closed-end funds that pay management fees based on NAV and leverage, as applicable;
- Undrawn capital commitments to funds for which management fees are based on NAV or drawn capital;
- Undrawn capital commitments to closed-end funds that have not yet commenced their investment periods;
- The investments we make in our funds as general partner;
- Closed-end funds that are beyond the term during which they pay management fees; and
- AUM in restructured and liquidating evergreen funds for which management fees were waived.

A reconciliation of AUM to management fee-generating AUM as of June 30, 2013, March 31, 2013 and June 30, 2012 is set forth below:

	As of		
	June 30, 2013	March 31, 2013	June 30, 2012
	(in millions)		
<b>Reconciliation of Assets Under Management to Management Fee-generating Assets Under Management:</b>			
Assets under management .....	\$ 76,400	\$ 78,801	\$ 78,713
Difference between assets under management and committed capital or cost basis for closed-end funds <sup>(1)</sup> .....	(4,761)	(5,160)	(4,128)
Capital commitments to funds that have not yet begun to generate management fees .....	(4,855)	(4,994)	(4,713)
Undrawn capital commitments to funds for which management fees are based on drawn capital or NAV .....	(733)	(846)	(1,710)
Oaktree's general partner investments in management fee-generating funds .....	(940)	(1,003)	(1,004)
Closed-end funds that are no longer paying management fees .....	(289)	(218)	(598)
Funds for which management fees were permanently waived .....	(208)	(230)	(249)
Management fee-generating assets under management .....	\$ 64,614	\$ 66,350	\$ 66,311

(1) Not applicable to closed-end funds that pay management fees based on NAV or leverage, as applicable.

The period-end weighted average annual management fee rates applicable to the respective management fee-generating AUM balances above are set forth below:

	As of		
	June 30, 2013	March 31, 2013	June 30, 2012
<b>Weighted Average Annual Management Fee Rates:</b>			
Closed-end funds .....	1.49%	1.49%	1.51%
Open-end funds .....	0.49	0.49	0.47
Evergreen funds .....	1.72	1.80	1.80
Overall .....	1.04	1.05	1.10

## Incentive-creating Assets Under Management

Incentive-creating AUM as of June 30, 2013, March 31, 2013 and June 30, 2012 are set forth below:

	As of		
	June 30, 2013	March 31, 2013	June 30, 2012
		(in millions)	
<b>Incentive-creating Assets Under Management:</b>			
Closed-end funds .....	\$ 29,920	\$ 31,862	\$ 33,930
Evergreen funds .....	2,175	2,088	2,066
Total .....	<u>\$ 32,095</u>	<u>\$ 33,950</u>	<u>\$ 35,996</u>

As of June 30, 2013, of the \$32.1 billion in incentive-creating AUM, \$22.9 billion, or 71.3%, was generating incentives at the fund level. Incentive-creating AUM does not include undrawn capital commitments because they are not part of the NAV.

### Three Months Ended June 30, 2013

AUM decreased \$2.4 billion, or 3.0%, from \$78.8 billion as of March 31, 2013, to \$76.4 billion as of June 30, 2013. The decrease was primarily attributable to \$4.7 billion in distributions by closed-end funds in liquidation, partially offset by \$1.0 billion in aggregate market-value gains and \$1.3 billion in new capital commitments and fee-generating leverage in our closed-end funds. The \$4.7 billion in aggregate distributions included \$1.4 billion from Opps VIIb, \$1.3 billion from other distressed debt funds, \$1.0 billion from real estate funds and \$0.8 billion from global principal funds. New capital commitments and fee-generating leverage to closed-end funds included \$0.6 billion for Oaktree Real Estate Opportunities Fund VI, L.P. ("ROF VI") and \$0.6 billion for EIF. Net outflows across open-end funds, principally high yield bonds, accounted for \$0.4 billion of the overall decrease. For evergreen funds, AUM increased by \$0.3 billion, principally as a result of new capital commitments to our Strategic Credit strategy.

Management fee-generating AUM decreased \$1.8 billion, or 2.7%, from \$66.4 billion as of March 31, 2013, to \$64.6 billion as of June 30, 2013. The decrease reflected a \$2.9 billion decline attributable to asset sales by closed-end funds in liquidation and \$0.4 billion of net outflows in our open-end funds, partially offset by increases of \$0.6 billion from new capital commitments for ROF VI and \$1.2 billion in drawdowns by funds that pay fees based on drawn capital or NAV, including leverage. Opps VIIb accounted for \$0.8 billion of the \$2.9 billion decline from asset sales by closed-end funds in liquidation. The \$1.2 billion in drawdowns included \$0.7 billion from EIF and an additional 5% drawdown for distressed debt Oaktree Opportunities Fund IX, L.P. ("Opps IX"), bringing total drawn capital as of June 30, 2013 to 10% of Opps IX's \$5.0 billion of committed capital. As we had not commenced Opps IX's investment period as of June 30, 2013, management fees were assessed only on Opps IX's drawn capital, and management fee-generating AUM included only that portion of its committed capital.

Incentive-creating AUM decreased \$1.9 billion, or 5.6%, from \$34.0 billion as of March 31, 2013, to \$32.1 billion as of June 30, 2013. The decrease was primarily attributable to \$4.2 billion in distributions from closed-end funds, partially offset by \$1.1 billion in market-value gains and \$1.1 billion in drawn capital by closed-end funds. Opps VIIb accounted for \$1.4 billion of the \$4.2 billion in distributions.

### Three Months Ended June 30, 2012

AUM increased \$0.8 billion, or 1.0%, from \$77.9 billion as of March 31, 2012, to \$78.7 billion as of June 30, 2012. The increase was primarily attributable to net inflows in our closed-end funds, reflecting \$3.5 billion in new capital commitments, including \$3.4 billion raised for Opps IX, and \$2.7 billion in distributions by funds in liquidation. Of the \$2.7 billion in distributions, \$0.9 billion was attributable to Opps VIIb.

Management fee-generating AUM decreased \$1.7 billion, or 2.5%, from \$68.0 billion as of March 31, 2012, to \$66.3 billion as of June 30, 2012. The decrease was primarily attributable to our closed-end funds in liquidation, as aggregate declines of \$1.5 billion outpaced an increase of \$0.4 billion in drawdowns for closed-end funds for which management fees are based on drawn capital or NAV. Of the \$1.7 billion decline, Opps VIIb accounted for \$0.7 billion. Opps IX's \$4.6 billion in committed capital as of June 30, 2012 was not included in management fee-generating AUM, as the fund had not commenced its investment period. Net outflows accounted for most of the quarter's \$0.3 billion decrease across open-end funds.

Incentive-creating AUM decreased \$0.6 billion, or 1.6%, from \$36.6 billion as of March 31, 2012, to \$36.0 billion as of June 30, 2012. The decrease was primarily attributable to \$2.8 billion in distributions from closed-end funds, partially offset by closed-end funds' aggregate \$1.7 billion in drawn capital and \$0.7 billion in market-value gains. Of the \$2.8 billion in distributions, Opps VIIb accounted for \$0.9 billion.

#### *Six Months Ended June 30, 2013*

AUM decreased \$0.7 billion, or 0.9%, from \$77.1 billion as of December 31, 2012, to \$76.4 billion as of June 30, 2013. The decrease reflected \$7.9 billion in distributions by closed-end funds in liquidation, largely offset by \$4.3 billion in aggregate market-value gains and \$3.0 billion in new capital commitments and fee-generating leverage in our closed-end funds. The \$7.9 billion in aggregate distributions included \$2.2 billion from Opps VIIb, \$2.7 billion from other distressed debt funds, \$1.1 billion from global principal funds, \$1.1 billion from real estate funds and \$0.5 million from European principal funds. New capital commitments and fee-generating leverage to closed-end funds included \$0.9 billion for ROF VI and \$1.5 billion for EIF. Net outflows in open-end funds accounted for \$0.5 billion of the decline. For evergreen funds, AUM increased by \$0.7 billion, principally reflecting new capital commitments to our Strategic Credit strategy.

Management fee-generating AUM decreased \$2.2 billion, or 3.3%, from \$66.8 billion as of December 31, 2012, to \$64.6 billion as of June 30, 2013. The decrease reflected \$5.6 billion in asset sales by closed-end funds in liquidation and \$0.5 billion of net outflows in our open-end funds, partially offset by \$0.8 billion in market-value gains in funds for which management fees are based on NAV and increases of \$0.9 billion due to new capital commitments for ROF VI and \$2.4 billion in drawdowns by funds that pay fees based on drawn capital or NAV, including leverage. Opps VIIb accounted for \$2.3 billion of the \$5.6 billion decline from asset sales by closed-end funds in liquidation. As of June 30, 2013, Opps IX had made an aggregate 10% drawdown against its \$5.0 billion of committed capital. As we had not commenced Opps IX's investment period as of June 30, 2013, management fees were assessed only on Opps IX's drawn capital, and management fee-generating AUM included only that portion of its committed capital.

Incentive-creating AUM decreased \$1.9 billion, or 5.6%, from \$34.0 billion as of December 31, 2012, to \$32.1 billion as of June 30, 2013. The decrease was primarily attributable to \$7.3 billion in distributions from closed-end funds, partially offset by \$3.3 billion in market-value gains and \$1.9 billion in drawn capital by closed-end funds. Opps VIIb accounted for \$2.1 billion of the \$7.3 billion in distributions.

#### *Six Months Ended June 30, 2012*

AUM increased \$3.8 billion, or 5.1%, from \$74.9 billion as of December 31, 2011, to \$78.7 billion as of June 30, 2012. The increase was primarily due to \$4.4 billion in aggregate market-value gains and \$5.2 billion in new capital commitments, including \$4.6 billion for Opps IX. These increases were partially offset by \$5.3 billion in distributions by closed-end funds in liquidation, of which Opps VIIb accounted for \$2.6 billion. The increase in market values and the pace of fund realizations reflected the generally strong performance of financial markets in the first quarter of 2012.

Management fee-generating AUM decreased \$0.7 billion, or 1.0%, from \$67.0 billion as of December 31, 2011, to \$66.3 billion as of June 30, 2012. The decrease was primarily attributable to a \$2.6 billion decline caused by closed-end funds in liquidation, partially offset by \$0.8 billion of increases related to new capital commitments and drawdowns for closed-end funds on which management fees are based on drawn capital or NAV, as well as \$1.6 billion in market-value gains in open-end funds. Of the \$2.6 billion component, Opps VIIb accounted for \$1.4 billion. Opps IX's \$4.6 billion in committed capital as of June 30, 2012 was not included in management fee-generating AUM as the fund had not yet commenced its investment period.

Incentive-creating AUM decreased \$0.2 billion, or 0.6%, from \$36.2 billion as of December 31, 2011, to \$36.0 billion as of June 30, 2012. The decrease was primarily due to \$5.1 billion in distributions by closed-end funds, partially offset by \$2.6 billion in drawn capital and \$2.6 billion in market-value gains across closed-end and evergreen funds. Opps VIIb accounted for \$2.5 billion of the \$5.1 billion in distributions.

### **Accrued Incentives and Incentives Created (Fund Level)**

Accrued incentives (fund level), gross and net of incentive income compensation expense, as of June 30, 2013 and 2012, as well as changes in accrued incentives (fund level) for the periods presented, are set forth below.

	As of or for the Three Months Ended June 30,		As of or for the Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
<b>Accrued Incentives (Fund Level):</b>				
Beginning balance .....	\$ 2,270,314	\$ 1,889,460	\$ 2,137,798	\$ 1,686,967
Incentives created (fund level):				
Closed-end funds .....	190,245	(11,465)	629,831	242,729
Evergreen funds .....	4,998	2,349	25,112	13,317
Total incentives created (fund level) .....	195,243	(9,116)	654,943	256,046
Less: segment incentive income recognized by us .....	(338,057)	(129,018)	(665,241)	(191,687)
Ending balance .....	\$ 2,127,500	\$ 1,751,326	\$ 2,127,500	\$ 1,751,326
Accrued incentives (fund level), net of associated incentive income compensation expense .....	\$ 1,222,619	\$ 1,070,597	\$ 1,222,619	\$ 1,070,597

#### **Three Months Ended June 30, 2013 and 2012**

Incentives created (fund level) amounted to \$195.2 million for the three months ended June 30, 2013, reflecting price gains across our incentive-creating funds. Of the \$195.2 million of incentives created (fund level), \$52.7 million was attributable to Opps VIII, \$64.8 million to other distressed debt funds and \$64.5 million to control investing funds.

Incentives created (fund level) was negative \$9.1 million for the three months ended June 30, 2012, reflecting an \$18.2 million negative impact from the euro's decline versus the U.S. dollar. Excluding the euro's negative impact, incentives created (fund level) would have been positive \$9.1 million.

#### **Six Months Ended June 30, 2013 and 2012**

Incentives created (fund level) amounted to \$654.9 million for the six months ended June 30, 2013, reflecting the 71.3% share of our incentive-creating AUM that was creating incentives as of June 30, 2013. Of the \$654.9 million of incentives created (fund level), \$108.2 million was attributable to Opps VIIb, \$393.7 million to other distressed debt funds and \$127.7 million to control investing and real estate funds.

Incentives created (fund level) amounted to \$256.0 million for the six months ended June 30, 2012, of which Opps VIIb accounted for \$177.0 million, with the remainder arising from a number of distressed debt, global principal investing and real estate funds and special accounts.

### **Uncalled Capital Commitments**

As of June 30, 2013, March 31, 2013 and June 30, 2012, uncalled capital commitments were \$11.0 billion, \$11.2 billion and \$13.7 billion, respectively.



## Segment Analysis

Our business is comprised of one segment, our investment management segment, which consists of the investment management services that we provide to our clients. Management makes operating decisions and assesses the performance of our business based on financial and operating metrics and data that are presented without the consolidation of any funds. For a detailed reconciliation of the segment results of operations to our condensed consolidated results of operations, please see “—Distributable Earnings” and “—Fee-related Earnings” below and the “Segment Reporting” note to our condensed consolidated financial statements included elsewhere in this quarterly report. The data most important to our chief operating decision maker in assessing our performance are adjusted net income, adjusted net income-OCG, distributable earnings, distributable earnings-OCG, fee-related earnings and fee-related earnings-OCG.

### Adjusted Net Income

ANI and adjusted net income-OCG, as well as per unit data, for the three and six months ended June 30, 2013 and 2012 are set forth below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands, except per unit data)			
Revenues:				
Management fees .....	\$ 182,487	\$ 188,843	\$ 366,701	\$ 380,105
Incentive income .....	338,057	129,018	665,241	191,687
Investment income .....	34,576	23,241	116,626	87,581
Total revenues .....	555,120	341,102	1,148,568	659,373
Expenses:				
Compensation and benefits .....	(90,166)	(80,303)	(183,783)	(164,707)
Equity-based compensation .....	(924)	—	(1,576)	—
Incentive income compensation .....	(128,953)	(60,965)	(259,224)	(88,722)
General and administrative .....	(29,512)	(24,398)	(53,500)	(49,236)
Depreciation and amortization .....	(1,732)	(1,929)	(3,475)	(3,672)
Total expenses .....	(251,287)	(167,595)	(501,558)	(306,337)
Adjusted net income before interest and other income (expense) .....	303,833	173,507	647,010	353,036
Interest expense, net of interest income .....	(7,136)	(8,063)	(14,543)	(16,227)
Other income (expense), net .....	284	66	264	2,333
Adjusted net income .....	296,981	165,510	632,731	339,142
Adjusted net income attributable to OCGH non-controlling interest .....	(232,039)	(133,037)	(500,586)	(280,483)
Non-Operating Group other income .....	—	6,260 <sup>(1)</sup>	—	6,260 <sup>(1)</sup>
Non-Operating Group expenses .....	(466)	(100)	(676)	(278)
Adjusted net income-OCG before income taxes .....	64,476	38,633	131,469	64,641
Income taxes-OCG .....	(6,548)	(12,386) <sup>(1)</sup>	(14,814)	(17,947) <sup>(1)</sup>
Adjusted net income-OCG .....	\$ 57,928	\$ 26,247	\$ 116,655	\$ 46,694
Adjusted net income per Class A unit .....	\$ 1.75	\$ 0.89	\$ 3.69	\$ 1.79
Weighted average number of Class A units outstanding .....	33,020	29,586	31,611	26,137

- (1) A nonrecurring adjustment in the second quarter of 2012 had the effect of increasing income taxes-OCG by \$(7,134) and increasing non-Operating Group other income by \$6,260, for a net effect of additional after-tax OCG expense of \$(874). This adjustment stemmed from reductions in deferred tax assets and the liability for amounts due to affiliates. The effective income tax rate applicable to adjusted net income-OCG before income taxes for the three months ended June 30, 2012 was 16%, based on an estimated annual rate of 18%, without the \$(7,134) nonrecurring expense, and 32%, based on an estimated annual rate of 24%, with it.

## Distributable Earnings

Distributable earnings and distributable earnings-OCG, as well as per unit data, for the three and six months ended June 30, 2013 and 2012 are set forth below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands, except per unit data)			
Revenues:				
Management fees .....	\$ 182,487	\$ 188,843	\$ 366,701	\$ 380,105
Incentive income .....	338,057	129,018	665,241	191,687
Receipts of investment income from funds <sup>(1)</sup> .....	49,472	30,744	83,498	58,424
Receipts of investment income from DoubleLine and other companies .....	2,203	5,257	11,216	8,212
Total distributable earnings revenues .....	<u>572,219</u>	<u>353,862</u>	<u>1,126,656</u>	<u>638,428</u>
Expenses:				
Compensation and benefits .....	(90,166)	(80,303)	(183,783)	(164,707)
Incentive income compensation .....	(128,953)	(60,965)	(259,224)	(88,722)
General and administrative .....	(29,512)	(24,398)	(53,500)	(49,236)
Depreciation and amortization .....	(1,732)	(1,929)	(3,475)	(3,672)
Total expenses .....	<u>(250,363)</u>	<u>(167,595)</u>	<u>(499,982)</u>	<u>(306,337)</u>
Other income (expense):				
Interest expense, net of interest income .....	(7,136)	(8,063)	(14,543)	(16,227)
Operating Group income taxes .....	(1,847)	(1,915)	(4,211)	(4,513)
Other income (expense), net .....	284	66	264	2,333
Distributable earnings .....	<u>313,157</u>	<u>176,355</u>	<u>608,184</u>	<u>313,684</u>
Distributable earnings attributable to OCGH non-controlling interest .....	(244,676)	(141,755)	(480,652)	(258,373)
Non-Operating Group expenses .....	(466)	(100)	(676)	(278)
Distributable earnings-OCG income taxes .....	(1,201)	(2,818)	(4,121)	(6,179)
Tax receivable agreement .....	(2,848)	(1,609)	(4,693)	(3,554)
Distributable earnings-OCG .....	<u>\$ 63,966</u>	<u>\$ 30,073</u>	<u>\$ 118,042</u>	<u>\$ 45,300</u>
Distributable earnings per Class A unit .....	<u>\$ 1.94</u>	<u>\$ 1.02</u>	<u>\$ 3.73</u>	<u>\$ 1.73</u>
Weighted average number of Class A units outstanding .....	<u>33,020</u>	<u>29,586</u>	<u>31,611</u>	<u>26,137</u>

(1) This adjustment characterizes a portion of the distributions received from funds as receipts of investment income or loss. In general, the income or loss component of a distribution from a fund is calculated by multiplying the amount of the distribution by the ratio of our investment's undistributed income or loss to our remaining investment balance. In addition, if the distribution is made during the investment period, it is generally not reflected in distributable earnings until after the investment period ends.

For the three months ended June 30, 2013 and 2012, our net income attributable to Class A unitholders was \$56.6 million and \$24.7 million, respectively. Distributable earnings for the three months ended June 30, 2013 and 2012 were \$313.2 million and \$176.4 million, respectively. The portion of distributable earnings attributable to our Class A unitholders was \$1.94 and \$1.02 per Class A unit for the three months ended June 30, 2013 and 2012, respectively. Total distributions made during the three months ended June 30, 2013 and 2012 were \$229.8 million and \$104.6 million, respectively, of which distributions to our Class A unitholders were \$42.6 million and \$16.8 million, respectively, and distributions to our OCGH unitholders were \$187.2 million and \$87.8 million, respectively.

For the six months ended June 30, 2013 and 2012, our net income attributable to Class A unitholders was \$114.1 million and \$43.3 million, respectively. Distributable earnings for the six months ended June 30, 2013 and 2012 were \$608.2 million and \$313.7 million, respectively. The portion of distributable earnings attributable to our Class A unitholders was \$3.73 and \$1.73 per Class A unit for the six months ended June 30, 2013 and 2012, respectively. Total distributions made during the six months ended June 30, 2013 and 2012 were \$414.2 million and

\$192.4 million, respectively, of which distributions to our Class A unitholders were \$74.3 million and \$26.3 million, respectively, and distributions to our OCGH unitholders were \$340.0 million and \$166.0 million, respectively.

*Three Months Ended June 30, 2013 Compared to the Three Months Ended June 30, 2012*

Distributable earnings increased \$136.8 million, or 77.6%, to \$313.2 million for the three months ended June 30, 2013, from \$176.4 million for the three months ended June 30, 2012. The increase reflected \$141.1 million in higher net incentive income and \$15.7 million in higher receipts of investment income, partially offset by a \$22.0 million decline in fee-related earnings. For the current-year period, receipts of investment income totaled \$51.7 million, including \$49.5 million from fund distributions and \$2.2 million from Oaktree's one-fifth equity ownership in DoubleLine, of which the latter included \$1.0 million attributable to performance fees. For the prior-year period, receipts of investment income totaled \$36.0 million, including \$30.7 million from fund distributions and \$5.3 million from Oaktree's equity ownership in DoubleLine, of which the latter included \$1.1 million attributable to performance fees.

*Six Months Ended June 30, 2013 Compared to the Six Months Ended June 30, 2012*

Distributable earnings increased \$294.5 million, or 93.9%, to \$608.2 million for the six months ended June 30, 2013, from \$313.7 million for the six months ended June 30, 2012. The increase reflected \$303.1 million in higher net incentive income and \$28.1 million in higher receipts of investment income, partially offset by a \$38.1 million decline in fee-related earnings. For the current-year period, receipts of investment income totaled \$94.7 million, including \$83.5 million from fund distributions and \$11.2 million from Oaktree's one-fifth equity ownership in DoubleLine, of which the latter included \$3.0 million attributable to performance fees. For the prior-year period, receipts of investment income totaled \$66.6 million, including \$58.4 million from fund distributions and \$8.2 million from Oaktree's equity ownership in DoubleLine, of which the latter included \$3.0 million attributable to performance fees.

The following table reconciles distributable earnings and ANI to net income attributable to Oaktree Capital Group, LLC:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Distributable earnings .....	\$ 313,157	\$ 176,355	\$ 608,184	\$ 313,684
Investment income <sup>(1)</sup> .....	34,576	23,241	116,626	87,581
Receipts of investment income from funds <sup>(2)</sup> .....	(49,472)	(30,744)	(83,498)	(58,424)
Receipts of investment income from DoubleLine and other companies .....	(2,203)	(5,257)	(11,216)	(8,212)
Equity-based compensation <sup>(3)</sup> .....	(924)	—	(1,576)	—
Operating Group income taxes .....	1,847	1,915	4,211	4,513
Adjusted net income .....	296,981	165,510	632,731	339,142
Equity-based compensation <sup>(4)</sup> .....	(6,181)	(7,795)	(11,981)	(19,984)
Income taxes <sup>(5)</sup> .....	(7,991)	(13,925)	(18,148)	(21,692)
Non-Operating Group other income <sup>(6)</sup> .....	—	6,260	—	6,260
Non-Operating Group expenses <sup>(6)</sup> .....	(466)	(100)	(676)	(278)
OCGH non-controlling interest <sup>(6)</sup> .....	(225,766)	(125,231)	(487,783)	(260,121)
Net income attributable to Oaktree Capital Group, LLC .....	<u>\$ 56,577</u>	<u>\$ 24,719</u>	<u>\$ 114,143</u>	<u>\$ 43,327</u>

(1) This adjustment eliminates our segment investment income, which with respect to investment in funds is initially largely non-cash in nature and is thus not available to fund our operations or make equity distributions.

(2) This adjustment characterizes a portion of the distributions received from funds as receipts of investment income or loss. In general, the income or loss component of a distribution from a fund is calculated by multiplying the amount of the distribution by the ratio of our investment's undistributed income or loss to our remaining investment balance. In addition, if the distribution is made during the investment period, it is generally not reflected in distributable earnings until after the investment period ends.

- (3) This adjustment adds back the effect of equity-based compensation charges related to unit grants made after our initial public offering, which is excluded from distributable earnings because it is non-cash in nature and does not impact our ability to fund our operations or make equity distributions.
- (4) This adjustment adds back the effect of equity-based compensation charges related to unit grants made before our initial public offering, which is excluded from adjusted net income because it does not affect our financial position and from distributable earnings because it is non-cash in nature and does not impact our ability to fund operations or make equity distributions.
- (5) Because adjusted net income and distributable earnings are pre-tax measures, this adjustment adds back the effect of income tax expense.
- (6) Because adjusted net income and distributable earnings are calculated at the Operating Group level, this adjustment adds back the effect of items applicable to OCG, its Intermediate Holding Companies or the OCGH non-controlling interest.

The following table reconciles distributable earnings-OCG and adjusted net income-OCG to net income attributable to Oaktree Capital Group, LLC.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Distributable earnings-OCG <sup>(1)</sup> .....	\$ 63,966	\$ 30,073	\$ 118,042	\$ 45,300
Investment income attributable to OCG .....	7,560	4,561	23,984	14,264
Receipts of investment income from funds attributable to OCG .....	(10,819)	(6,032)	(17,629)	(10,206)
Receipts of investment income from DoubleLine and other companies attributable to OCG .....	(482)	(1,032)	(2,286)	(1,478)
Equity-based compensation attributable to OCG <sup>(2)</sup> .....	(202)	—	(333)	—
Distributable earnings-OCG income taxes .....	1,201	2,818	4,121	6,179
Tax receivable agreement .....	2,848	1,609	4,693	3,554
Non-Operating Group other income .....	—	6,260	—	6,260
Income taxes of Intermediate Holding Companies .....	(6,144)	(12,010)	(13,937)	(17,179)
Adjusted net income-OCG <sup>(1)</sup> .....	57,928	26,247	116,655	46,694
Equity-based compensation attributable to OCG <sup>(3)</sup> .....	(1,351)	(1,528)	(2,512)	(3,367)
Net income attributable to Oaktree Capital Group, LLC .....	<u>\$ 56,577</u>	<u>\$ 24,719</u>	<u>\$ 114,143</u>	<u>\$ 43,327</u>

- (1) Distributable earnings-OCG and adjusted net income-OCG are calculated to evaluate the portion of adjusted net income and distributable earnings attributable to Class A unitholders. These measures are net of income taxes and expenses applicable to OCG or its Intermediate Holding Companies.
- (2) This adjustment adds back the effect of equity-based compensation charges attributable to OCG related to unit grants made after our initial public offering, which is excluded from distributable earnings because it is non-cash in nature and does not impact our ability to fund our operations or make equity distributions.
- (3) This adjustment adds back the effect of equity-based compensation charges attributable to OCG related to unit grants made before our initial public offering, which is excluded from adjusted net income because it does not affect our financial position and from distributable earnings because it is non-cash in nature and does not impact our ability to fund our operations or make equity distributions.

## Fee-related Earnings

Fee-related earnings and fee-related earnings-OCG, as well as per unit data, for the three and six months ended June 30, 2013 and 2012 are set forth below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands, except per unit data)			
Management fees:				
Closed-end funds .....	\$ 136,176	\$ 148,232	\$ 275,224	\$ 299,780
Open-end funds .....	36,289	30,983	72,344	61,448
Evergreen funds .....	10,022	9,628	19,133	18,877
Total management fees .....	182,487	188,843	366,701	380,105
Expenses:				
Compensation and benefits .....	(90,166)	(80,303)	(183,783)	(164,707)
Equity-based compensation .....	(924)	—	(1,576)	—
General and administrative .....	(29,512)	(24,398)	(53,500)	(49,236)
Depreciation and amortization .....	(1,732)	(1,929)	(3,475)	(3,672)
Total expenses .....	(122,334)	(106,630)	(242,334)	(217,615)
Fee-related earnings .....	60,153	82,213	124,367	162,490
Fee-related earnings attributable to OCGH non-controlling interest .....	(46,998)	(66,082)	(98,360)	(134,252)
Non-Operating Group other income .....	—	6,260 <sup>(1)</sup>	—	6,260 <sup>(1)</sup>
Non-Operating Group expenses .....	(467)	(97)	(677)	(276)
Fee-related earnings-OCG before income taxes .....	12,688	22,294	25,330	34,222
Fee-related earnings-OCG income taxes .....	(1,176)	(10,174) <sup>(1)</sup>	(3,411)	(12,834) <sup>(1)</sup>
Fee-related earnings-OCG .....	\$ 11,512	\$ 12,120	\$ 21,919	\$ 21,388
Fee-related earnings per Class A unit .....	\$ 0.35	\$ 0.41	\$ 0.69	\$ 0.82
Weighted average number of Class A units outstanding .....	33,020	29,586	31,611	26,137

(1) A nonrecurring adjustment in the second quarter of 2012 had the effect of increasing income taxes-OCG by \$(7,134) and increasing non-Operating Group other income by \$6,260, for a net effect of additional after-tax OCG expense of \$(874). This adjustment stemmed from reductions in deferred tax assets and the liability for amounts due to affiliates. The effective income tax rate applicable to fee-related earnings-OCG before income taxes for the three months ended June 30, 2012 was 19%, based on an estimated annual rate of 20%, without the \$(7,134) nonrecurring expense, and 46%, based on an estimated annual rate of 29%, with it.

The following table reconciles fee-related earnings and ANI to net income attributable to Oaktree Capital Group, LLC:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Fee-related earnings <sup>(1)</sup> .....	\$ 60,153	\$ 82,213	\$ 124,367	\$ 162,490
Incentive income .....	338,057	129,018	665,241	191,687
Incentive income compensation .....	(128,953)	(60,965)	(259,224)	(88,722)
Investment income .....	34,576	23,241	116,626	87,581
Interest expense, net of interest income .....	(7,136)	(8,063)	(14,543)	(16,227)
Other income (expense), net .....	284	66	264	2,333
Adjusted net income .....	296,981	165,510	632,731	339,142
Equity-based compensation <sup>(2)</sup> .....	(6,181)	(7,795)	(11,981)	(19,984)
Income taxes <sup>(3)</sup> .....	(7,991)	(13,925)	(18,148)	(21,692)
Non-Operating Group other income <sup>(4)</sup> .....	—	6,260	—	6,260
Non-Operating Group expenses <sup>(4)</sup> .....	(466)	(100)	(676)	(278)
OCGH non-controlling interest <sup>(4)</sup> .....	(225,766)	(125,231)	(487,783)	(260,121)
Net income attributable to Oaktree Capital Group, LLC .....	<u>\$ 56,577</u>	<u>\$ 24,719</u>	<u>\$ 114,143</u>	<u>\$ 43,327</u>

- (1) Fee-related earnings is a component of adjusted net income and is comprised of segment management fees less segment operating expenses other than incentive income compensation expense.
- (2) This adjustment adds back the effect of equity-based compensation charges related to unit grants made before our initial public offering, which is excluded from adjusted net income and fee-related earnings because it is a non-cash charge that does not affect our financial position.
- (3) Because adjusted net income and fee-related earnings are pre-tax measures, this adjustment adds back the effect of income tax expense.
- (4) Because adjusted net income and fee-related earnings are calculated at the Operating Group level, this adjustment adds back the effect of items applicable to OCG, its Intermediate Holding Companies or the OCGH non-controlling interest.

The following table reconciles fee-related earnings-OCG and adjusted net income-OCG to net income attributable to Oaktree Capital Group, LLC:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Fee-related earnings-OCG <sup>(1)</sup> .....	\$ 11,512	\$ 12,120	\$ 21,919	\$ 21,388
Incentive income attributable to OCG .....	73,927	25,315	139,414	34,766
Incentive income compensation attributable to OCG .....	(28,200)	(11,962)	(54,274)	(16,148)
Investment income attributable to OCG .....	7,560	4,561	23,984	14,264
Interest expense, net of interest income attributable to OCG .....	(1,560)	(1,584)	(3,042)	(2,815)
Other income (expense) attributable to OCG .....	61	9	57	352
Non-fee-related earnings income taxes attributable to OCG <sup>(2)</sup> .....	(5,372)	(2,212)	(11,403)	(5,113)
Adjusted net income-OCG <sup>(1)</sup> .....	57,928	26,247	116,655	46,694
Equity-based compensation attributable to OCG <sup>(3)</sup> .....	(1,351)	(1,528)	(2,512)	(3,367)
Net income attributable to Oaktree Capital Group, LLC .....	<u>\$ 56,577</u>	<u>\$ 24,719</u>	<u>\$ 114,143</u>	<u>\$ 43,327</u>

- (1) Fee-related earnings-OCG and adjusted net income-OCG are calculated to evaluate the portion of adjusted net income and fee-related earnings attributable to Class A unitholders. These measures are net of income taxes and other income or expenses applicable to OCG or its Intermediate Holding Companies.
- (2) This adjustment adds back income taxes associated with segment incentive income, incentive income compensation expense or investment income (loss), which are not included in the calculation of fee-related earnings-OCG.
- (3) This adjustment adds back the effect of equity-based compensation charges attributable to OCG related to unit grants made before our initial public offering, which is excluded from adjusted net income-OCG and fee-related earnings-OCG because it is a non-cash charge that does not affect our financial position.

### **Three Months Ended June 30, 2013 Compared to the Three Months Ended June 30, 2012**

#### **Segment Revenues**

##### **Management Fees**

A summary of our management fees for the three months ended June 30, 2013 and 2012 is set forth below:

	Three Months Ended June 30,	
	2013	2012
	(in thousands)	
<b>Management Fees:</b>		
Closed-end funds .....	\$ 136,176	\$ 148,232
Open-end funds .....	36,289	30,983
Evergreen funds .....	10,022	9,628
Total .....	<u>\$ 182,487</u>	<u>\$ 188,843</u>

Management fees decreased \$6.3 million, or 3.3%, to \$182.5 million for the three months ended June 30, 2013, from \$188.8 million for the three months ended June 30, 2012, for the reasons described below.

- *Closed-end funds.* Management fees attributable to closed-end funds decreased \$12.0 million, or 8.1%, to \$136.2 million for the three months ended June 30, 2013, from \$148.2 million for the three months ended June 30, 2012. The decrease primarily resulted from a \$26.0 million decline in management fees from closed-end funds in their liquidation periods, of which Opps VIIb accounted for \$13.3 million, declining from \$26.6 million in the prior-year period to \$13.3 million in the current-year period. Partially offsetting this decrease were increases of \$8.7 million in management fees from new capital commitments to ROF VI, \$4.6 million in fees from closed-end funds for which management fees

are based on drawn capital or NAV, and \$1.3 million (to \$6.6 million) in fees from Oaktree Mezzanine Fund III, L.P. ("Mezz III"). Of the \$8.7 million increase attributable to ROF VI, \$4.4 million represented additional management fees that were earned retroactive to the start of the fund's investment period in August 2012. No such retroactive management fees fell in the prior-year period. Funds contributing to the \$4.6 million increase in management fees based on drawn capital or NAV were EIF, Opps IX and a separate account in our Strategic Credit strategy. As we had not commenced Opps IX's investment period as of June 30, 2013, management fees were assessed only on its drawn capital. The increase in fees from Mezz III resulted from the fact that two-thirds of its 1.50% annual management fee rate is contingent on the fund achieving certain cash flow levels.

- *Open-end funds.* Management fees attributable to open-end funds increased \$5.3 million, or 17.1%, to \$36.3 million for the three months ended June 30, 2013, from \$31.0 million for the three months ended June 30, 2012. The increase reflected higher management fees across the U.S. high yield bond, U.S. senior loan and convertible securities strategies, as a result of market-value appreciation, net inflows and, in the case of convertible securities, an increase of \$1.8 million (to \$0.8 million) in performance-based fees. The period-end weighted average annual management fee rate for open-end funds increased to 0.49% as of June 30, 2013, from 0.47% as of June 30, 2012, primarily as a result of higher performance-based fees.
- *Evergreen funds.* Management fees attributable to evergreen funds increased \$0.4 million, or 4.2%, to \$10.0 million for the three months ended June 30, 2013, from \$9.6 million for the three months ended June 30, 2012. The increase reflected market-value appreciation in Oaktree Value Opportunities Fund, L.P. ("VOF") and net inflows in our Strategic Credit strategy, partially offset by net outflows from Oaktree Emerging Markets Absolute Return Fund, L.P. ("EMAR"). The period-end weighted average annual management fee rate for evergreen funds decreased to 1.72% as of June 30, 2013, from 1.80% as of June 30, 2012, largely as a result of net inflows in our Strategic Credit strategy, which as of June 30, 2013 had an average fee rate of 1.00%.

#### *Incentive Income*

A summary of our incentive income for the three months ended June 30, 2013 and 2012 is set forth below:

	Three Months Ended June 30,	
	2013	2012
	(in thousands)	
<b>Incentive Income:</b>		
Closed-end funds .....	\$ 336,087	\$ 128,858
Evergreen funds .....	1,970	160
Total .....	<u>\$ 338,057</u>	<u>\$ 129,018</u>

Incentive income increased \$209.1 million, or 162.1%, to \$338.1 million for the three months ended June 30, 2013, from \$129.0 million for the three months ended June 30, 2012. The current period's \$338.1 million included \$272.5 million from Opps VIIb and \$31.9 million from Oaktree PPIP Fund, L.P. ("PPIP"). For the prior-year period, tax-related incentive distributions by Opps VIIb accounted for \$42.1 million of that period's \$129.0 million of incentive income.



## Investment Income

A summary of investment income for the three months ended June 30, 2013 and 2012 is set forth below:

	Three Months Ended June 30,	
	2013	2012
	(in thousands)	
<b>Income (loss) from investments in funds:</b>		
Oaktree funds:		
Distressed debt .....	\$ 13,830	\$ 8,610
Control investing .....	12,915	6,481
Real estate .....	1,468	3,874
Corporate debt .....	1,692	2,469
Listed equities .....	6,730	(2,139)
Convertible securities .....	13	(31)
Non-Oaktree .....	(1,123)	(613)
<b>Income (loss) from investments in companies:</b>		
DoubleLine and other .....	(949)	4,590
Total investment income .....	\$ 34,576	\$ 23,241

Investment income increased \$11.4 million, or 49.1%, to \$34.6 million for the three months ended June 30, 2013, from \$23.2 million for the three months ended June 30, 2012, as a result of generally higher returns among Oaktree funds on an average invested balance that declined 4.8% from the prior-year period. Investments in companies relate principally to our one-fifth ownership interest in DoubleLine, which accounted for an investment loss of \$1.0 million and investment income of \$4.8 million in the current-year and prior-year periods, respectively. In the current-year period, DoubleLine incurred a placement fee associated with the launch of a closed-end fund and a non-cash charge related to the firm's employee ownership interests; excluding the effect of those two expenses, the current-year period's investment loss of \$1.0 million would have been investment income of approximately \$10 million. Our share of performance fees from DoubleLine generated investment income of \$1.0 million and \$0.8 million in the current-year and prior-year periods, respectively. The DoubleLine fund primarily responsible for generating performance fees was below its high-water mark as of June 30, 2013.

## Segment Expenses

### Compensation and Benefits

Compensation and benefits increased \$9.9 million, or 12.3%, to \$90.2 million for the three months ended June 30, 2013, from \$80.3 million for the three months ended June 30, 2012. The increase primarily reflected growth in headcount of 9.2% between June 30, 2012 and June 30, 2013, and secondarily reflected \$4.5 million of higher phantom equity plan expense (to \$1.3 million in the current-year period) tied to changes in our Class A unit trading price.

### Equity-based Compensation

Equity-based compensation increased to \$0.9 million for the three months ended June 30, 2013, from zero in the three months ended June 30, 2012, reflecting non-cash amortization expense associated with vesting of restricted unit grants made to employees and directors subsequent to our initial public offering in April 2012.

### Incentive Income Compensation

Incentive income compensation expense increased \$68.0 million, or 111.5%, to \$129.0 million for the three months ended June 30, 2013, from \$61.0 million for the three months ended June 30, 2012. The increase primarily resulted from the 162.1% increase in incentive income over the same period. The increase in incentive income compensation expense would have been \$21.2 million greater had we not acquired and expensed in 2011 a small portion of certain investment professionals' carried interest in Opps VIIb.

### General and Administrative

General and administrative expenses increased \$5.1 million, or 20.9%, to \$29.5 million for the three months ended June 30, 2013, from \$24.4 million for the three months ended June 30, 2012. Excluding the impact of foreign

currency-related items, general and administrative expenses increased \$4.2 million, or 17.4%, to \$28.4 million from \$24.2 million. The increase reflected costs associated with corporate growth and being a public company.

#### *Depreciation and Amortization*

Depreciation and amortization expense was \$1.7 million and \$1.9 million for the three months ended June 30, 2013 and 2012, respectively.

#### *Interest Expense, Net*

Interest expense, net, decreased \$1.0 million, or 12.3%, to \$7.1 million for the three months ended June 30, 2013, from \$8.1 million for the three months ended June 30, 2012, reflecting scheduled repayments of certain long-term debt and a lower weighted-average interest rate on outstanding borrowings resulting from both Oaktree's improved credit rating and refinancing our credit facility in the fourth quarter of 2012.

#### *Other Income (Expense), Net*

Other income (expense), net increased to income of \$0.3 million for the three months ended June 30, 2013, from income of \$0.1 million for the three months ended June 30, 2012, reflecting the net results of operating the portfolio of properties received as part of an arbitration award in 2010 related to a former principal and portfolio manager of our real estate group who left in 2005.

#### *Adjusted Net Income*

Adjusted net income increased \$131.5 million, or 79.5%, to \$297.0 million for the three months ended June 30, 2013, from \$165.5 million for the three months ended June 30, 2012. The increase reflected higher net incentive income of \$141.1 million and investment income of \$11.4 million, partially offset by a \$22.0 million decline in fee-related earnings.

#### *Income Taxes-OCG*

Income taxes decreased \$5.9 million, or 47.6%, to \$6.5 million for the three months ended June 30, 2013, from \$12.4 million for the three months ended June 30, 2012. This expense declined, despite an increase in adjusted net income-OCG before income taxes, because of a year-over-year decrease in the effective tax rate and because the prior-year period included a nonrecurring tax expense of \$7.1 million stemming from a remeasurement of deferred tax assets. The effective tax rate applied against adjusted net income-OCG before income taxes for the three months ended June 30, 2013 was 10%, based on an estimated annual rate of 11%. The effective tax rate applied against adjusted net income-OCG before income taxes for the three months ended June 30, 2012 was 16%, based on an estimated annual rate of 18%, without the \$7.1 million nonrecurring tax expense, and 32%, based on an estimated annual rate of 24%, with it. The effective income tax rate used for interim fiscal periods is based on the estimated full-year income tax rate and is a function of the mix of income and other factors that often vary significantly within or between years, each of which can have a material impact on the particular year's income tax expense.

### ***Six Months Ended June 30, 2013 Compared to the Six Months Ended June 30, 2012***

#### ***Segment Revenues***

##### *Management Fees*

A summary of our management fees for the six months ended June 30, 2013 and 2012 is set forth below:

	Six Months Ended June 30,	
	2013	2012
	(in thousands)	
<b>Management Fees:</b>		
Closed-end funds .....	\$ 275,224	\$ 299,780
Open-end funds .....	72,344	61,448
Evergreen funds .....	19,133	18,877
Total .....	<u>\$ 366,701</u>	<u>\$ 380,105</u>

Management fees decreased \$13.4 million, or 3.5%, to \$366.7 million for the six months ended June 30, 2013, from \$380.1 million for the six months ended June 30, 2012, for the reasons described below.

- *Closed-end funds.* Management fees attributable to closed-end funds decreased \$24.6 million, or 8.2%, to \$275.2 million for the six months ended June 30, 2013, from \$299.8 million for the six months ended June 30, 2012. The decrease reflected a decline of \$45.8 million attributable to closed-end funds in their liquidation periods, as well as \$3.2 million in retroactive management fees earned in the prior-year period upon the final closing of Oaktree Real Estate Opportunities Fund V, L.P. ("ROF V"). Partially offsetting these decreases were increases of \$12.5 million in management fees from new capital commitments to closed-end funds in their investment periods, \$6.5 million in fees from closed-end funds for which management fees are based on drawn capital or NAV and \$5.8 million (to \$13.1 million) in fees from Mezz III. Of the \$45.8 million decline in management fees arising from asset sales by funds in liquidation, Opps VIIb accounted for \$23.3 million, declining from \$55.9 million in the prior-year period to \$32.6 million in the current-year period. The \$12.5 million increase in management fees from new capital commitments was attributable to ROF VI, of which \$3.9 million represented additional management fees that were earned retroactive to the start of the fund's investment period in August 2012. The \$6.5 million increase in management fees based on drawn capital or NAV reflected contributions from EIF, Opps IX and a separate account in our Strategic Credit strategy. As we had not commenced Opps IX's investment period as of June 30, 2013, management fees were assessed only on its drawn capital. The increase in fees from Mezz III resulted from the fact that two-thirds of its 1.50% annual management fee rate is contingent on the fund achieving certain cash flow levels.
- *Open-end funds.* Management fees attributable to open-end funds increased \$10.9 million, or 17.8%, to \$72.3 million for the six months ended June 30, 2013, from \$61.4 million for the six months ended June 30, 2012. The increase reflected higher management fees across the U.S. high yield bond, U.S. senior loan and convertible securities strategies, as a result of market-value appreciation, net inflows and, in the case of convertible securities, an increase of \$3.2 million (to \$1.7 million) in performance-based fees. The period-end weighted average annual management fee rate for open-end funds increased to 0.49% as of June 30, 2013, from 0.47% as of June 30, 2012, primarily as a result of higher performance-based fees.
- *Evergreen funds.* Management fees attributable to evergreen funds increased \$0.2 million, or 1.1%, to \$19.1 million for the six months ended June 30, 2013, from \$18.9 million for the six months ended June 30, 2012. The increase reflected market-value appreciation in VOF and net inflows in our Strategic Credit strategy, largely offset by net outflows from EMAR. The period-end weighted average annual management fee rate for evergreen funds decreased to 1.72% as of June 30, 2013, from 1.80% as of June 30, 2012, largely as a result of net inflows in our Strategic Credit strategy, which as of June 30, 2013 had an average fee rate of 1.00%.

#### *Incentive Income*

A summary of our incentive income for the six months ended June 30, 2013 and 2012 is set forth below:

	Six Months Ended June 30,	
	2013	2012
	(in thousands)	
<b>Incentive Income:</b>		
Closed-end funds .....	\$ 661,578	\$ 191,527
Evergreen funds .....	3,663	160
Total .....	<u>\$ 665,241</u>	<u>\$ 191,687</u>

Incentive income increased \$473.5 million, or 247.0%, to \$665.2 million for the six months ended June 30, 2013, from \$191.7 million for the six months ended June 30, 2012, reflecting higher levels of realization in closed-end funds. The current-year period included \$467.7 million from Opps VIIb, \$78.4 million from other funds and \$119.1 million of tax-related incentive distributions. For the prior-year period, tax-related incentive distributions by closed-end funds accounted for \$80.1 million of that period's \$191.7 million of incentive income.

## Investment Income

A summary of investment income for the six months ended June 30, 2013 and 2012 is set forth below:

	Six Months Ended June 30,	
	2013	2012
	(in thousands)	
<b>Income from investments in funds:</b>		
Oaktree funds:		
Distressed debt .....	\$ 55,192	\$ 51,792
Control investing .....	22,771	11,166
Real estate .....	10,679	7,344
Corporate debt .....	5,464	5,342
Listed equities .....	11,954	2,147
Convertible securities .....	63	64
Non-Oaktree .....	953	612
<b>Income from investments in companies:</b>		
DoubleLine and other .....	9,550	9,114
Total investment income .....	\$ 116,626	\$ 87,581

Investment income increased \$29.0 million, or 33.1%, to \$116.6 million for the six months ended June 30, 2013, from \$87.6 million for the six months ended June 30, 2012, as a result of generally higher returns among Oaktree funds on an average invested balance that declined 3.7% from the prior-year period. Investments in companies relate principally to our one-fifth ownership interest in DoubleLine, which contributed \$10.0 million and \$8.9 million of investment income in the current-year and prior-year periods, respectively. In the current-year period, DoubleLine incurred a placement fee associated with the launch of a closed-end fund and a non-cash charge related to the firm's employee ownership interests; excluding the effect of those two expenses, the current-year period's investment income of \$10.0 million would have been investment income of approximately \$21 million. Our share of performance fees from DoubleLine generated investment income of \$3.0 million and \$2.4 million in the current-year and prior-year periods, respectively. The DoubleLine fund primarily responsible for generating performance fees was below its high-water mark as of June 30, 2013.

## Segment Expenses

### Compensation and Benefits

Compensation and benefits increased \$19.1 million, or 11.6%, to \$183.8 million for the six months ended June 30, 2013, from \$164.7 million for the six months ended June 30, 2012. The increase primarily reflected growth in headcount of 9.2% between June 30, 2012 and June 30, 2013, and secondarily reflected \$5.8 million of higher phantom equity plan expense (to \$3.8 million in the current-year period) tied to changes in our Class A unit trading price.

### Equity-based Compensation

Equity-based compensation increased to \$1.6 million for the six months ended June 30, 2013, from zero in the six months ended June 30, 2012, reflecting non-cash amortization expense associated with vesting of restricted unit grants made to employees and directors subsequent to our initial public offering in April 2012.

### Incentive Income Compensation

Incentive income compensation expense increased \$170.5 million, or 192.2%, to \$259.2 million for the six months ended June 30, 2013, from \$88.7 million for the six months ended June 30, 2012. The increase primarily resulted from the 247.0% increase in incentive income over the same period. The increase in incentive income compensation expense would have been \$36.4 million greater had we not acquired and expensed in 2011 a small portion of certain investment professionals' carried interest in Opps VIIb.

### General and Administrative

General and administrative expenses increased \$4.3 million, or 8.7%, to \$53.5 million for the six months ended June 30, 2013, from \$49.2 million for the six months ended June 30, 2012. Excluding the impact of foreign currency-related items, as well as \$2.1 million in non-recurring costs associated with our initial public offering that

were incurred in the prior-year period, general and administrative expenses increased \$6.8 million, or 14.6%, to \$53.3 million from \$46.5 million. The increase reflected costs associated with corporate growth and being a public company.

#### *Depreciation and Amortization*

Depreciation and amortization expense was \$3.5 million and \$3.7 million for the six months ended June 30, 2013 and 2012, respectively.

#### *Interest Expense, Net*

Interest expense, net, decreased \$1.7 million, or 10.5%, to \$14.5 million for the six months ended June 30, 2013, from \$16.2 million for the six months ended June 30, 2012, reflecting scheduled repayments of certain long-term debt and a lower weighted-average interest rate on outstanding borrowings resulting from both Oaktree's improved credit rating and refinancing our credit facility in the fourth quarter of 2012.

#### *Other Income (Expense), Net*

Other income (expense), net decreased to income of \$0.3 million for the six months ended June 30, 2013, from income of \$2.3 million for the six months ended June 30, 2012. The current-year income reflected the net results of operating the portfolio of properties received as part of an arbitration award in 2010 related to a former principal and portfolio manager of our real estate group who left in 2005. The prior-year income primarily reflected a gain on the sale of a real estate property received as part of the 2010 arbitration award.

#### *Adjusted Net Income*

Adjusted net income increased \$293.6 million, or 86.6%, to \$632.7 million for the six months ended June 30, 2013, from \$339.1 million for the six months ended June 30, 2012. The increase reflected higher net incentive income of \$303.1 million and investment income of \$29.0 million, partially offset by a \$38.1 million decline in fee-related earnings.

#### *Income Taxes-OCG*

Income taxes decreased \$3.1 million, or 17.3%, to \$14.8 million for the six months ended June 30, 2013, from \$17.9 million for the six months ended June 30, 2012. This expense declined, despite an increase in adjusted net income-OCG before income taxes, because of a year-over-year decrease in the effective tax rate and because the prior-year period included a nonrecurring tax expense of \$7.1 million stemming from a remeasurement of deferred tax assets. The effective tax rate applied against adjusted net income-OCG before income taxes for the six months ended June 30, 2013 was 11%, based on an estimated annual rate of 11%. The effective tax rate applied against adjusted net income-OCG before income taxes for the six months ended June 30, 2012 was 18%, based on an estimated annual rate of 18%, without the \$7.1 million nonrecurring tax expense, and 28%, based on an estimated annual rate of 24%, with it. The effective income tax rate used for interim fiscal periods is based on the estimated full-year income tax rate and is a function of the mix of income and other factors that often vary significantly within or between years, each of which can have a material impact on the particular year's income tax expense.

## Segment Statement of Financial Condition

The following table presents our segment statement of financial condition as of June 30, 2013, December 31, 2012 and June 30, 2012. Since our founding, we have managed our financial condition in a way that builds our capital base and maintains sufficient liquidity for known and anticipated uses of cash. We have issued debt largely to help fund our corporate investments in funds and companies. We believe that debt maturities should generally match the anticipated sources of repayments. Because the largest share of our corporate investments in funds has been in closed-end funds with 10- to 11-year terms, we have often issued debt with 10-year terms, as augmented by bank term loans with shorter multi-year terms to capitalize on historically low interest rates. Our segment's receivables do not include accrued incentives (fund level), an off-balance sheet metric. For a reconciliation of segment total assets to our consolidated total assets, please see the "Segment Reporting" note to our condensed consolidated financial statements included elsewhere in this quarterly report.

	As of		
	June 30, 2013	December 31, 2012	June 30, 2012
	(in thousands)		
<b>Assets:</b>			
Cash and cash-equivalents .....	\$ 196,151	\$ 458,191	\$ 279,311
U.S. Treasury and government agency securities .....	938,070	370,614	376,224
Management fees receivable .....	35,339	27,351	22,782
Incentive income receivable .....	8,320	82,182	12,849
Corporate investments, at equity .....	1,061,793	1,115,952	1,195,084
Deferred tax assets .....	293,579	159,171	168,110
Other assets .....	144,935	146,087	140,349
Total assets .....	<u>\$ 2,678,187</u>	<u>\$ 2,359,548</u>	<u>\$ 2,194,709</u>
<b>Liabilities and Capital:</b>			
Liabilities:			
Accounts payable and accrued expenses .....	\$ 222,666	\$ 214,311	\$ 173,363
Due to affiliates .....	249,684	136,165	140,239
Debt obligations .....	591,964	615,179	626,429
Total liabilities .....	<u>1,064,314</u>	<u>965,655</u>	<u>940,031</u>
Capital:			
OCGH non-controlling interest in consolidated subsidiaries .....	1,167,819	1,087,491	975,908
Unitholders' capital attributable to Oaktree Capital Group, LLC .....	446,054	306,402	278,770
Total capital .....	<u>1,613,873</u>	<u>1,393,893</u>	<u>1,254,678</u>
Total liabilities and capital .....	<u>\$ 2,678,187</u>	<u>\$ 2,359,548</u>	<u>\$ 2,194,709</u>

### Corporate Investments, at Equity

A summary of corporate investments, at equity as of June 30, 2013, December 31, 2012 and June 30, 2012 is set forth below:

	As of		
	June 30, 2013	December 31, 2012	June 30, 2012
	(in thousands)		
<b>Investments in funds:</b>			
Oaktree funds:			
Distressed debt .....	\$ 429,978	\$ 475,476	\$ 515,354
Control investing .....	249,321	264,186	262,846
Real estate .....	112,400	107,408	93,500
Corporate debt .....	107,081	115,250	148,472
Listed equities .....	95,354	69,222	53,951
Convertible securities .....	1,454	1,392	1,315
Non-Oaktree .....	53,866	53,591	96,558
<b>Investments in companies:</b>			
DoubleLine and other .....	12,339	29,427	23,088
Total corporate investments, at equity .....	\$ 1,061,793	\$ 1,115,952	\$ 1,195,084

### Liquidity and Capital Resources

We have managed our historical liquidity and capital requirements by focusing on our cash flows before the consolidation of our funds and the effect of normal changes in short-term assets and liabilities. Our primary cash flow activities on an unconsolidated basis involve (a) generating cash flow from operations, (b) generating income from investment activities, including strategic investments in certain third parties, (c) funding capital commitments that we have made to our funds, (d) funding our growth initiatives, (e) distributing cash flow to our owners and (f) borrowings, interest payments and repayments under credit agreements, our senior notes and other borrowing arrangements. As of June 30, 2013, we had cash and investments in U.S. Treasury and government agency securities of \$1.1 billion, and \$592.0 million in outstanding debt. Additionally, we have a \$500 million revolving credit facility available to us, which was undrawn as of June 30, 2013. Oaktree's investments in funds and companies had a carrying value of \$1.1 billion as of June 30, 2013. While all of these investments in funds and companies follow the equity method of accounting, whereby original cost is adjusted for Oaktree's share of income/loss and distributions, investments in funds reflect each fund's holdings at fair value, whereas investments in DoubleLine and other companies are not adjusted to reflect the fair value of the underlying companies.

Ongoing sources of cash, or distributable earnings, include (a) management fees, which are collected monthly or quarterly, (b) incentive income, which is volatile and largely unpredictable as to amount and timing, and (c) distributions related to our corporate investments in funds and companies. As of June 30, 2013, corporate investments, at equity of \$1.1 billion included unrealized investment income of \$314.0 million. We primarily use cash flow from operations and distributions from our corporate investments to pay compensation and related expenses, general and administrative expenses, income taxes, debt service, capital expenditures and distributions. This same cash flow, together with proceeds from equity and debt issuances, also is used to fund corporate investments, fixed assets and other capital items. If cash flow from operations were insufficient to fund distributions, we expect that we would suspend paying such distributions.

Our quarterly distributable earnings may be affected by potential seasonal factors that may, in turn, affect the level of the cash distributions applicable to a particular quarter. For example, we generally receive tax-related incentive distributions from certain closed-end funds in the first quarter of the year, which if received generate distributable earnings in that period. The distribution amounts as between any given periods are likely to vary materially due to this and other factors.

Tax distributions are not required in respect of the Class A units and are only required from the Oaktree Operating Group entities if and to the extent that there is sufficient cash available for distribution. Accordingly, if there were insufficient cash flow from operations to fund quarterly or tax distributions by the Oaktree Operating Group entities, we expect that these distributions would not be made. We believe that we have sufficient access to

cash from existing balances, our operations and the revolving credit facility described below to fund our operations and commitments.

### **Consolidated Cash Flows**

The accompanying condensed consolidated statements of cash flows include our consolidated funds, despite the fact that we have only a minority economic interest in those funds. The assets of consolidated funds, on a gross basis, are substantially larger than the assets of our business and, accordingly, have a substantial effect on the cash flows reflected in our condensed consolidated statements of cash flows. The primary cash flow activities of our consolidated funds involve:

- raising capital from third-party investors;
- using the capital provided by us and third-party investors to fund investments and operating expenses;
- financing certain investments with indebtedness;
- generating cash flows through the realization of investments, as well as the collection of interest and dividend income; and
- distributing net cash flows to fund investors and to us.

Because our consolidated funds are treated as investment companies for accounting purposes, their investing cash flow amounts are included in our cash flows from operations. We believe that each of the consolidated funds and Oaktree has sufficient access to cash to fund their respective operations in the near term.

Significant amounts from our condensed consolidated statements of cash flows for the six months ended June 30, 2013 and 2012 are discussed below.

### **Operating Activities**

Net cash provided by operating activities was \$4.5 billion and \$2.7 billion for the first six months of 2013 and 2012, respectively. These amounts included for the first six months of 2013 and 2012 (a) net proceeds from maturities and sales of investments of the consolidated funds of \$3.5 billion and \$2.2 billion, respectively; (b) net realized gains on investments of the consolidated funds of \$2.0 billion and \$1.8 billion, respectively; and (c) changes in unrealized gains on investments of the consolidated funds of \$0.9 billion and \$0.6 billion, respectively.

### **Investing Activities**

Investing activities used \$570.8 million of cash in the first six months of 2013 and provided \$7.1 million of cash in the first six months of 2012. Investing activities were primarily driven by net U.S. Treasury and other U.S. government agency investment activities and net corporate investments in non-consolidated funds and companies. Net activity from purchases, maturities and sales of U.S. Treasury and government agency securities reflected net purchases of \$567.5 million for the first six months of 2013 and net dispositions of \$5.5 million for the first six months of 2012. Corporate investments in funds and companies of \$3.4 million and \$7.3 million for the first six months of 2013 and 2012, respectively, consisted of the following:

	<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(in thousands)</b>	
Investments in funds .....	\$ 75,485	\$ 91,069
Investments in consolidated funds eliminated in consolidation .....	(73,099)	(86,639)
Investments in unconsolidated companies .....	1,046	2,862
Corporate investments in funds and companies .....	<u>\$ 3,432</u>	<u>\$ 7,292</u>



Distributions from corporate investments in funds and companies of \$1.5 and \$12.5 million for the first six months of 2013 and 2012, respectively, consisted of the following:

	Six Months Ended June 30,	
	2013	2012
	(in thousands)	
Distributions received from investments in funds .....	\$ 219,633	\$ 138,216
Distributions received from consolidated funds eliminated in consolidation .....	(218,132)	(133,247)
Distributions received from unconsolidated companies .....	—	7,499
Distributions from corporate investments in funds and companies..	<u>\$ 1,501</u>	<u>\$ 12,468</u>

Purchases of fixed assets were \$1.4 million and \$3.5 million for the first six months of 2013 and 2012, respectively.

### *Financing Activities*

Net cash used in financing activities was \$3.9 billion and \$2.6 billion for the first six months of 2013 and 2012, respectively. For the first six months of 2013 and 2012, financing activities included (a) net distributions from consolidated funds to non-controlling interests of \$4.5 billion and \$2.6 billion, respectively; (b) net borrowings on revolving credit facilities of the consolidated funds of \$1,011.0 million and \$170.7 million, respectively; (c) distributions to unitholders of \$414.2 million and \$192.4 million, respectively; (d) repayment of debt obligations of \$23.2 million and \$25.7 million, respectively; and (e) purchases of OCGH units, net of issuance of Class A units, of \$0.8 million and \$0.7 million, respectively. The prior-year period included \$14.1 million in repurchases of Class A units.

### *Future Sources and Uses of Liquidity*

We expect to continue to make distributions to our Class A unitholders pursuant to our distribution policy. In the future, we may also issue additional units or debt and other equity securities with the objective of increasing our available capital. In addition, we may, from time to time, repurchase our Class A units in open market or privately negotiated purchases or otherwise or redeem our Class A units pursuant to the terms of our operating agreement.

In addition to our ongoing sources of cash that include management fees, incentive income and fund distributions related to our corporate investments in funds and companies, we also have access to liquidity through our debt financings and credit agreements. We believe that the sources of liquidity described below will be sufficient to fund our working capital requirements for at least the next twelve months.

In December 2012, our subsidiaries Oaktree Capital Management, L.P., Oaktree Capital II, L.P., Oaktree AIF Investments, L.P. and Oaktree Capital I, L.P. entered into a credit agreement (the “Credit Facility”) with a bank syndicate for senior unsecured credit facilities, consisting of a \$250 million fully-funded term loan (the “Term Loan”) and a \$500 million revolving credit facility (the “Revolver”), each with a 5-year term. The Credit Facility replaced the previous credit facility and the Term Loan replaced the prior amortizing term loan, which had a principal balance of \$247.5 million. The Term Loan amortizes quarterly in an amount equal to 2.5% of the original principal amount of \$250 million, with principal payments due in March, June, September and December of each year, and the remaining principal payable upon maturity in December 2017. Borrowings under the Credit Facility generally bear interest at a spread to either LIBOR or an alternative base rate. Based on the current credit ratings of Oaktree Capital Management, L.P., the interest rate on borrowings is LIBOR plus 1.00% per annum and the commitment fee on the unused portions of the Revolver is 0.125% per annum. Utilizing interest-rate swaps, the bulk of the first four years of the Term Loan’s annual interest rate is fixed at 2.60%, based on our current credit ratings. The Credit Facility contains customary financial covenants and restrictions, including ones regarding a maximum leverage ratio of 3.0-to-1.0, minimum fixed charge coverage ratio of 2.5-to-1.0 and minimum required levels of assets under management and net worth (as defined in the credit agreement) of \$50 billion and \$600 million, respectively. As of June 30, 2013, we were in compliance with each of these covenants and were able to draw the full amount available under the Revolver without violating any financial covenants.

In January 2011, our subsidiaries Oaktree Capital Management, L.P., Oaktree Capital II, L.P., Oaktree AIF Investments, L.P. and Oaktree Capital I, L.P. entered into a credit facility with a bank syndicate, consisting of a \$300 million fully-funded term loan and a \$250 million three-year revolving credit facility. We were required to make quarterly principal payments of \$7.5 million in respect of the term loan in March, June, September and December,

with the final payment of \$150 million, constituting the remainder of the term loan, due on January 7, 2016. This credit facility was terminated and replaced by the Credit Facility in December 2012, with proceeds from the Term Loan used to pay off the \$247.5 million outstanding balance.

In November 2009, our subsidiary Oaktree Capital Management, L.P. issued \$250 million in aggregate principal amount of senior notes due December 2, 2019 (the "2019 Notes"). The indenture governing the 2019 Notes contains customary financial covenants and restrictions that, among other things, limit Oaktree Capital Management, L.P. and the guarantors' ability, subject to certain exceptions, to incur indebtedness secured by liens on voting stock or profit-participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The 2019 Notes do not contain financial maintenance covenants.

In addition to the 2019 Notes, as of June 30, 2013, we had three other series of senior notes outstanding, with an aggregate remaining principal balance of \$110.7 million. These notes have aggregate principal repayments due of \$10.7 million in June 2014 and \$100 million in 2016. Note purchase agreements underlying these senior notes contain customary financial covenants and restrictions that, among other things, restrict our subsidiaries from incurring additional indebtedness and our subsidiaries and us from merging, consolidating, transferring, leasing or selling assets, incurring certain liens and making restricted payments, subject to certain exceptions. In addition, the agreements contain (a) a maximum consolidated leverage ratio covenant that requires us and our subsidiaries to maintain a ratio, calculated by dividing consolidated total debt (for us and our subsidiaries) by Consolidated EBITDA (as defined in each agreement) for the last four fiscal quarters, below 3.0-to-1.0, (b) a maximum interest coverage ratio covenant that requires us and our subsidiaries to maintain a ratio, calculated by dividing Consolidated EBITDA for the last four fiscal quarters by consolidated interest expense (for us and our subsidiaries), below 4.0-to-1.0, and (c) an assets under management covenant that requires us to maintain assets under management above \$20 billion (\$15 billion under one agreement). As of June 30, 2013, we were in compliance with each of these covenants.

We are required to maintain minimum net capital balances for regulatory purposes in the U.S. and certain non-U.S. jurisdictions in which we do business, which are met in part by retaining cash and cash-equivalents in those jurisdictions. As a result, we may be restricted in our ability to transfer cash between different jurisdictions. As of June 30, 2013, we were required to maintain approximately \$12.6 million in net capital at these subsidiaries and were in compliance with all regulatory minimum net capital requirements as of such date.

Oaktree Holdings, Inc. and Oaktree AIF Holdings, Inc. have entered into a tax receivable agreement with OCGH unitholders that, as amended, provides for the payment to an exchanging or selling OCGH unitholder of 85% of the amount of cash savings, if any, in U.S. federal, state, local and foreign income taxes that they actually realize (or are deemed to realize in the case of an early termination payment by Oaktree Holdings, Inc. or Oaktree AIF Holdings, Inc., or a change of control) as a result of an increase in the tax basis of the assets owned by the Oaktree Operating Group. These payments are expected to occur over the period ending in approximately 2029 with respect to the 2007 Private Offering and in 2034 with respect to the our initial public offering.

On May 29, 2013, we issued and sold 8,050,000 Class A units in a public offering at a price to the public of \$53.50 per Class A unit (the "May 2013 Offering"), resulting in \$419.9 million in net proceeds to us, after deducting underwriting discounts and commissions. We did not retain any proceeds from the sale of Class A units in the May 2013 Offering, and we used the net proceeds from the May 2013 Offering to acquire interests in our business from certain Oaktree directors, employees and other investors, including certain principals and other members of our senior management.

The exchange of OCGH units in connection with the May 2013 Offering resulted in increases in the tax basis of the tangible and intangible assets of the Oaktree Operating Group. As a result, we recorded a deferred tax asset of \$134.4 million and an associated liability of \$114.2 million for payments to OCGH unitholders under the tax receivable agreement, which together increased capital by \$20.2 million. These payments are expected to occur over the period ending approximately in 2035.

No amounts were paid under the tax receivable agreement during the six months ended June 30, 2013.

## Contractual Obligations, Commitments and Contingencies

In the ordinary course of business, we and our consolidated funds enter into contractual arrangements that may require future cash payments. The following table sets forth information relating to anticipated future cash payments as of June 30, 2013:

	Last Six Months of 2013	2014-2015	2016-2017 (in thousands)	Thereafter	Total
<b>Oaktree and Operating Subsidiaries:</b>					
Operating lease obligations <sup>(1)</sup> .....	\$ 7,727	\$ 26,672	\$ 15,261	\$ 11,814	\$ 61,474
Debt obligations payable .....	12,500	60,714	268,750	250,000	591,964
Interest obligations on debt <sup>(2)</sup> .....	14,799	56,257	43,563	33,750	148,369
Tax receivable agreement .....	6,284	23,587	27,630	191,699	249,200
Commitments to Oaktree and third-party funds <sup>(3)</sup> .....	258,299	—	—	—	258,299
Sub-total .....	299,609	167,230	355,204	487,263	1,309,306
<b>Consolidated funds:</b>					
Debt obligations payable .....	1,511,836	—	—	—	1,511,836
Interest obligations on debt .....	7,710	—	—	—	7,710
Commitments to fund investments <sup>(4)</sup> .....	906,797	—	—	—	906,797
Total .....	<u>\$ 2,725,952</u>	<u>\$ 167,230</u>	<u>\$ 355,204</u>	<u>\$ 487,263</u>	<u>\$ 3,735,649</u>

- (1) We lease our office space under agreements that expire periodically through 2022. The table includes only guaranteed minimum lease payments for these leases and does not project other lease-related payments. These leases are classified as operating leases for financial statement purposes and as such are not recorded as liabilities in our condensed consolidated financial statements.
- (2) Interest obligations include accrued interest on outstanding indebtedness. Where applicable, current interest rates are applied to estimate future interest obligations on variable-rate debt.
- (3) These obligations represent commitments by us to provide general partner capital funding to our funds and limited partner capital funding to funds managed by unaffiliated third parties. These amounts are generally due on demand and are therefore presented in the 2013 column. Capital commitments are expected to be called over the next five years.
- (4) These obligations represent commitments by our funds to make investments or fund uncalled contingent commitments. These amounts are generally due either on demand or by various contractual dates that vary by investment and are therefore presented in the 2013 column. Capital commitments are expected to be called over a period of several years.

In some of our service contracts or management agreements, we have agreed to indemnify third-party service providers or separate account clients under certain circumstances. The terms of the indemnities vary from contract to contract and the amount of indemnification liability, if any, cannot be determined and has neither been included in the above table nor recorded in our condensed consolidated financial statements as of June 30, 2013.

As of June 30, 2013, none of the incentive income we had recognized was subject to clawback by the funds.

## General Partner and Other Capital Commitments

As of June 30, 2013, our capital commitments to our funds (as general partner) and certain non-Oaktree investment vehicles for which a portion of the commitment remained undrawn were as follows:

	Capital Commitments	Undrawn Commitments as of June 30, 2013
	(in millions)	
Distressed Debt:		
Oaktree Opportunities Fund VIIIb, L.P. ....	\$ 67	\$ 7
Oaktree Opportunities Fund IX, L.P. ....	100	90
Oaktree Emerging Market Opportunities Fund, L.P. ....	20	20
Special accounts .....	5	1
Strategic Credit:		
Special account .....	3	1
Control Investments:		
Oaktree Principal Fund V, L.P. ....	71	22
Oaktree European Principal Fund III, L.P. ....	100	62
Oaktree Power Opportunities Fund III, L.P. ....	27	18
Special account .....	5	1
Real Estate:		
Oaktree Real Estate Opportunities Fund VI, L.P. ....	38	11
Mezzanine Finance:		
Oaktree Mezzanine Fund III, L.P. ....	40	12
Non-Oaktree .....	42	13
Total .....	<u>\$ 518</u>	<u>\$ 258</u>

## Off-Balance Sheet Arrangements

We lease a corporate airplane for business purposes. We are responsible for any unreimbursed costs and expenses incurred in connection with the operation, crew, registration, maintenance, service and repair of the airplane. An unaffiliated third party manages the airplane and coordinates its use. The lease contains a buyout provision that would allow us to purchase the plane at the lease's termination in February 2015. If we do not exercise that option, we would be responsible for any shortfall, up to \$10.0 million, in sale proceeds the lessor might incur below an expected sale value of \$12.3 million.

## Critical Accounting Policies

We prepare our consolidated financial statements in accordance with GAAP. In applying many of these accounting principles, we need to make assumptions, estimates or judgments that affect the reported amounts of assets, liabilities, revenues and expenses in our condensed consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates or judgments, however, are both subjective and subject to change, and actual results may differ from our assumptions and estimates. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. We believe our critical accounting policies could potentially produce materially different results if we were to change underlying assumptions, estimates or judgments. For a summary of our significant accounting policies, please see the notes to our condensed consolidated financial statements included elsewhere in this quarterly report and the notes to our consolidated financial statements in our annual report. For a summary of our critical accounting policies, please see "Management's Discussion and Analysis of Financial Condition and Result of Operations—Critical Accounting Policies" in our annual report.

The table below summarizes the valuation of investments and other financial instruments, by fund type and fair-value hierarchy levels, for each period presented in our condensed consolidated statements of financial condition (in thousands):

<u>As of June 30, 2013</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Closed-end funds .....	\$ 3,748,839	\$ 8,169,400	\$ 19,008,289	\$30,926,528
Open-end funds .....	10,721	4,753,893	17,649	4,782,263
Evergreen funds .....	652,340	748,702	517,045	1,918,087
Total .....	<u>\$ 4,411,900</u>	<u>\$ 13,671,995</u>	<u>\$ 19,542,983</u>	<u>\$37,626,878</u>

  

<u>As of December 31, 2012</u>				
Closed-end funds .....	\$ 2,710,883	\$ 9,371,995	\$ 19,509,888	\$31,592,766
Open-end funds .....	32,714	4,773,838	19,002	4,825,554
Evergreen funds .....	497,158	902,531	379,000	1,778,689
Total .....	<u>\$ 3,240,755</u>	<u>\$ 15,048,364</u>	<u>\$ 19,907,890</u>	<u>\$38,197,009</u>

### **Recent Accounting Developments**

Please see note 2 to our condensed consolidated financial statements included elsewhere in this quarterly report for information regarding recent accounting developments.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

In the normal course of business, we are exposed to a broad range of risks inherent in the financial markets in which we participate, including price risk, interest-rate risk, access to and cost of financing risk, liquidity risk, counterparty risk and foreign exchange-rate risk. Potentially negative effects of these risks may be mitigated to a certain extent by those aspects of our investment approach, investment strategies, fundraising practices or other business activities that are designed to benefit, either in relative or absolute terms, from periods of economic weakness, tighter credit or financial market dislocations.

Our predominant exposure to market risk is related to our role as general partner or investment adviser to our funds and the sensitivities to movements in the fair value of their investments on management fees, incentive income and investment income. The fair value of the financial assets and liabilities of our funds may fluctuate in response to changes in, among many factors, the value of securities, foreign exchange, commodities and interest rates.

#### **Price Risk**

##### *Impact on Net Change in Unrealized Appreciation (Depreciation) on Consolidated Funds' Investments*

As of June 30, 2013, we had investments at fair value of \$37.6 billion related to our consolidated funds. We estimate that a 10% decline in market values would result in a decrease in unrealized appreciation on the consolidated funds' investments of \$3.8 billion. Inasmuch as this effect would be attributable to non-controlling interests, net income attributable to Oaktree Capital Group, LLC would be unaffected.

##### *Impact on Segment Management Fees*

Management fees are generally assessed in the case of (a) our open-end funds and evergreen funds, based on NAV; and (b) our closed-end funds, based on committed capital during the investment period and, during the liquidation period, based on the lesser of (i) the total funded committed capital and (ii) the cost basis of assets remaining in the fund. Management fees are affected by short-term changes in market values to the extent they are based on NAV, in which case the effect is prospective. We estimate that for the six months ended June 30, 2013, an incremental 10% decline in market values of the investments held in our funds would have caused an approximate \$10.4 million decrease in management fees. These estimated effects are without regard to a number of factors that would be expected to increase or decrease the magnitude of the change to degrees that are not readily quantifiable, such as the use of leverage facilities in certain of our funds or the timing of fund flows.

##### *Impact on Segment Incentive Income*

Incentive income is recognized only when it is fixed or determinable, which in the case of (a) our closed-end funds generally occurs only after all contributed capital and an annual preferred return on that capital (typically 8%) have been distributed to the fund's investors and (b) our active evergreen funds occurs generally as of

December 31, based on the increase in the fund's NAV during the year, subject to any high-water marks. In the case of closed-end funds, the link between short-term fluctuations in market values and a particular period's incentive income is indirect at best and, in certain cases, non-existent. Thus, the effect on incentive income of an incremental 10% decline in market values for the six months ended June 30, 2013 is not readily quantifiable. Over a number of years, a decline in market values would be expected to cause a decline in incentive income.

#### ***Impact on Segment Investment Income***

Investment income or loss arises from our pro rata share of income or loss from our investments, generally in our capacity as general partner in our funds and third-party managed funds or companies. This income is directly affected by changes in market risk factors. We estimate that for the six months ended June 30, 2013, an incremental 10% decline in fair values of the investments held in our funds and other holdings would have reduced our investment income by \$116.7 million. These estimated effects are without regard to a number of factors that would be expected to increase or decrease the magnitude of the change to degrees that are not readily quantifiable, such as the use of leverage facilities in certain of our funds, the timing of fund flows or the timing of new investments or realizations.

#### ***Exchange-rate Risk***

Our business is affected by movements in the rate of exchange between the U.S. dollar and non-U.S. dollar currencies in the case of (a) management fees that vary based on the NAV of our funds that hold investments denominated in non-U.S. dollar currencies, (b) management fees received in non-U.S. dollar currencies, (c) operating expenses for our foreign offices that are denominated in non-U.S. dollar currencies and (d) cash balances we hold in non-U.S. dollar currencies. We manage our exposure to exchange-rate risks through our regular operating activities and, when appropriate, through the use of derivative financial instruments.

We estimate that for the six months ended June 30, 2013, a 10% decline in the average rate of exchange of the U.S. dollar would have had the following approximate effects on our segment results:

- our management fees (relating to (a) and (b) above) would have increased by \$5.5 million;
- our operating expenses would have increased by \$5.8 million;
- OCGH interest in net income of consolidated subsidiaries would have decreased by \$0.2 million; and
- our income tax expense would not have been materially affected.

These movements would not have materially affected our net income attributable to OCG.

At any point in time, some investments held in the closed-end and evergreen funds are carried in non-U.S. dollar currencies on an unhedged basis. Changes in currency rates could affect incentive income, incentives created (fund level) and investment income for closed-end and evergreen funds, although the degree of impact is not readily determinable because of the many indirect effects that currency movements may have on individual investments.

#### ***Credit Risk***

We are party to agreements providing for various financial services and transactions that contain an element of risk in the event that the counterparties are unable to meet the terms of such agreements. In such agreements, we depend on the respective counterparty to make payment or otherwise perform. We generally endeavor to minimize our risk of exposure by limiting to reputable financial institutions the counterparties with which we enter into financial transactions. In other circumstances, availability of financing from financial institutions may be uncertain due to market events, and we may not be able to access these financing markets.

#### ***Interest-rate Risk***

As of June 30, 2013, Oaktree and its operating subsidiaries had \$592.0 million in debt obligations consisting of four senior notes issuances and a funded term loan. Each senior notes issuance accrues interest at a fixed rate. The funded term loan accrues interest at a variable rate; however, we entered into interest-rate swaps that effectively converted the bulk of the term loan interest rate to a fixed rate through 2016. As a result, we estimate that there would be no material impact to interest expense of Oaktree and its operating subsidiaries resulting from a 100-basis point increase in interest rates. Of the \$1.1 billion of aggregate segment cash and cash-equivalents and investments in U.S. Treasury and government agency securities as of June 30, 2013, we estimate Oaktree and its operating subsidiaries would generate an additional \$11.3 million in interest income on an annualized basis as a result of a 100-basis point increase in interest rates.

Our consolidated funds have debt obligations that include revolving credit agreements and certain other investment financing arrangements. These debt obligations accrue interest at variable rates, and changes in these rates would affect the amount of interest payments that we would have to make, impacting future earnings and cash flows. As of June 30, 2013, \$1.5 billion was outstanding under these credit facilities. We estimate that interest expense relating to variable rates would increase on an annual basis by \$15.1 million in the event interest rates were to increase by 100 basis points.

As credit-oriented investors, we are also subject to interest-rate risk through the securities we hold in our consolidated funds. A 100-basis point increase in interest rates would be expected to negatively affect prices of securities that accrue interest income at fixed rates and therefore negatively impact net change in unrealized appreciation (depreciation) on consolidated funds' investments. The actual impact is dependent on the average duration of such holdings. Conversely, securities that accrue interest at variable rates would be expected to benefit from a 100-basis point increase in interest rates because these securities would generate higher levels of current income and therefore positively impact interest and dividend income. Inasmuch as these effects are attributable to non-controlling interests, net income attributable to OCG would be unaffected. In cases where our funds pay management fees based on NAV, we would expect our segment management fees to experience a change in direction and magnitude corresponding to that experienced by the underlying portfolios.

## **Item 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Managing Principal and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon 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. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives.

Our management, including our Managing Principal and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, our Managing Principal and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective at the reasonable assurance level to accomplish their objectives of ensuring that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Managing Principal and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

### **Changes in Internal Control Over Financial Reporting**

No changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during our most recent quarter, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

For a discussion of legal proceedings, please see the section entitled “Legal actions” in note 12 to our condensed consolidated financial statements included elsewhere in this quarterly report, which section is incorporated herein by reference.

### **Item 1A. Risk Factors**

For a discussion of our potential risks and uncertainties, please see the information listed in the item captioned “Risk Factors” in our annual report. There have been no material changes to the risk factors disclosed in our annual report.

The risks described in our annual report are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

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

#### **Unregistered Sales of Equity Securities**

Under our operating agreement, we are required to issue one Class B unit for each OCGH unit issued. Accordingly, on April 8, 2013 we issued 50,000 Class B units to OCGH, and on June 28, 2013, we issued 5,000 Class B units to OCGH. No purchase price was paid by OCGH for these issuances. These issuances were exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, as transactions by an issuer not involving any public offering.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Mine Safety Disclosures**

None.

### **Item 5. Other Information**

#### **Fund Data**

Information regarding our closed-end, open-end and evergreen funds, together with benchmark data where applicable, is set forth below. For our closed-end and evergreen funds, no benchmarks are presented in the tables as there are no known comparable benchmarks for these funds’ investment philosophy, strategy and implementation. For purposes of the information set forth below, our funds’ investments were valued in accordance with our valuation methodology as set forth in “Management’s Discussion & Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Investments, at Fair Value.”

## Closed-end Funds

As of June 30, 2013														
	Investment Period		Total Committed Capital	Drawn Capital <sup>(1)</sup>	Fund Net Income Since Inception	Distri- butions Since Inception	Net Asset Value	Manage- ment Fee- Gener- ating AUM	Oaktree Segment Incentive Income Recogn- ized	Accrued Incentives (Fund Level) <sup>(2)</sup>	Unreturned Drawn Capital Plus Accrued Preferred Return <sup>(3)</sup>	IRR Since Inception <sup>(4)</sup>		Multiple of Drawn Capital <sup>(5)</sup>
	Start Date	End Date										Gross	Net	
(in millions)														
Distressed Debt														
OCM Opportunities Fund V, L.P. ....	Jun. 2004	Jun. 2007	\$ 1,179	\$ 1,179	\$ 945	\$ 1,955	\$ 169	\$ 220	\$ 151	\$ 34	\$ —	18.7%	14.3%	1.9x
OCM Opportunities Fund VI, L.P. ....	Jul. 2005	Jul. 2008	1,773	1,773	1,303	2,416	660	701	90	164	325	12.4	9.1	1.8
OCM Opportunities Fund VII, L.P. ....	Mar. 2007	Mar. 2010	3,598	3,598	1,583	4,161	1,020	1,007	25	169	810	11.4	8.3	1.5
OCM Opportunities Fund VIIb, L.P. ....	May 2008	May 2011	10,940	9,844	9,113	14,988	3,969	2,659	998	773	—	23.8	18.2	2.0
Special Account A .....	Nov. 2008	Oct. 2012	253	253	321	393	181	115	28	36	—	33.5	27.3	2.3
Oaktree Opportunities Fund VIII, L.P. ....	Oct. 2009	Oct. 2012	4,507	4,507	1,878	1,572	4,813	3,476	65	301	3,964	17.7	12.4	1.5
Special Account B .....	Nov. 2009	Nov. 2012	1,031	1,068	467	500	1,035	1,014	3	64	834	19.2	15.0	1.5
Oaktree Opportunities Fund VIIIb, L.P. ....	Aug. 2011	Aug. 2014	2,692	2,423	304	10	2,717	2,625	1	58	2,617	17.0	10.1	1.2
Oaktree Opportunities Fund IX, L.P. <sup>(6)</sup> .....	— <sup>(7)</sup>	—	5,028	503	(7)	—	496	493	—	—	511	nm	nm	1.0
Legacy funds <sup>(8)</sup> .....	Various	Various	9,543	9,543	8,176	17,675	44	—	1,109	9	—	24.2	19.3	1.9
												23.0%	17.6%	
Global Principal Investments														
OCM Principal Opportunities Fund III, L.P. ....	Nov. 2003	Nov. 2008	\$ 1,400	\$ 1,400	\$ 974	\$ 1,770	\$ 604	\$ 550	\$ 51	\$ 138	\$ 207	14.9%	10.5%	1.8x
OCM Principal Opportunities Fund IV, L.P. ....	Oct. 2006	Oct. 2011	3,328	3,328	1,483	2,405	2,406	1,946	—	—	2,421	10.4	8.0	1.6
Oaktree Principal Fund V, L.P. ....	Feb. 2009	Feb. 2014	2,827	2,021	467	385	2,103	2,756	—	70	2,013	15.8	8.4	1.3
Special Account C .....	Dec. 2008	Feb. 2014	505	414	252	133	533	355	10	40	380	21.9	16.2	1.7
Legacy funds <sup>(8)</sup> .....	Various	Various	2,301	2,301	1,838	4,112	27	—	235	1	—	14.5	11.6	1.8
												13.7%	10.2%	
Asia Principal Investments														
OCM Asia Principal Opportunities Fund, L.P. ....	May 2006	May 2011	\$ 578	\$ 503	\$ 6	\$ 100	\$ 409	\$ 344	\$ —	\$ —	\$ 605	4.5%	0.2%	1.2x
European Principal Investments <sup>(9)</sup>														
OCM European Principal Opportunities Fund, L.P. ....	Mar. 2006	Mar. 2009	\$ 495	\$ 460	\$ 354	\$ 194	\$ 620	\$ 342	\$ 3	\$ 44	\$ 563	10.7%	8.3%	1.9x
OCM European Principal Opportunities Fund II, L.P. ....	Dec. 2007	Dec. 2012	€ 1,759	€ 1,685	€ 406	€ 605	€ 1,486	€ 1,281	€ 11	€ —	€ 1,572	10.9	6.9	1.4
Oaktree European Principal Fund III, L.P. ....	Nov. 2011	Nov. 2016	€ 3,164	€ 1,265	€ 95	€ 3	€ 1,357	€ 3,072	€ —	€ —	€ 1,386	12.5	6.2	1.1
												11.0%	7.2%	
Power Opportunities														
OCM/GFI Power Opportunities Fund, L.P. ....	Nov. 1999	Nov. 2004	\$ 449	\$ 383	\$ 251	\$ 634	\$ —	\$ —	\$ 23	\$ —	\$ —	20.1%	13.1%	1.8x
OCM/GFI Power Opportunities Fund II, L.P. ....	Nov. 2004	Nov. 2009	1,021	541	1,460	1,899	102	39	94	7	—	76.3	59.1	3.9
Oaktree Power Opportunities Fund III, L.P. ....	Apr. 2010	Apr. 2015	1,062	326	126	5	447	1,036	—	24	362	37.4	19.4	1.6
												35.3%	27.4%	
Real Estate														
OCM Real Estate Opportunities Fund III, L.P. ....	Sep. 2002	Sep. 2005	\$ 707	\$ 707	\$ 647	\$ 1,238	\$ 116	\$ —	\$ 105	\$ 23	\$ —	15.8%	11.8%	2.0x
Oaktree Real Estate Opportunities Fund IV, L.P. ....	Dec. 2007	Dec. 2011	450	450	280	224	506	335	8	44	379	17.9	11.8	1.7
Special Account D .....	Nov. 2009	Nov. 2012	256	263	155	191	227	130	1	14	148	20.1	17.2	1.6
Oaktree Real Estate Opportunities Fund V, L.P. ....	Mar. 2011	Mar. 2015	1,283	1,283	330	120	1,493	1,251	5	58	1,343	18.5	12.6	1.3
Oaktree Real Estate Opportunities Fund VI, L.P. <sup>(6)</sup> .....	Aug. 2012	Aug. 2016	1,204	843	(7)	1	835	1,166	—	—	863	nm	nm	1.0
Legacy funds <sup>(8)</sup> .....	Various	Various	1,634	1,610	1,399	3,004	5	—	111	1	54	15.2	12.0	1.9
												15.5%	12.0%	

As of June 30, 2013

	Investment Period		Total Committed Capital	Drawn Capital <sup>(1)</sup>	Fund Net Income Since Inception	Distri- butions Since Inception	Net Asset Value	Manage- ment Fee- Gener- ating AUM	Oaktree Segment Incentive Income Recog- nized	Accrued Incentives (Fund Level) <sup>(2)</sup>	Unreturned Drawn Capital Plus Accrued Preferred Return <sup>(3)</sup>	IRR Since Inception <sup>(4)</sup>		Multiple of Drawn Capital <sup>(5)</sup>
	Start Date	End Date										Gross	Net	
(in millions)														
Asia Real Estate														
Oaktree Asia Special Situations Fund, L.P. ....	May 2008	Apr. 2009	\$ 50	\$ 19	\$ 14	\$ 2	\$ 31	\$ —	\$ —	\$ 2	\$ 26	17.4%	9.8%	2.0x
PPIP														
Oaktree PPIP Fund, L.P. <sup>(10)</sup> .....	Dec. 2009	Dec. 2012	\$ 2,322	\$ 1,113	\$ 458	\$ 1,489	\$ 82	\$ —	\$ 32	\$ 15 <sup>(11)</sup>	\$ —	28.2%	N/A	1.4x
Mezzanine Finance														
OCM Mezzanine Fund, L.P. <sup>(12)</sup> .....	Oct. 2001	Oct. 2006	\$ 808	\$ 773	\$ 279	\$ 1,038	\$ 14	\$ —	\$ 32	\$ 2	\$ —	14.3%	10.7% /10.0%	1.4x
OCM Mezzanine Fund II, L.P. ....	Jun. 2005	Jun. 2010	1,251	1,107	429	1,160	376	505	—	—	426	10.5	7.3	1.5
Oaktree Mezzanine Fund III, L.P. <sup>(13)</sup> .....	Dec. 2009	Dec. 2014	1,592	1,130	120	397	853	1,552	—	—	895	12.9	10.4 / (0.9)	1.2
												12.1%	8.2%	
U.S. Senior Loans														
Oaktree Loan Fund, L.P. ....	Sep. 2007	Sep. 2012	\$ 2,193	\$ 2,193	\$ 95	\$ 2,288	\$ —	\$ —	N/A	N/A	N/A	2.5%	1.9%	1.1x
Oaktree Loan Fund, 2x, L.P. ....	Sep. 2007	Sep. 2015	1,722	1,722	103	1,773	52	51	N/A	N/A	N/A	2.7	2.0	1.1
Oaktree Enhanced Income Fund, L.P. <sup>(6)</sup> .....	Sep. 2012	Aug. 2015	755	755	19	—	774	2,190	N/A	N/A	N/A	nm	nm	1.0
								32,517 <sup>(15)</sup>		2,091 <sup>(15)</sup>				
							Other <sup>(16)</sup>	202		4				
							Total <sup>(17)</sup>	\$ 32,719		\$ 2,095				

(1) Reflects the capital contributions of investors in the fund, net of any distributions to such investors of uninvested capital.

(2) Excludes Oaktree segment incentive income recognized since inception.

(3) Reflects the amount the fund needs to distribute to its investors as a return of capital and a preferred return (as applicable) before Oaktree is entitled to receive incentive income (other than tax distributions) from the fund.

(4) The internal rate of return ("IRR") is the annualized implied discount rate calculated from a series of cash flows. It is the return that equates the present value of all capital invested in an investment to the present value of all returns of capital, or the discount rate that will provide a net present value of all cash flows equal to zero. Fund-level IRRs are calculated based upon the actual timing of cash contributions/distributions to investors and the residual value of such investor's capital accounts at the end of the applicable period being measured. Gross IRRs reflect returns before allocation of management fees, expenses and any incentive allocation to the fund's general partner. Net IRRs reflect returns to non-affiliated investors after allocation of management fees, expenses and any incentive allocation to the fund's general partner.

(5) Calculated as Drawn Capital plus gross income before fees and expenses divided by Drawn Capital.

(6) The IRR is not considered meaningful ("nm") as the period from the initial contribution through June 30, 2013 is less than one year.

(7) As of June 30, 2013, Oaktree Opportunities Fund IX, L.P. had made an aggregate 10% drawdown against its \$5.0 billion of committed capital. Oaktree has not yet commenced the fund's investment period and, as a result, as of June 30, 2013 management fees were assessed only on the drawn capital, and management fee-generating AUM included only that portion of committed capital.

(8) Represents certain predecessor funds within the relevant strategy that have completely liquidated their assets or whose remaining assets represent less than 5% of the committed capital of such fund. Includes funds managed by certain Oaktree investment professionals while employed at the Trust Company of the West prior to Oaktree's founding in 1995. When these employees joined Oaktree upon, or shortly after, its founding, they continued to manage the fund through the end of its term pursuant to a sub-advisory relationship between the Trust Company of the West and Oaktree.

(9) Aggregate IRRs based on conversion of OCM European Principal Opportunities Fund II, L.P. and Oaktree European Principal Fund III, L.P. cash flows from Euros to USD at the June 30, 2013 spot rate of \$1.30.

(10) Due to the differences in allocations of income and expenses to this fund's two primary limited partners, the U.S. Treasury and Oaktree PPIP Private Fund, L.P., a combined net IRR is not presented. Of the \$2,322 million in capital commitments, \$1,161 million relates to the Oaktree PPIP Private Fund, L.P. The gross and net IRR for the Oaktree PPIP Private Fund, L.P. were 24.8% and 18.7%, respectively, as of June 30, 2013.

(11) Represents amounts related to the Oaktree PPIP Private Fund, L.P. only.

(12) The fund's partnership interests are divided into Class A and Class B interests, with the Class A interests having priority with respect to the distribution of current income and disposition proceeds. Net IRR for Class A interests is 10.7% and Class B interests is 10.0%. Combined net IRR for the Class A and Class B interests is 10.3%.

(13) The fund's partnership interests are divided into Class A and Class B interests, with the Class A interests having priority with respect to the distribution of current income and disposition proceeds. Net IRR for Class A interests is 10.4% and Class B interests is (0.9)%. Combined net IRR for Class A and Class B interests is 7.5%.

(14) Represents gross assets, including leverage of \$1,437 million.

(15) Totals based on conversion of Euro amounts to USD at the June 30, 2013 spot rate of \$1.30.

(16) Includes separate accounts and a non-Oaktree fund.

(17) Excludes one separate account with management fee-generating AUM of \$400 million as of June 30, 2013, which has been included as part of the Strategic Credit strategy within the evergreen funds table.

## Open-end Funds

	Composite Inception	Management Fee-generating AUM as of June 30, 2013 (in millions)	Twelve Months Ended June 30, 2013			Since Inception through June 30, 2013				
			Rates of Return <sup>(1)</sup>			Annualized Rates of Return <sup>(1)</sup>			Sharpe Ratio	
			Oaktree		Relevant Benchmark	Oaktree		Relevant Benchmark	Oaktree Gross	Relevant Benchmark
			Gross	Net		Gross	Net			
U.S. High Yield Bonds .....	Jan. 1986	\$ 16,549	8.3%	7.7%	8.9%	9.9%	9.4%	8.8%	0.80	0.54
European High Yield Bonds...	May 1999	1,267	13.4	12.8	13.5	8.2	7.6	6.1	0.60	0.34
U.S. Convertibles .....	Apr. 1987	4,564	19.3	18.7	18.6	10.0	9.4	8.0	0.48	0.31
Non-U.S. Convertibles .....	Oct. 1994	2,407	11.3	10.8	10.3	9.0	8.3	5.8	0.75	0.35
High Income Convertibles.....	Aug. 1989	1,078	11.5	11.0	9.2	12.0	11.4	8.6	1.02	0.58
U.S. Senior Loans .....	Sep. 2008	2,077	6.5	6.0	7.6	8.1	7.6	6.2	1.19	0.59
European Senior Loans .....	May 2009	1,219	8.0	7.5	8.7	11.8	11.2	13.1	1.84	1.91
Emerging Markets Equity.....	Jul. 2011	74	9.0	8.1	2.9	(2.9)	(3.7)	(7.0)	(0.13)	(0.33)
Total		<u>\$ 29,235</u>								

(1) Represents Oaktree's time-weighted rates of return, including reinvestment of income, net of commissions and transaction costs. Returns for Relevant Benchmarks are presented on a gross basis.

## Evergreen Funds

		As of June 30, 2013			Twelve Months Ended June 30, 2013		Since Inception through June 30, 2013	
	Strategy Inception	Strategy AUM	Management Fee-generating AUM	Accrued Incentives (Fund Level) <sup>(1)</sup>	Rates of Return		Annualized Rates of Return	
			(in millions)		Gross	Net	Gross	Net
Value Opportunities .....	Sep. 2007	\$ 1,772	\$ 1,712	\$ 22	19.5%	13.6%	13.7%	8.8%
Emerging Markets Absolute Return ..	Apr. 1997	324	302	N/A <sup>(3)</sup>	6.8	4.5	15.5	10.6
Strategic Credit <sup>(2)</sup> .....	Jul. 2012	1,208	646	1	18.3	17.7	18.3	17.7
			2,660	23				
	Restructured funds <sup>(4)</sup>		—	10				
	Total <sup>(2)</sup>		\$ 2,660	\$ 33				

(1) For the three and six months ended June 30, 2013, segment incentive income recognized by Oaktree totaled \$1.7 million and \$3.7 million, respectively.

(2) Includes a separate account with a closed-end fund structure with \$550 million of AUM and \$400 million of management fee-generating AUM. Returns presented are time-weighted rates of return for the closed-end separate account.

(3) As of June 30, 2013, the aggregate depreciation below high-water marks previously established for individual investors in the fund totaled approximately \$4.6 million.

(4) Oaktree manages three restructured evergreen funds that are in liquidation: Oaktree European Credit Opportunities Fund, L.P., Oaktree High Yield Plus Fund, L.P. and Oaktree Japan Opportunities Fund, L.P. (Yen class). As of June 30, 2013, these funds had gross and net IRRs since inception of (2.1)% and (4.6)%, 8.0% and 5.6%, and (8.1)% and (9.2)%, respectively, and in the aggregate had AUM of \$177.7 million. Additionally, Oaktree High Yield Plus Fund, L.P. had accrued incentives (fund level) of \$9.5 million as of June 30, 2013.

**Item 6. Exhibits**

For a list of exhibits filed with this report, refer to the Exhibits Index on the page immediately preceding the exhibits, which Exhibit Index is incorporated herein by reference.

## **SIGNATURE**

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

Date: August 8, 2013

### **Oaktree Capital Group, LLC**

By:           /s/  David M. Kirchheimer          

Name: **David M. Kirchheimer**

Title: **Principal, Chief Financial Officer and  
Chief Administrative Officer and Authorized Signatory**

## EXHIBITS INDEX

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
3.1	Restated Certificate of Formation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1, filed with the SEC on June 17, 2011).
3.2	Third Amended and Restated Operating Agreement of the Registrant dated as of August 31, 2011 (incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-1, filed with the SEC on September 2, 2011).
3.3	Amendment to Third Amended and Restated Operating Agreement of the Registrant dated as of March 29, 2012 (incorporated by reference to Exhibit 3.3 to the Registrant's Registration Statement on Form S-1, filed with the SEC on March 30, 2012).
31.1	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as adopted, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as adopted, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS†	XBRL Instance Document.
101.SCH†	XBRL Taxonomy Extension Schema Document.
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB†	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF†	XBRL Taxonomy Extension Definition Linkbase Document.

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† In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed for purposes of Section 18 of the Exchange Act and otherwise is not subject to liability under such section.