

KKR & Co. L.P.  
Form 10-Q  
November 08, 2011  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**Form 10-Q**

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

For the quarterly period ended September 30, 2011

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 001-34820

**KKR & CO. L.P.**

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(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other Jurisdiction of  
Incorporation or Organization)

**26-0426107**  
(I.R.S. Employer  
Identification Number)

**9 West 57th Street, Suite 4200**

**New York, New York 10019**

**Telephone: (212) 750-8300**

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

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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 November 4, 2011, there were 223,284,460 Common Units of the registrant outstanding.

Table of Contents

**KKR & CO. L.P.**

**FORM 10-Q**

**For the Quarter Ended September 30, 2011**

**INDEX**

		<b>Page No.</b>
	<b><u>PART I FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u>	<u>Financial Statements (Unaudited)</u>	1
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	46
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	86
<u>Item 4.</u>	<u>Controls and Procedures</u>	86
	<b><u>PART II OTHER INFORMATION</u></b>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	87
<u>Item 1A.</u>	<u>Risk Factors</u>	87
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	87
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	87
<u>Item 4.</u>	<u>(Removed and Reserved)</u>	87
<u>Item 5.</u>	<u>Other Information</u>	87
<u>Item 6.</u>	<u>Exhibits</u>	87
<u>SIGNATURES</u>		88

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Table of Contents

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as outlook, believe, expect, potential, continue, may, should, approximately, predict, intend, will, plan, estimate, anticipate or the negative version of these words or other comparable words. Forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled Risk Factors in this report. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. 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, except as required by applicable law.

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In this report, references to KKR, we, us, our and our partnership refer to KKR & Co. L.P. and its consolidated subsidiaries. Prior to KKR & Co. L.P. becoming listed on the New York Stock Exchange ( NYSE ) on July 15, 2010, KKR Group Holdings L.P. consolidated the financial results of KKR Management Holdings L.P. and KKR Fund Holdings L.P. (together, the KKR Group Partnerships ) and their consolidated subsidiaries.

References to our Managing Partner are to KKR Management LLC, which acts as our general partner and unless otherwise indicated, references to equity interests in KKR s business, or to percentage interests in KKR s business, reflect the aggregate equity of the KKR Group Partnerships and are net of amounts that have been allocated to our principals in respect of the carried interest from KKR s business as part of our carry pool and certain minority interests. References to our principals are to our senior employees and non-employee operating consultants who hold interests in KKR s business through KKR Holdings L.P., which we refer to as KKR Holdings , and references to our senior principals are to principals who also hold interests in our Managing Partner entitling them to vote for the election of its directors.

In this report, the terms assets under management or AUM represent the assets from which KKR is entitled to receive fees or a carried interest and general partner capital. KKR calculates the amount of AUM as of any date as the sum of: (i) the fair value of the investments of KKR s investment funds plus uncalled capital commitments from these funds; (ii) the fair value of investments in KKR s co-investment vehicles; (iii) the net asset value of certain of KKR s fixed income products; (iv) the value of outstanding structured finance vehicles and (v) the fair value of other assets managed by KKR. KKR s definition of AUM is not based on any definition of AUM that is set forth in the agreements governing the investment funds, vehicles or accounts that it manages or calculated pursuant to any regulatory requirements.

In this report, the terms fee paying assets under management or FPAUM represent only those assets under management from which KKR receives fees. FPAUM is the sum of all of the individual fee bases that are used to calculate KKR s fees and differs from AUM in the following respects: (i) assets from which KKR does not receive a fee are excluded (i.e., assets with respect to which it receives only carried interest); and (ii) certain assets, primarily in its private equity funds, are reflected based on capital commitments and invested capital as opposed to fair value because fees are not impacted by changes in the fair value of underlying investments.

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In this report, the terms fee related earnings or FRE is comprised of segment operating revenues, less segment operating expenses. The components of FRE on a segment basis differ from the equivalent U.S. GAAP amounts on a consolidated basis as a result of: (i) the inclusion of management fees earned from consolidated funds that were eliminated in consolidation; (ii) the exclusion of fees and expenses of certain consolidated entities; (iii) the exclusion of charges relating to the amortization of intangible assets; (iv) the exclusion of charges relating to carry pool allocations; (v) the exclusion of non-cash equity charges and other non-cash compensation charges borne by KKR Holdings or incurred under the KKR & Co. L.P. 2010 Equity Incentive Plan; (vi) the exclusion of certain reimbursable expenses; and (vii) the exclusion of certain non-recurring items.

In this report, the terms economic net income (loss) or ENI is a measure of profitability for KKR's reportable segments and is comprised of: (i) FRE; plus (ii) segment investment income (loss), which is reduced for carry pool allocations and management fee refunds; less (iii) certain economic interests in KKR's segments held by third parties. ENI differs from net income (loss) on a GAAP basis as a result of: (i) the exclusion of the items referred to in FRE above; (ii) the exclusion of investment income (loss) relating to noncontrolling interests; and (iii) the exclusion of income taxes.

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Table of Contents

You should note that our calculations of AUM, FPAUM, FRE and ENI may differ from the calculations of other investment managers and, as a result, our measurements of AUM, FPAUM, FRE and ENI may not be comparable to similar measures presented by other investment managers.

In this report, the term GAAP refers to generally accepted accounting principles in the United States.

Unless otherwise indicated, references in this report to our fully diluted common units outstanding, or to our common units outstanding on a fully diluted basis, reflect (i) actual common units outstanding, (ii) common units into which KKR Group Partnership Units not held by us are exchangeable pursuant to the terms of the exchange agreement described in this report and (iii) common units issuable pursuant to any equity awards actually issued under the KKR & Co. L.P. 2010 Equity Incentive Plan, which we refer to as our Equity Incentive Plan, but do not reflect common units available for issuance pursuant to our Equity Incentive Plan for which grants have not yet been made.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****KKR & CO. L.P.****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Unaudited)**

(Amounts in Thousands, Except Unit Data)

	September 30, 2011	December 31, 2010
<b>Assets</b>		
Cash and Cash Equivalents	\$ 821,769	\$ 738,693
Cash and Cash Equivalents Held at Consolidated Entities	439,252	695,902
Restricted Cash and Cash Equivalents	91,480	60,482
Investments	36,357,602	36,449,770
Due from Affiliates	158,417	136,556
Other Assets	765,242	309,754
<b>Total Assets</b>	<b>\$ 38,633,762</b>	<b>\$ 38,391,157</b>
<b>Liabilities and Equity</b>		
Debt Obligations	\$ 1,565,236	\$ 1,486,960
Due to Affiliates	41,272	18,047
Accounts Payable, Accrued Expenses and Other Liabilities	1,112,832	886,108
<b>Total Liabilities</b>	<b>2,719,340</b>	<b>2,391,115</b>
<b>Commitments and Contingencies</b>		
<b>Equity</b>		
KKR & Co. L.P. Partners' Capital (222,944,668 and 212,770,091 common units issued and outstanding as of September 30, 2011 and December 31, 2010, respectively)	1,264,636	1,324,530
Accumulated Other Comprehensive Income	603	1,963
<b>Total KKR &amp; Co. L.P. Partners' Capital</b>	<b>1,265,239</b>	<b>1,326,493</b>
Noncontrolling Interests in Consolidated Entities	30,360,258	30,327,161
Noncontrolling Interests held by KKR Holdings L.P.	4,288,925	4,346,388
<b>Total Equity</b>	<b>35,914,422</b>	<b>36,000,042</b>
<b>Total Liabilities and Equity</b>	<b>\$ 38,633,762</b>	<b>\$ 38,391,157</b>

*See accompanying notes to condensed consolidated financial statements.*





Table of Contents**KKR & CO. L.P.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

(Amounts in Thousands, Except Unit and Per Unit Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>Revenues</b>				
Fees	\$ 164,808	\$ 96,018	\$ 514,263	\$ 289,119
<b>Expenses</b>				
Compensation and Benefits	48,948	331,180	677,917	1,045,332
Occupancy and Related Charges	13,702	10,373	39,085	29,568
General, Administrative and Other	52,555	94,000	130,579	229,770
Fund Expenses	13,625	14,314	36,287	39,091
Total Expenses	128,830	449,867	883,868	1,343,761
<b>Investment Income (Loss)</b>				
Net Gains (Losses) from Investment Activities	(3,339,020)	1,450,124	467,278	4,768,245
Dividend Income	71,106	218,232	107,129	808,512
Interest Income	64,858	66,603	218,975	171,058
Interest Expense	(17,742)	(10,432)	(52,365)	(34,393)
Total Investment Income (Loss)	(3,220,798)	1,724,527	741,017	5,713,422
<b>Income (Loss) Before Taxes</b>				
	(3,184,820)	1,370,678	371,412	4,658,780
Income Taxes	11,535	16,263	67,923	60,998
<b>Net Income (Loss)</b>				
	(3,196,355)	1,354,415	303,489	4,597,782
Net Income (Loss) Attributable to Noncontrolling Interests in Consolidated Entities				
	(2,468,074)	1,293,373	295,654	3,957,319
Net Income (Loss) Attributable to Noncontrolling Interests Held by KKR Holdings L.P.				
	(484,879)	52,186	52,051	487,864
<b>Net Income (Loss) Attributable to KKR &amp; Co. L.P.</b>				
	\$ (243,402)	\$ 8,856	\$ (44,216)	\$ 152,599
Distributions Declared per KKR & Co. L.P. Common Unit				
	\$ 0.10	\$ 0.15	\$ 0.42	\$ 0.31
<b>Net Income (Loss) Attributable to KKR &amp; Co. L.P. Per Common Unit</b>				
Basic	\$ (1.09)	\$ 0.04	\$ (0.20)	\$ 0.74
Diluted	\$ (1.09)	\$ 0.04	\$ (0.20)	\$ 0.74

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**Weighted Average Common Units  
Outstanding**

Basic	222,733,648	204,902,226	218,501,107	204,902,226
Diluted	222,733,648	204,902,226	218,501,107	204,902,226

*See accompanying notes to condensed consolidated financial statements.*

Table of Contents**KKR & CO. L.P.****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)**

(Amounts in Thousands, Except Unit Data)

	KKR & Co. L.P.						
	Common Units	Partners Capital	Accumulated Other Comprehensive Income	Noncontrolling Interests in Consolidated Entities	Noncontrolling Interests held by KKR Holdings L.P.	Total Comprehensive Income	Total Equity
<b>Balance at January 1, 2011</b>	212,770,091	\$ 1,324,530	\$ 1,963	\$ 30,327,161	\$ 4,346,388		\$ 36,000,042
Comprehensive Income:							
Net Income (Loss)		(44,216)		295,654	52,051	\$ 303,489	303,489
Other Comprehensive Income- Currency Translation Adjustment			(1,465)	(338)	(3,165)	(4,968)	(4,968)
Total Comprehensive Income						\$ 298,521	298,521
Contribution of Net Assets of previously Unconsolidated Entities				69,600			69,600
Exchange of KKR Holdings L.P. Units to KKR & Co. L.P. Common Units	10,157,372	103,695	85		(103,780)		
Deferred Tax Effects Resulting from Exchange of KKR Holdings L.P. Units to KKR & Co. L.P. Common Units		1,530	20				1,550
Delivery of Common Units - Equity Incentive Plan	17,205						
Equity-based Payments		11,165			375,368		386,533
Capital Contributions				3,808,158	4,698		3,812,856
Capital Distributions		(132,068)		(4,139,977)	(382,635)		(4,654,680)
<b>Balance at September 30, 2011</b>	222,944,668	\$ 1,264,636	\$ 603	\$ 30,360,258	\$ 4,288,925		\$ 35,914,422

*See accompanying notes to condensed consolidated financial statements.*

Table of Contents**KKR & CO. L.P.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

(Amounts in Thousands)

	Nine Months Ended September 30,	
	2011	2010
<b>Cash Flows from Operating Activities</b>		
Net Income (Loss)	\$ 303,489	\$ 4,597,782
<b>Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>		
Non-Cash Equity-Based Payments	386,533	717,153
Net Realized (Gains) Losses on Investments	(2,906,193)	(1,493,920)
Change in Unrealized (Gains) Losses on Investments	2,438,915	(3,274,325)
Other Non-Cash Amounts	(55,782)	(18,150)
Cash Flows Due to Changes in Operating Assets and Liabilities:		
Change in Cash and Cash Equivalents Held at Consolidated Entities	268,555	35,032
Change in Due from / to Affiliates	(16,091)	(112,585)
Change in Other Assets	(29,892)	(46,388)
Change in Accounts Payable, Accrued Expenses and Other Liabilities	212,613	194,692
Investments Purchased	(6,958,884)	(3,565,649)
Cash Proceeds from Sale of Investments	7,248,851	4,131,619
Net Cash Provided (Used) by Operating Activities	892,114	1,165,261
<b>Cash Flows from Investing Activities</b>		
Change in Restricted Cash and Cash Equivalents	(30,998)	22,757
Purchase of Furniture, Equipment and Leasehold Improvements	(4,801)	(7,424)
Net Cash Provided (Used) by Investing Activities	(35,799)	15,333
<b>Cash Flows from Financing Activities</b>		
Distributions to Noncontrolling Interests in Consolidated Entities	(4,139,977)	(3,297,565)
Contributions from Noncontrolling Interests in Consolidated Entities	3,808,158	3,259,332
Distributions to KKR Holdings L.P.	(382,635)	(251,627)
Contributions from KKR Holdings L.P.	4,698	3,631
Distributions to Partners	(132,068)	(60,520)
Proceeds from Debt Obligations	79,476	642,406
Repayment of Debt Obligations	(1,356)	(963,972)
Deferred Financing Costs Incurred	(9,535)	(3,666)
Net Cash Provided (Used) by Financing Activities	(773,239)	(671,981)
<b>Net Change in Cash and Cash Equivalents</b>	83,076	508,613
Cash and Cash Equivalents, Beginning of Period	738,693	546,739
Cash and Cash Equivalents, End of Period	\$ 821,769	\$ 1,055,352

*See accompanying notes to condensed consolidated financial statements.*



Table of Contents**KKR & CO. L.P.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (Continued)**

(Amounts in Thousands)

	Nine Months Ended September 30,	
	2011	2010
<b>Supplemental Disclosures of Cash Flow Information</b>		
Payments for Interest	\$ 42,195	\$ 63,958
Payments for Income Taxes	\$ 59,680	\$ 55,579
<b>Supplemental Disclosures of Non-Cash Activities</b>		
Non-Cash Contributions of Equity-Based Compensation	\$ 386,533	\$ 717,153
Restricted Stock Grant from Affiliate	\$ 2,358	\$
Proceeds Due from Unsettled Investment Sales	\$ 379,154	\$ 6,417
Unsettled Purchases of Investments	\$ 80,523	\$ 12,616
Change in Contingent Carried Interest Repayment Guarantee	\$	\$ 21,138
Unrealized Gains (Losses) on Foreign Exchange on Debt Obligations	\$	\$ 2,343
Conversion of Interest Payable into Debt Obligations	\$	\$ 2,100
Foreign Exchange Gains (Losses) on Cash and Cash Equivalents Held at Consolidated Entities	\$ 401	\$ 943
Exchange of KKR Holdings L.P. Units to KKR & Co. L.P. Common Units	\$ 103,780	\$
Net Deferred Tax Effects Resulting from Exchange of KKR Holdings L.P. Units to KKR & Co. L.P. Common Units including the effect of the tax receivable agreement	\$ 1,550	\$
<b>Contribution of Net Assets of previously Unconsolidated Entities</b>		
Investments	\$ 57,722	\$
Cash and Cash Equivalents Held at Consolidated Entities	\$ 11,504	\$
Due from Affiliates	\$ 4,244	\$
Other Assets	\$ 4,164	\$
Accounts Payable, Accrued Expenses and Other Liabilities	\$ 8,034	\$

*See accompanying notes to condensed consolidated financial statements.*

Table of Contents

**KKR & CO. L.P.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**(All Dollars are in Thousands, Except Unit, Per Unit Data, and Except Where Noted)**

**1. ORGANIZATION**

KKR & Co. L.P. (NYSE:KKR), together with its consolidated subsidiaries ( KKR ), is a leading global investment firm that offers a broad range of investment management services to investors and provides capital markets services for the firm, its portfolio companies and clients. Led by Henry Kravis and George Roberts, KKR conducts business around the world, which provides a global platform for sourcing transactions, raising capital and carrying out capital markets activities. KKR operates as a single professional services firm and carries out its investment activities under the KKR brand name.

KKR & Co. L.P. was formed as a Delaware limited partnership on June 25, 2007 and its general partner is KKR Management LLC (the Managing Partner ). KKR & Co. L.P. is the parent company of KKR Group Limited, which is the non-economic general partner of KKR Group Holdings L.P. ( Group Holdings ), and KKR & Co. L.P. is the sole limited partner of Group Holdings. Group Holdings holds a controlling economic interest in each of (i) KKR Management Holdings L.P. ( Management Holdings ) through KKR Management Holdings Corp., a Delaware corporation which is a domestic corporation for U.S. federal income tax purposes, and (ii) KKR Fund Holdings L.P. ( Fund Holdings and together with Management Holdings, the KKR Group Partnerships ) directly and through KKR Fund Holdings GP Limited, a Cayman Island limited company which is a disregarded entity for U.S. federal income tax purposes. Group Holdings also owns certain economic interests in Management Holdings through a wholly owned Delaware corporate subsidiary of KKR Management Holdings Corp. and certain economic interests in Fund Holdings through a Delaware partnership of which Group Holdings is the general partner with a 99% economic interest and KKR Management Holdings Corp. is a limited partner with a 1% economic interest. KKR & Co. L.P., through its controlling economic interests in the KKR Group Partnerships, is the holding partnership for the KKR business.

KKR & Co. L.P. both indirectly controls the KKR Group Partnerships and indirectly holds equity units in each KKR Group Partnership (collectively, KKR Group Partnership Units ) representing economic interests in KKR s business. The remaining KKR Group Partnership Units are held by KKR s principals through KKR Holdings L.P. ( KKR Holdings ), which is not a subsidiary of KKR. As of September 30, 2011, KKR & Co. L.P. held 32.64% of the KKR Group Partnership Units and KKR s principals held 67.36% of the KKR Group Partnership Units through KKR Holdings. From time to time, the percentage ownership in the KKR Group Partnerships will change as KKR Holdings and/or principals exchange KKR Group Partnership Units for KKR & Co. L.P. common units.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

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The accompanying unaudited condensed consolidated financial statements of KKR & Co. L.P. have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) for interim financial information and the instructions to Form 10-Q. 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. These condensed consolidated financial statements should be read in conjunction with the audited consolidated and combined financial statements included in KKR & Co. L.P.'s Annual Report on Form 10-K filed with the Securities and Exchange Commission ( SEC ).

KKR & Co. L.P. consolidates the financial results of the KKR Group Partnerships and their consolidated subsidiaries. KKR Holdings' ownership interest in the KKR Group Partnerships is reflected as noncontrolling interests held by KKR Holdings in the accompanying condensed consolidated financial statements.

References in the accompanying condensed consolidated financial statements to KKR's principals are to KKR's senior executives and non-employee operating consultants who hold interests in KKR's business through KKR Holdings, including those principals who also hold interests in our Managing Partner entitling them to vote for the election of its directors (the Senior Principals ).



Table of Contents

**Use of Estimates**

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of fees, expenses and investment income (loss) during the reporting periods. Such estimates include but are not limited to the valuation of investments and financial instruments. Actual results could differ from those estimates and such differences could be material to the condensed consolidated financial statements.

**Consolidation**

*General*

KKR consolidates (i) those entities in which it holds a majority voting interest or has majority ownership and control over significant operating, financial and investing decisions of the entity, including those private equity and other investment funds (the KKR Funds ) in which KKR, as general partner, is presumed to have control, or (ii) entities determined to be variable interest entities ( VIEs ) for which KKR is considered the primary beneficiary.

The majority of the entities consolidated by KKR are comprised of: (i) those entities in which KKR has majority ownership and has control over significant operating, financial and investing decisions; and (ii) the consolidated KKR Funds, which are those entities in which KKR holds substantive, controlling general partner or managing member interests. With respect to the consolidated KKR Funds, KKR generally has operational discretion and control, and limited partners have no substantive rights to impact ongoing governance and operating activities of the fund.

The KKR Funds are consolidated by KKR notwithstanding the fact that KKR has only a minority economic interest in those funds. KKR s condensed consolidated financial statements reflect the assets, liabilities, fees, expenses, investment income (loss) and cash flows of the consolidated KKR Funds on a gross basis, and the majority of the economic interests in those funds, which are held by third party investors, are attributed to noncontrolling interests in consolidated entities in the accompanying condensed consolidated financial statements. All of the management fees and certain other amounts earned by KKR from those funds are eliminated in consolidation. However, because the eliminated amounts are earned from, and funded by, noncontrolling interests, KKR s attributable share of the net income from those funds is increased by the amounts eliminated. Accordingly, the elimination in consolidation of such amounts has no effect on net income (loss) attributable to KKR or KKR partners capital.

The KKR Funds are, for GAAP purposes, investment companies and therefore are not required to consolidate their majority owned and controlled investments in portfolio companies ( Portfolio Companies ). Rather, KKR reflects their investments in Portfolio Companies at fair value as described below.

All intercompany transactions and balances have been eliminated.

*Variable Interest Entities*

KKR consolidates all VIEs in which it is considered the primary beneficiary. An enterprise is determined to be the primary beneficiary if it has a controlling financial interest under GAAP. A controlling financial interest is defined as (a) the power to direct the activities of a variable interest entity that most significantly impact the entity's business and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. The consolidation rules which were revised effective January 1, 2010 require an analysis to (a) determine whether an entity in which KKR has a variable interest is a VIE and (b) whether KKR's involvement, through the holding of equity interests directly or indirectly in the entity or contractually through other variable interests unrelated to the holding of equity interests, would give it a controlling financial interest under GAAP. Performance of that analysis requires the exercise of judgment. Where KKR has an interest in an entity that has qualified for the deferral of the consolidation rules, the analysis is based on consolidation rules prior to January 1, 2010. These rules require an analysis to (a) determine whether an entity in which KKR has a variable interest is a VIE and (b) whether KKR's involvement, through the holding of equity interests directly or indirectly in the entity or contractually through other variable interests would be expected to absorb a majority of the variability of the entity. Under both guidelines, KKR determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a VIE and reconsiders that conclusion at each reporting date. In evaluating whether KKR is the primary beneficiary, KKR evaluates its economic interests in the entity held either directly by KKR or indirectly through related parties. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that KKR is not the primary beneficiary, a quantitative analysis may also be performed. Investments

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### Table of Contents

and redemptions (either by KKR, affiliates of KKR or third parties) or amendments to the governing documents of the respective entities could affect an entity's status as a VIE or the determination of the primary beneficiary. At each reporting date, KKR assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly. KKR's accounting conclusion under the existing consolidation rules determined that effective January 1, 2011, KKR became the primary beneficiary of certain entities and consolidated such entities that were previously unconsolidated prior to that date.

As of September 30, 2011 and December 31, 2010, the maximum exposure to loss for those VIEs in which KKR is determined not to be the primary beneficiary but in which it has a variable interest is as follows:

	September 30, 2011		December 31, 2010
Investments	\$ 59,344	\$	35,867
Due from Affiliates, net	1,068		3,225
Maximum Exposure to Loss	\$ 60,412	\$	39,092

For those unconsolidated VIEs that are funds in which KKR is the sponsor, KKR may have an obligation as general partner to provide commitments to such funds. As of September 30, 2011 and December 31, 2010, KKR did not provide any support other than its obligated amount.

KKR's investment strategies differ by investment fund; however, the fundamental risks have similar characteristics, including loss of invested capital and loss of management fees and carried interests. Accordingly, disaggregation of KKR's involvement with VIEs would not provide more useful information.

### **Fair Value Measurements**

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). KKR measures and reports its investments and other financial instruments at fair value.

KKR has categorized and disclosed its investments and other financial instruments measured and reported at fair value based on the hierarchical levels as defined within GAAP. GAAP establishes a hierarchical disclosure framework that prioritizes and ranks the level of market price observability used in measuring assets and liabilities at fair value. Market price observability is affected by a number of factors, including the type and the characteristics specific to the asset or liability. Investments and other financial instruments for which fair value can be measured from quoted prices in active markets generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments and other financial instruments measured and reported at fair value are classified and disclosed in one of the following categories:

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Level I Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. The type of investments and other financial instruments included in Level I include publicly-listed equities, publicly-listed derivatives, and equity securities sold, but not yet purchased. KKR does not adjust the quoted price for these investments, even in situations where KKR holds a large position and a sale could reasonably affect the quoted price.

Level II Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is generally determined through the use of models or other valuation methodologies. Investments and other financial instruments which are included in this category generally include fixed income investments, convertible debt securities indexed to publicly-listed securities, fixed income securities sold, but not yet purchased and certain over-the-counter derivatives.

Level III Pricing inputs are unobservable for the asset or liability and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include private Portfolio Companies and fixed income investments for which a sufficiently liquid trading market does not exist.

Table of Contents

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. KKR's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and it considers factors specific to the investment.

In cases where an investment or financial instrument is measured and reported at fair value is transferred into or out of Level III of the fair value hierarchy, KKR accounts for the transfer at the end of the reporting period.

For certain investments and other financial instruments, KKR has elected the fair value option. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. KKR has applied the fair value option for certain loans and certain investments in debt and equity securities, that otherwise would not have been carried at fair value, with gains and losses recorded in Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations. Loans, debt and equity securities for which the fair value option has been elected are recorded within Investments. The methodology for measuring the fair value of such investments is consistent with the methodology applied to private equity and fixed income investments. Interest income on interest bearing loans and debt securities for which the fair value option has been elected is based on stated coupon rates adjusted for the accretion of purchase discounts and the amortization of purchase premiums. Further disclosure is presented in Note 5 Fair Value Measurements .

The carrying amount of cash and cash equivalents, cash and cash equivalents held at consolidated entities, restricted cash and cash equivalents, due from / to affiliates, accounts payable, accrued expenses and other liabilities approximate fair value due to their short-term maturities. KKR's debt obligations, except for KKR's Senior Notes, bear interest at floating rates and therefore fair value approximates carrying value. Further information on KKR's Senior Notes is presented in Note 8, Debt Obligations.

**Investments**

Investments consist primarily of private equity, fixed income, and other investments. Security and loan transactions are recorded on a trade date basis. Further disclosure on investments is presented in Note 4, Investments.

***Private Equity***

Private equity investments consist primarily of investments in Portfolio Companies of KKR Funds and other investment vehicles. The KKR Funds and other investment vehicles reflect investments at their estimated fair values, with unrealized gains or losses resulting from changes in fair value reflected as a component of Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations.

Private equity investments that have readily observable market prices (such as those traded on a securities exchange) are stated at the last quoted sales price as of the reporting date.

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The determination of fair value for those investments that do not have a readily observable market price may differ materially from the values that would have resulted if a ready market had existed. For these investments, KKR generally uses a market approach and an income (discounted cash flow) approach when determining fair value. Management considers various internal and external factors when applying these approaches, including the price at which the investment was acquired, the nature of the investment, current market conditions, recent public market and private transactions for comparable securities, and financing transactions subsequent to the acquisition of the investment. The fair value recorded for a particular investment will generally be within the range suggested by the two approaches.

Investments denominated in currencies other than the U.S. dollar are valued based on the spot rate of the respective currency at the end of the reporting period with changes related to exchange rate movements reflected as a component of Net Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations.

### ***Fixed Income***

Fixed income investments consist of investments in high yield bonds, syndicated bank loans, and interests in collateralized loan obligations. These investments are valued at the mean of the bid and asked prices obtained from third party pricing services. In the event that third party pricing service quotations are unavailable, values are obtained from dealers or market makers, and where those values are not available, fixed income investments are valued by KKR or KKR may engage a third party valuation firm to assist in such valuations.

Table of Contents

**Derivatives**

Derivative financial instruments include foreign currency forward and options contracts, total rate of return swap contracts and credit default swap contracts. All derivatives are recognized as either assets or liabilities in the condensed consolidated statements of financial condition and measured at fair value with changes in fair value recorded in Net Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations. KKR's derivative financial instruments contain credit risk to the extent that its bank counterparties may be unable to meet the terms of the agreements. KKR attempts to minimize this risk by limiting its counterparties to major financial institutions with strong credit ratings.

**Noncontrolling Interests**

*Noncontrolling Interests in Consolidated Entities*

Noncontrolling interests in consolidated entities represents the ownership interests that third parties hold in entities that are consolidated. The allocable share of income and expense attributable to those interests are accounted for as net income (loss) attributable to noncontrolling interests in consolidated entities.

*Noncontrolling Interests held by KKR Holdings*

Noncontrolling interests held by KKR Holdings include economic interests held by KKR's principals in the KKR Group Partnerships. KKR's principals receive financial benefits from KKR's business in the form of distributions received from KKR Holdings and through their direct and indirect participation in the value of KKR Group Partnership Units held by KKR Holdings. These profit-based cash amounts are not paid by KKR and are borne by KKR Holdings.

Income (loss) of KKR after allocation to noncontrolling interests in consolidated entities, with the exception of certain tax assets and liabilities that are directly allocable to KKR Management Holdings Corp., is attributed based on the percentage of the weighted average KKR Group Partnership Units held by KKR and KKR Holdings, each of which hold equity of the KKR Group Partnerships. However, the contribution of certain expenses borne entirely by KKR Holdings as well as the periodic exchange of KKR Holdings units for KKR & Co. L.P. common units causes the equity allocations shown in the condensed consolidated statement of changes in equity to differ from their respective pro-rata ownership interests in KKR's net assets.

**Fees**

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Fees consist primarily of (i) monitoring, consulting and transaction fees from providing advisory and other services, (ii) management and incentive fees from providing investment management services to unconsolidated funds, a specialty finance company, structured finance vehicles, and separately managed accounts, and (iii) fees from capital markets activities. These fees are based on the contractual terms of the governing agreements and are recognized when earned, which coincides in the period during which the related services are performed.

For the three and nine months ended September 30, 2011 and 2010, fees consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Monitoring and Consulting Fees	\$ 47,926	\$ 30,330	\$ 210,156	\$ 82,673
Transaction Fees	96,624	40,634	217,451	129,036
Management Fees	20,258	15,499	58,497	47,005
Incentive Fees		9,555	28,159	30,405
<b>Total Fees</b>	<b>\$ 164,808</b>	<b>\$ 96,018</b>	<b>\$ 514,263</b>	<b>\$ 289,119</b>



Table of Contents

***Monitoring and Consulting Fees***

Monitoring fees are earned by KKR for services provided to Portfolio Companies and are recognized as services are rendered. These fees are paid based on a fixed periodic schedule by the Portfolio Companies either in advance or in arrears and are separately negotiated for each Portfolio Company.

In connection with the monitoring of Portfolio Companies and certain unconsolidated funds, KKR receives reimbursement for certain expenses incurred on behalf of these entities. Costs incurred in monitoring these entities are classified as general, administrative and other expenses and reimbursements of such costs are classified as monitoring fees.

Consulting fees are earned by certain consolidated entities for other consulting services provided to Portfolio Companies and other companies and are recognized as the services are rendered. These fees are separately negotiated with each company for which services are provided.

***Transaction Fees***

Transaction fees are earned by KKR primarily in connection with successful private equity and other investment transactions and capital markets activities. Transaction fees are recognized upon closing of the transaction. Fees are typically paid on or around the closing of a transaction.

In connection with pursuing successful Portfolio Company investments, KKR receives reimbursement for certain transaction-related expenses. Transaction-related expenses, which are reimbursed by third parties, are typically deferred until the transaction is consummated and are recorded in Other Assets on the condensed consolidated statements of financial condition on the date incurred. The costs of successfully completed transactions are borne by the KKR Funds and included as a component of the investment's cost basis. Subsequent to closing, investments are recorded at fair value each reporting period as described in the section above titled Investments. Upon reimbursement from a third party, the cash receipt is recorded and the deferred amounts are relieved. No fees or expenses are recorded for these reimbursements.

***Management Fees***

Management fees are earned by KKR for management services provided to private equity funds, other investment funds, structured finance vehicles, separately managed accounts and a specialty finance company which are recognized in the period during which the related services are performed in accordance with the contractual terms of the related agreement. Management fees earned from private equity funds and certain investment vehicles are based upon a percentage of capital committed during the investment period, and thereafter based on remaining invested capital. For certain other investment vehicles, structured finance vehicles, separately managed accounts and a specialty finance vehicle, management fees are recognized in the period during which the related services are performed and are based upon the net asset value, gross assets or as otherwise defined in the respective agreements.

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Management fees received from consolidated KKR Funds are eliminated in consolidation. However, because these amounts are funded by, and earned from, noncontrolling interests, KKR's allocated share of the net income from consolidated KKR Funds is increased by the amount of fees that are eliminated. Accordingly, the elimination of these fees does not have an effect on the net income (loss) attributable to KKR or KKR partners' capital.

### *Incentive Fees*

KKR's management agreement with a specialty finance company entitles KKR to quarterly incentive fees. The incentive fees are calculated and paid quarterly in arrears and are not subject to any hurdle or clawback provisions. The management agreement with the specialty finance company was renewed on January 1, 2011 and will automatically be renewed for successive one-year terms following December 31, 2011 unless the agreement is terminated in accordance with its terms.

### **Compensation and Benefits**

Compensation and Benefits includes cash compensation consisting of salaries, bonuses, and benefits. In addition, Compensation and Benefits also includes equity-based payments consisting of charges associated with the vesting of equity-based awards and carry pool allocations.

All KKR principals and other employees of certain consolidated entities receive a base salary that is paid by KKR or its consolidated entities, and is accounted for as Compensation and Benefits expense. These employees are also eligible to receive discretionary cash bonuses based on performance, overall profitability and other matters. While cash bonuses paid to most employees are funded by KKR and certain consolidated entities and result in customary Compensation and Benefits expense, cash bonuses that are paid to certain of KKR's most senior employees are funded by KKR Holdings with

Table of Contents

distributions that it receives on its KKR Group Partnership Units. To the extent that distributions received by these individuals exceed the amounts that they are otherwise entitled to through their vested units in KKR Holdings, this excess is funded by KKR Holdings and reflected in Compensation and Benefits in the condensed consolidated statements of operations.

Further disclosure regarding equity-based payments is presented in Note 10 Equity-based Payments.

**Carried Interests**

Carried interests entitle the general partner of a fund to a greater allocable share of the fund's earnings from investments relative to the capital contributed by the general partner and correspondingly reduce noncontrolling interests' attributable share of those earnings. Amounts earned pursuant to carried interests are included as investment income (loss) in Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations and are earned by the general partner of those funds to the extent that cumulative investment returns are positive. If these investment returns decrease or turn negative in subsequent periods, recognized carried interest will be reduced and reflected as investment losses. Carried interest is recognized based on the contractual formula set forth in the agreements governing the fund as if the fund was terminated at the reporting date with the then estimated fair values of the investments realized. Due to the extended durations of KKR's private equity funds, KKR believes that this approach results in income recognition that best reflects the periodic performance of KKR in the management of those funds. Carried interest income (loss) recognized amounted to approximately \$(366.4) million and \$237.9 million for the three months ended September 30, 2011, and 2010, respectively, and \$167.1 million and \$790.6 million for the nine months ended September 30, 2011 and 2010, respectively.

The agreements governing KKR's private equity funds generally include a clawback or, in certain instances, a net loss sharing provision that, if triggered, may give rise to a contingent obligation that may require the general partner to return or contribute amounts to the fund for distribution to investors at the end of the life of the fund. See Note 13 Commitments and Contingencies.

**Carry Pool Allocation**

With respect to KKR's active and future funds and co-investment vehicles that provide for carried interest, KKR will allocate to its principals and other professionals a portion of the carried interest earned in relation to these funds as part of its carry pool. KKR currently allocates approximately 40% of the carry it earns from these funds and vehicles to its carry pool. These amounts are accounted for as compensatory profit-sharing arrangements in conjunction with the related carried interest income and recorded as an expense in the condensed consolidated statements of operations. For the three months ended September 30, 2011 and 2010, KKR recorded carry pool allocation expense (benefit) of \$(151.2) million and \$91.2 million, respectively. For the nine months ended September 30, 2011 and 2010, KKR recorded carry pool allocation expense of \$67.9 million and \$286.6 million, respectively. To the extent previously recorded carried interest is adjusted to reflect decreases in the underlying funds' valuations at period end, related profit sharing amounts previously accrued are adjusted and reflected as a benefit to current period expense.

**Exchange Agreement**

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The exchange agreement provides for the exchange of KKR Group Partnership Units held by KKR Holdings for KKR & Co. L.P. common units.

### **Tax Receivable Agreement**

Certain exchanges of KKR Group Partnership Units from KKR Holdings or transferees of its KKR Group Partnership Units pursuant to KKR's exchange agreement are expected to result in an increase in Management Holdings Corp.'s and its corporate subsidiary's share of the tax basis of the tangible and intangible assets of KKR Management Holdings, a portion of which is attributable to the goodwill inherent in our business, that would not otherwise have been available. This increase in tax basis may increase depreciation and amortization for U.S. federal income tax purposes and therefore reduce the amount of income tax that our intermediate holding companies would otherwise be required to pay in the future. KKR & Co. L.P. entered into a tax receivable agreement with KKR Holdings pursuant to which our intermediate holding companies will be required to pay to KKR Holdings or transferees of its KKR Group Partnership Units 85% of the amount of cash savings, if any, in U.S. federal, state and local income taxes that the intermediate holding companies actually realize as a result of this increase in tax basis, as well as 85% of the amount of any such savings the intermediate holding companies actually realize as a result of increases in tax basis that arise due to payments under the tax receivable agreement. Although KKR is not aware of any issue that would cause the IRS to challenge a tax basis increase, neither KKR Holdings nor its transferees will reimburse KKR for any payments previously made under the tax receivable agreement if such tax basis increase, or the benefits of such increases, were successfully challenged. No payments have been made under the tax receivable agreement for the three and nine months ended September 30, 2011.

KKR records any changes in basis as a deferred tax asset and the liability for any corresponding payments as amounts due to affiliates, with a corresponding net adjustment to equity at the time of exchange. KKR records any benefit of the reduced income tax the intermediate holding companies may recognize as such benefit is recognized.

### **Recently Issued Accounting Pronouncements**

During the three and nine months ended September 30, 2011, there were no issued accounting pronouncements that were applicable and adopted by KKR.

Table of Contents**3. NET GAINS (LOSSES) FROM INVESTMENT ACTIVITIES**

Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations consist primarily of the realized and unrealized gains and losses on 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.

The following table summarizes total Net Gains (Losses) from Investment Activities:

	Three Months Ended September 30, 2011		Three Months Ended September 30, 2010		Nine Months Ended September 30, 2011		Nine Months Ended September 30, 2010	
	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)
Private Equity (a)	\$ 508,138	\$ (3,888,713)	\$ 931,012	\$ 731,048	\$ 2,839,163	\$ (2,318,353)	\$ 1,455,359	\$ 3,124,626
Fixed Income and Other (a)	(30,445)	(190,040)	22,083	47,160	19,634	(165,854)	71,684	2,077
Foreign Exchange Contracts (b)	9,445	176,053	(623)	(265,539)	17,332	27,220	(17,916)	171,513
Foreign Currency Options (b)		6,592		(3,871)		(6,400)		(8,676)
Securities Sold Short (b)	35,177	18,720	(489)	(8,440)	25,704	24,885	(12,070)	1,386
Other Derivative Liabilities (b)	3,959	(413)			3,959	(413)	(2,115)	2,115
Contingent Carried Interest Repayment Guarantee (c)		13,885						(21,138)
Debt Obligations (d)				(3,917)				2,343
Foreign Exchange Gains (Losses) on Cash and Cash Equivalents held at Consolidated Entities (e)	(1,378)			1,700	401		(1,022)	79
<b>Total Net Gains (Losses) from Investment Activities</b>	<b>\$ 524,896</b>	<b>\$ (3,863,916)</b>	<b>\$ 951,983</b>	<b>\$ 498,141</b>	<b>\$ 2,906,193</b>	<b>\$ (2,438,915)</b>	<b>\$ 1,493,920</b>	<b>\$ 3,274,325</b>

(a) See Note 4 Investments .

(b) See Note 7 Other Assets and Accounts Payable, Accrued Expenses and Other Liabilities .

(c) See Note 13 Commitments and Contingencies .

(d) See Note 8 Debt Obligations .

(e) See Statement of Cash Flows Supplemental Disclosures.

#### 4. INVESTMENTS

Investments consist of the following:

	Fair Value		Cost	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Private Equity	\$ 33,820,883	\$ 34,642,166	\$ 32,781,015	\$ 31,283,226
Fixed Income	2,068,561	1,633,289	2,042,846	1,486,782
Other	468,158	174,315	530,227	174,595
	\$ 36,357,602	\$ 36,449,770	\$ 35,354,088	\$ 32,944,603

As of September 30, 2011 and December 31, 2010, Investments totaling \$4,119,799 and \$5,422,172, respectively, were pledged as direct collateral against various financing arrangements. See Note 8 Debt Obligations.

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Table of Contents

*Private Equity*

The following table presents KKR's private equity investments at fair value. The classifications of the private equity investments are based on its primary business and the domiciled location of the business.

	Fair Value		Fair Value as a Percentage of Total	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
<b>North America</b>				
Retail	\$ 6,058,306	\$ 5,419,908	17.9%	15.6%
Healthcare	3,533,193	4,163,435	10.4%	12.0%
Financial Services	2,611,589	2,625,310	7.7%	7.6%
Media	1,561,498	1,210,655	4.6%	3.5%
Energy	1,417,508	870,450	4.2%	2.5%
Consumer Products	1,061,552	779,921	3.1%	2.3%
Education	863,660	710,766	2.6%	2.1%
Technology	830,932	899,939	2.5%	2.6%
Manufacturing	482,395		1.5%	0.0%
Chemicals	224,600	426,527	0.8%	1.2%
Hotels/Leisure		6,232	0.0%	0.1%
<b>North America Total</b>	<b>18,645,233</b>	<b>17,113,143</b>	<b>55.3%</b>	<b>49.5%</b>
<b>Europe</b>				
Healthcare	2,781,185	2,761,078	8.2%	8.0%
Manufacturing	1,618,321	2,493,885	4.8%	7.2%
Technology	1,544,389	2,281,137	4.6%	6.6%
Telecom	1,057,741	863,195	3.1%	2.5%
Retail	904,872	1,221,768	2.7%	3.5%
Media	758,010	708,916	2.2%	2.0%
Services	376,576	266,063	1.1%	0.8%
Consumer Products	249,712	249,395	0.7%	0.7%
Recycling	245,010	218,277	0.7%	0.6%
Energy	37,257		0.1%	0.0%
<b>Europe Total</b>	<b>9,573,073</b>	<b>11,063,714</b>	<b>28.2%</b>	<b>31.9%</b>
<b>Asia - Pacific</b>				
Technology	1,952,890	2,852,393	5.8%	8.2%
Consumer Products	1,322,230	1,192,052	3.9%	3.4%
Financial Services	545,668	620,942	1.6%	1.9%
Services	411,923	286,523	1.2%	0.8%
Manufacturing	406,273	297,270	1.2%	0.9%
Recycling	286,783	165,399	0.8%	0.5%
Telecom	235,923	257,969	0.7%	0.7%
Media	169,358	619,772	0.5%	1.8%
Transportation	164,081	49,391	0.5%	0.1%
Retail	68,454	82,336	0.2%	0.2%
Energy	38,994	41,262	0.1%	0.1%
<b>Asia - Pacific Total</b>	<b>5,602,577</b>	<b>6,465,309</b>	<b>16.5%</b>	<b>18.6%</b>
<b>Total Private Equity Investments</b>	<b>\$ 33,820,883</b>	<b>\$ 34,642,166</b>	<b>100%</b>	<b>100%</b>





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### Table of Contents

As of September 30, 2011 and December 31, 2010 private equity investments which represented greater than 5% of total private equity investments included:

	Fair Value	
	September 30, 2011	December 31, 2010
Dollar General Corporation	\$ 3,684,470	3,377,971
Alliance Boots GmbH	2,466,225	2,468,283
HCA, Inc.	1,696,427	2,429,808
	\$ 7,847,122	\$ 8,276,062

The majority of the securities underlying KKR's private equity investments are equity securities. As of September 30, 2011 and December 31, 2010, the aggregate amount of investments that were other than equity securities amounted to \$1,754,031 and \$1,986,160, respectively.

### 5. FAIR VALUE MEASUREMENTS

The following tables summarize the valuation of KKR's investments and other financial instruments measured and reported at fair value by the fair value hierarchy levels described in Note 2 Summary of Significant Accounting Policies as of September 30, 2011 and December 31, 2010.

Assets, at fair value:

	September 30, 2011			
	Level I	Level II	Level III	Total
Private Equity	\$ 10,426,289	\$ 1,772,350	\$ 21,622,244	\$ 33,820,883
Fixed Income	17,449	1,138,453	912,659	2,068,561
Other	273,108	130,388	64,662	468,158
Total Investments	10,716,846	3,041,191	22,599,565	36,357,602
Foreign Exchange Forward Contracts		86,206		86,206
Other Derivatives		676		676
Total Assets	\$ 10,716,846	\$ 3,128,073	\$ 22,599,565	\$ 36,444,484

	December 31, 2010			
	Level I	Level II	Level III	Total
Private Equity	\$ 9,386,259	\$ 2,083,110	\$ 23,172,797	\$ 34,642,166
Fixed Income		967,275	666,014	1,633,289
Other	75,596	53,531	45,188	174,315
Total Investments	9,461,855	3,103,916	23,883,999	36,449,770
Foreign Exchange Forward Contracts		58,986		58,986
Foreign Currency Options		1,530		1,530
Total Assets	\$ 9,461,855	\$ 3,164,432	\$ 23,883,999	\$ 36,510,286



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Table of Contents

Liabilities, at fair value:

	September 30, 2011			Total		
	Level I	Level II	Level III			
Foreign Currency Options	\$	\$	4,870	\$	\$	4,870
Securities Sold, Not Yet Purchased		182,366				182,366
Total Liabilities	\$	182,366	\$	4,870	\$	187,236

	December 31, 2010			Total		
	Level I	Level II	Level III			
Securities Sold, Not Yet Purchased	\$	89,820	\$	2,006	\$	91,826
Total Liabilities	\$	89,820	\$	2,006	\$	91,826

The following table summarizes Level III investments and other financial instruments by valuation methodology as of September 30, 2011:

	September 30, 2011			Total Level III Holdings
	Private Equity	Fixed Income	Other	
Third-Party Fund Managers	0.0%	0.4%	0.0%	0.4%
Public/Private Company Comparables and Discounted Cash Flows	95.7%	3.6%	0.3%	99.6%
Total	95.7%	4.0%	0.3%	100.0%

The following tables summarize changes in private equity, fixed income, and other investments measured and reported at fair value for which Level III inputs have been used to determine fair value for the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended September 30, 2011			Total Level III Investments				
	Private Equity	Fixed Income	Other					
Balance, Beginning of Period	\$	21,065,234	\$	938,944	\$	81,468	\$	22,085,646
Transfers In				787				787
Transfers Out				(35,630)		(19,230)		(54,860)
Purchases		1,511,546		50,531		8,589		1,570,666
Sales		(72,931)		(10,166)		(1,102)		(84,199)
Settlements				(218)				(218)
Net Realized Gains (Losses)		38,456		194				38,650
Net Unrealized Gains (Losses)		(920,061)		(31,783)		(5,063)		(956,907)
Balance, End of Period	\$	21,622,244	\$	912,659	\$	64,662	\$	22,599,565
Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities (including foreign	\$	(893,749)	\$	(26,917)	\$	(3,244)	\$	(923,910)

exchange gains and losses attributable to  
foreign- denominated investments) related  
to Investments still held at Reporting Date

The Transfers In noted above for fixed income are principally attributable to certain investments that experienced an insignificant level of market activity during the period and thus were valued in the absence of observable inputs.

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Table of Contents

The Transfers Out noted above for fixed income and other are principally attributable to certain investments that experienced a significant level of market activity during the period and thus were valued using observable inputs.

	Three Months Ended September 30, 2010			
	Private Equity	Fixed Income	Other	Total Level III Investments
Balance, Beginning of Period	\$ 22,235,407	\$ 406,467	\$ 36,973	\$ 22,678,847
Transfers In				
Transfers Out	(588,825)			(588,825)
Purchases	460,123	110,761	11,677	582,561
Sales	(1,137,334)	(20,806)		(1,158,140)
Net Realized Gains (Losses)	850,854	938	(12)	851,780
Net Unrealized Gains (Losses)	339,593	5,711	(1,216)	344,088
Balance, End of Period	\$ 22,159,818	\$ 503,071	\$ 47,422	\$ 22,710,311
Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities (including foreign exchange gains and losses attributable to foreign- denominated investments) related to Investments still held at Reporting Date	\$ 1,338,729	\$ 6,601	\$ (1,155)	\$ 1,344,175

The Transfers Out noted in the table above for private equity are attributable to a Portfolio Company that completed its initial public offering during the period.

	Nine Months Ended September 30, 2011			
	Private Equity	Fixed Income	Other	Total Level III Investments
Balance, Beginning of Period	\$ 23,172,797	\$ 666,014	\$ 45,188	\$ 23,883,999
Transfers In		129,428		129,428
Transfers Out	(4,622,552)	(35,630)	(23,060)	(4,681,242)
Purchases	2,999,121	307,874	52,934	3,359,929
Sales	(1,791,690)	(72,279)	(5,969)	(1,869,938)
Settlements		(88,946)		(88,946)
Net Realized Gains (Losses)	1,025,699	465	210	1,026,374
Net Unrealized Gains (Losses)	838,869	5,733	(4,641)	839,961
Balance, End of Period	\$ 21,622,244	\$ 912,659	\$ 64,662	\$ 22,599,565
Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities (including foreign exchange gains and losses attributable to foreign- denominated investments) related to Investments still held at Reporting Date	\$ 496,081	\$ 13,984	\$ 522	\$ 510,587

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The Transfers In noted in the table above for fixed income are principally attributable to certain investments that experienced an insignificant level of market activity during the period and thus were valued in the absence of observable inputs.

The Transfers Out noted in the table above for private equity are attributable to Portfolio Companies that completed initial public offerings during the period. The Transfers Out noted above for fixed income and other are principally attributable to certain investments that experienced a significant level of market activity during the period and thus were valued using observable inputs.

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Table of Contents

	Nine Months Ended September 30, 2010				Total Level III Investments
	Private Equity	Fixed Income	Other		
Balance, Beginning of Period	\$ 19,324,961	\$ 77,640	\$ 14,435	\$ 19,417,036	
Transfers In		181,846	730	182,576	
Transfers Out	(588,825)			(588,825)	
Purchases	2,209,485	259,893	18,641	2,488,019	
Sales	(1,837,334)	(36,253)	(4,774)	(1,878,361)	
Net Realized Gains (Losses)	727,978	2,109	3,321	733,408	
Net Unrealized Gains (Losses)	2,323,553	17,836	15,069	2,356,458	
Balance, End of Period	\$ 22,159,818	\$ 503,071	\$ 47,422	\$ 22,710,311	
Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities (including foreign exchange gains and losses attributable to foreign- denominated investments) related to Investments still held at Reporting Date	\$ 2,072,552	\$ 20,539	\$ 16,343	\$ 2,109,434	

The Transfers In noted in the table above for fixed income and other are principally attributable to certain investments that experienced an insignificant level of market activity during the period and thus were valued in the absence of observable inputs.

The Transfers Out noted in the table above for private equity are attributable to a Portfolio Company that completed its initial public offering during the period.

Total realized and unrealized gains and losses recorded for Level III investments are reported in Net Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations. There were no significant transfers between Level I and Level II during the three and nine months ended September 30, 2011 and 2010.

## 6. EARNINGS PER COMMON UNIT

Basic earnings per common unit are calculated by dividing Net Income (Loss) Attributable to KKR & Co. L.P. by the total weighted average number of common units outstanding during the period.

Diluted earnings per common unit is calculated by dividing Net Income (Loss) Attributable to KKR & Co. L.P. by the weighted average number of common units outstanding during the period increased to include the number of additional common units that would have been outstanding if the dilutive potential common units had been issued.

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For the three and nine months ended September 30, 2011 and 2010, basic and diluted earnings per common unit were calculated as follows:

	Three Months Ended September 30, 2011		Three Months Ended September 30, 2010		Nine Months Ended September 30, 2011		Nine Months Ended September 30, 2010	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net Income (Loss) Attributable to KKR & Co. L.P.	\$ (243,402)	\$ (243,402)	\$ 8,856	\$ 8,856	\$ (44,216)	\$ (44,216)	\$ 152,599	\$ 152,599
Net Income Attributable to KKR & Co. L.P. Per Common Unit	\$ (1.09)	\$ (1.09)	\$ 0.04	\$ 0.04	\$ (0.20)	\$ (0.20)	\$ 0.74	\$ 0.74
Total Weighted-Average Common Units Outstanding	222,733,648	222,733,648	204,902,226	204,902,226	218,501,107	218,501,107	204,902,226	204,902,226

For the three and nine months ended September 30, 2011 and 2010, KKR Holdings units have been excluded from the calculation of diluted earnings per common unit given that the exchange of these units would proportionally increase KKR & Co. L.P.'s interests in the KKR Group Partnerships and would have an anti-dilutive effect on earnings per common unit as a result of certain tax benefits KKR & Co. L.P. is assumed to receive upon the exchange.

For the three and nine months ended September 30, 2011, equity awards granted under the KKR & Co. L.P. 2010 Equity Incentive Plan (the Equity Incentive Plan) have been excluded from the calculation of diluted earnings per common unit given the equity awards would have an anti-dilutive effect on earnings per common unit as a result of the net loss incurred for the respective periods.



Table of Contents**7. OTHER ASSETS AND ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES**

Other assets consist of the following:

	September 30, 2011	December 31, 2010
Unsettled Investment Trades (a)	\$ 390,430	\$ 10,695
Interest Receivable	106,080	83,577
Foreign Exchange Forward Contracts (b)	86,206	58,986
Fixed Assets, net (c)	48,705	49,260
Intangible Asset, net (d)	25,257	28,099
Deferred Financing Costs	16,396	8,272
Receivables	13,076	17,787
Prepaid Expenses	11,432	8,473
Deferred Tax Assets	9,187	6,831
Refundable Security Deposits	8,136	5,886
Deferred Transaction Costs	7,114	7,199
Foreign Currency Options (e)	1,530	1,530
Other	43,223	23,159
	\$ 765,242	\$ 309,754

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(a) Represents amounts due from third parties for investments sold for which cash settlement has not occurred.

(b) Represents derivative financial instruments used to manage foreign exchange risk arising from certain foreign denominated investments. Such instruments are measured at fair value with changes in fair value recorded in Net Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations. See Note 3 Net Gains (Losses) from Investment Activities for the net changes in fair value associated with these instruments.

(c) Net of accumulated depreciation and amortization of \$80,490 and \$72,389 as of September 30, 2011 and December 31, 2010, respectively. Depreciation and amortization expense totaled \$2,192 and \$2,674 for the three months ended September 30, 2011 and 2010, respectively and \$7,501 and \$8,874 for the nine months ended September 30, 2011 and 2010.

(d) Net of accumulated amortization of \$12,629 and \$9,787 as of September 30, 2011 and December 31, 2010, respectively. Amortization expense totaled \$947 for the three months ended September 30, 2011 and 2010 and \$2,841 for the nine months ended September 30, 2011 and 2010.

(e) Represents derivative financial instruments used to manage foreign exchange risk arising from certain foreign denominated investments. Such instruments are measured at fair value with changes in fair value recorded in Net Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations. See Note 3 Net Gains (Losses) from Investment Activities for the net changes in fair value associated with these instruments. The cost basis for these instruments at December 31, 2010 was

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\$19,705. The fair value of these instruments as of September 30, 2011 is an unrealized loss of \$4,870 and is reported in Accounts Payable, Accrued Expenses and Other Liabilities.

Table of Contents

Accounts Payable, Accrued Expenses and Other Liabilities consist of the following:

	September 30, 2011	December 31, 2010
Amounts Payable to Carry Pool (a)	\$ 481,850	\$ 520,213
Securities Sold, Not Yet Purchased (b)	182,366	91,826
Unsettled Investment Trades (c)	158,220	74,779
Accrued Compensation and Benefits	120,326	17,480
Interest Payable	96,462	93,422
Accounts Payable and Accrued Expenses	37,045	51,669
Taxes Payable	15,998	1,787
Deferred Revenue	11,370	3,322
Deferred Tax Liabilities	4,325	31,610
Foreign Currency Options (d)	4,870	
	\$ 1,112,832	\$ 886,108

(a) Represents the amount of carried interest payable to KKR's principals, other professionals and selected other individuals with respect to KKR's active funds and co-investment vehicles that provide for carried interest. See Note 10 Equity Based Payments.

(b) Represents securities sold short, which are obligations of KKR to deliver a specified security at a future point in time. Such securities are measured at fair value with changes in fair value recorded in Net Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations. See Note 3 Net Gains (Losses) from Investment Activities for the net changes in fair value associated with these instruments. The cost basis for these instruments at September 30, 2011 and December 31, 2010 were \$197,374 and \$81,949, respectively.

(c) Represents amounts owed to third parties for investment purchases for which cash settlement has not occurred.

(d) Represents derivative financial instruments used to manage foreign exchange risk arising from certain foreign denominated investments. The instruments are measured at fair value with changes in fair value recorded in Net Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations. See Note 3 Net Gains (Losses) from Investment Activities for the net changes in fair value associated with these instruments. The cost basis for these instruments at September 30, 2011 was \$19,705. The fair value of these instruments as of December 31, 2010 was an unrealized gain of \$1,530 and is reported in Other Assets.

Table of Contents**8. DEBT OBLIGATIONS**

Debt obligations consist of the following:

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
Investment Financing Arrangements	\$ 1,067,108	\$ 988,988
Senior Notes	498,128	497,972
	\$ 1,565,236	\$ 1,486,960

**Investment Financing Arrangements**

Certain of KKR's investment vehicles have entered into financing arrangements with major financial institutions generally in connection with specific investments with the objective of enhancing returns. These financing arrangements are generally not direct obligations of the general partners of KKR's investment vehicles or its management companies.

Approximately \$796.4 million of financing was structured through the use of total return swaps which effectively convert third party capital contributions into borrowings of KKR. The total return swaps mature between October 2012 and February 2015. Upon the occurrence of certain events, including an event based on the value of the collateral and events of default, KKR may be required to provide additional collateral plus accrued interest, under the terms of certain of these financing arrangements. On May 4, 2011, the terms of one of the total return swaps were amended to extend the maturity, so that the total return swaps now expire in October 2012 and the per annum rate of interest was increased from LIBOR plus 1.35% to LIBOR plus 2.50%. As of September 30, 2011, the per annum rates of interest payable for the financings range from three-month LIBOR plus 1.75% to three-month LIBOR plus 2.50% (rates ranging from 2.0% to 2.75%). These financing arrangements are non-recourse to KKR beyond the specific assets pledged as collateral.

Approximately \$182.2 million of financing was structured through the use of a syndicated term loan and a revolving credit facility (the Term Facility) that matures in August 2014. The per annum rate of interest for each borrowing under the Term Facility was equal to the Bloomberg United States Dollar Interest Rate Swap Ask Rate plus 1.75% at the time of each borrowing under the Term Facility through March 11, 2010. On March 11, 2010, the Term Facility was amended and the per annum rate of interest is the greater of the 5-year interest rate swap rate plus 1.75% or 4.65% for periods from March 12, 2010 to June 7, 2012. For the period June 8, 2012 through maturity, the interest rate is equal to one year LIBOR plus 1.75%. The interest rate at September 30, 2011 on the borrowings outstanding was 4.65%. This financing arrangement is non-recourse to KKR beyond the specific assets pledged as collateral.

In April 2011, one of KKR's private equity investment vehicles entered into a revolving credit facility with a major financial institution (the Revolver Facility) with respect to a specific private equity investment. The Revolver Facility provides for up to \$50.1 million of financing and matures on the first anniversary of the agreement. Upon the occurrence of certain events, including an event based on the value of the collateral and events of default, KKR may be required to provide additional collateral. KKR has the option to extend the agreement for an additional two years provided the value of the investment meets certain defined financial ratios. In addition, KKR may request to increase the commitment to the Revolver Facility up to \$75.1 million, subject to lender approval and provided the value of the investment meets certain defined financial ratios. The per annum rate of interest for each borrowing under the Revolver Facility is equal to the Hong Kong interbank market (HIBOR) rate plus 3.75%. The interest rate at September 30, 2011 on the borrowings outstanding ranged from 4.07% to 4.09%. As of September 30, 2011, \$40.7 million of borrowings were outstanding under the Revolver Facility. This financing arrangement is non-recourse to KKR beyond the

specific assets pledged as collateral.

In November 2010, a KKR investment vehicle entered into a five-year revolving credit agreement with a syndicate of lenders (the Natural Resources Investment Credit Agreement ), which expires in November 2015. The Natural Resources Investment Credit Agreement was amended and entered into on May 13, 2011 to, among other things, decrease the credit facility commitment from \$28.1 million to \$26.8 million. The Natural Resources Investment Credit Agreement now provides for up to \$26.8 million of non-recourse, asset-based revolving credit subject to availability under a borrowing base determined by the value of certain specific assets pledged as collateral security for obligations under the agreement and a \$5.3 million sub-limit for letters of credit. Based on the level of certain assets in the investment vehicle, as of September 30, 2011, KKR had availability under the facility of \$17.9 million of which \$13.5 million of borrowings were outstanding. In addition, there is a letter of credit of \$0.6 million outstanding. As of September 30, 2011, the interest rates on borrowings outstanding under the Natural Resources Investment Credit Agreement ranged from 2.73% to 2.91%. This financing arrangement is non-recourse to KKR beyond the specific assets pledged as collateral.

Table of Contents

During May 2011, a KKR investment vehicle entered into a \$200.0 million non-recourse multi-currency three-year revolving credit agreement that bears interest at LIBOR plus 2.75% (the Mezzanine Investment Credit Agreement). The Mezzanine Investment Credit Agreement is expected to be used to manage timing differences between capital calls from limited partners in the investment vehicle and funding of investment opportunities and to borrow in foreign currencies for purposes of hedging the foreign currency risk of non-U.S. dollar investments. As of September 30, 2011, \$34.3 million of borrowings were outstanding under the Mezzanine Investment Credit Agreement. As of September 30, 2011, the interest rate on borrowings outstanding under the Mezzanine Investment Credit Agreement was 2.98%. This financing arrangement is non-recourse to KKR beyond the specific assets and capital commitments pledged as collateral.

**Senior Notes**

On September 29, 2010, KKR Group Finance Co. LLC (the Issuer), a subsidiary of KKR Management Holdings Corp., issued \$500 million aggregate principal amount of 6.375% Senior Notes (the Senior Notes), which were issued at a price of 99.584%. The Senior Notes are unsecured and unsubordinated obligations of the Issuer and will mature on September 29, 2020, unless earlier redeemed or repurchased. The Senior Notes are fully and unconditionally guaranteed, jointly and severally, by KKR & Co. L.P. and the KKR Group Partnerships. The guarantees are unsecured and unsubordinated obligations of the guarantors.

The Senior Notes bear interest at a rate of 6.375% per annum, accruing from September 29, 2010. Interest is payable semi-annually in arrears on March 29 and September 29 of each year, commencing on March 29, 2011. Interest expense on the Senior Notes was \$8.0 million and \$24.0 million for the three and nine months ended September 30, 2011, respectively. As of September 30, 2011, the fair value of the Senior Notes was \$507.2 million.

The indenture, as supplemented by a first supplemental indenture, relating to the Senior Notes includes covenants, including limitations on the Issuer's and the guarantors' ability to, subject to exceptions, 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 indenture, as supplemented, also provides for events of default and further provides that the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding Senior Notes may declare the Senior Notes immediately due and payable upon the occurrence and during the continuance of any event of default after expiration of any applicable grace period. In the case of specified events of bankruptcy, insolvency, receivership or reorganization, the principal amount of the Senior Notes and any accrued and unpaid interest on the Senior Notes automatically becomes due and payable. All or a portion of the Senior Notes may be redeemed at the Issuer's option in whole or in part, at any time, and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the Senior Notes. If a change of control repurchase event occurs, the Senior Notes are subject to repurchase by the Issuer at a repurchase price in cash equal to 101% of the aggregate principal amount of the Senior Notes repurchased plus any accrued and unpaid interest on the Senior Notes repurchased to, but not including, the date of repurchase.

**KKR Revolving Credit Agreements**

*Corporate Credit Agreement*

On February 26, 2008, Kohlberg Kravis Roberts & Co. L.P. entered into a credit agreement with a major financial institution (the Corporate Credit Agreement). The Corporate Credit Agreement originally provided for revolving borrowings of up to \$1.0 billion, with a \$50.0 million

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submit for swing-line notes and a \$25.0 million submit for letters of credit.

On February 22, 2011, the parties amended the terms of the Corporate Credit Agreement (the Amended and Restated Corporate Credit Agreement ) such that effective March 1, 2011, availability for borrowings under the credit facility was reduced from \$1.0 billion to \$700 million and the maturity was extended to March 1, 2016. In addition, the KKR Group Partnerships became co-borrowers of the facility, and KKR & Co. L.P. and the Issuer of the Senior Notes became guarantors of the amended and restated Corporate Credit Agreement, together with certain general partners of our private equity funds.

On June 3, 2011, the Amended and Restated Corporate Credit Agreement was amended to admit a new lender, subject to the same terms and conditions, to provide a commitment of \$50 million. This commitment has increased the availability for borrowings under the credit facility to \$750 million. As of and for the three and nine months ended September 30, 2011, no borrowings were outstanding under the Amended and Restated Corporate Credit Agreement.

Table of Contents

***KCM Credit Agreement***

On February 27, 2008, KKR Capital Markets Holdings L.P. ( KKR Capital Markets ) entered into a revolving credit agreement with a major financial institution (the KCM Credit Agreement ) for use in KKR's capital markets business. The KCM Credit Agreement, as amended, provides for revolving borrowings of up to \$500 million with a \$500 million sublimit for letters of credit. The KCM Credit Agreement has a maturity date of February 27, 2013. As of and for the three and nine months ended September 30, 2011, no borrowings were outstanding under the KCM Credit Agreement.

***Principal Credit Agreement***

In June 2007, KKR PEI Investments L.P. (the KPE Investment Partnership ) entered into a five-year revolving credit agreement, expiring in June 2012, with a syndicate of lenders (the Principal Credit Agreement ). The Principal Credit Agreement provides for up to \$925.0 million of senior secured credit subject to availability under a borrowing base determined by the value of certain investments pledged as collateral security for obligations under the agreement. The borrowing base is subject to certain investment concentration limitations and the value of the investments constituting the borrowing base is subject to certain advance rates based on type of investment. During May 2011 and September 2011, KKR conducted offers for the outstanding commitments under the Principal Credit Agreement resulting in \$285.0 million and \$95.0 million in commitments being assigned to a KKR subsidiary, respectively. As of September 30, 2011, a wholly-owned subsidiary of KKR holds \$445.0 million of commitments which has effectively reduced KKR's availability under the Principal Credit Agreement on a consolidated basis to \$480.0 million. As of and for the three and nine months ended September 30, 2011, no borrowings were outstanding under the Principal Credit Agreement.

Foreign currency adjustments related to these borrowings during the three and nine months ended September 30, 2010 are recorded in Net Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations. See Note 3 Net Gains (Losses) from Investment Activities for foreign currency adjustments related to these borrowings.

**9. INCOME TAXES**

The KKR Group Partnerships and certain of its subsidiaries are treated as partnerships for U.S. federal income tax purposes and as corporate entities in non-U.S. jurisdictions. Accordingly, these entities in some cases are subject to the New York City unincorporated business tax or non-U.S. income taxes. In addition, certain of the wholly-owned subsidiaries of KKR are subject to federal, state and local income taxes.

KKR's effective tax rate was (0.36%) and 1.19% for the three months ended September 30, 2011 and 2010, respectively, and 18.29% and 1.31% for the nine months ended September 30, 2011 and 2010, respectively. KKR's income tax provision was \$11.5 million and \$16.3 million for the three months ended September 30, 2011 and 2010, respectively and \$67.9 million and \$61.0 million for the nine months ended September 30, 2011 and 2010, respectively.



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The effective tax rate differs from the statutory rate for the three and nine months ended September 30, 2011 and 2010 substantially due to the following: (a) a substantial amount of the reported net income (loss) before taxes is attributable to noncontrolling interests that hold ownership interests in consolidated entities and noncontrolling interests held by KKR Holdings, (b) certain corporate subsidiaries are subject to federal, state, local and foreign income taxes as applicable and other partnership subsidiaries are subject to New York City unincorporated business taxes, and (c) a portion of the compensation charges attributable to KKR are not deductible for tax purposes.

During the three and nine month period ending September 30, 2011, there were no material changes to KKR's uncertain tax positions. KKR believes that there will not be a significant increase or decrease to the uncertain tax positions within 12 months of the reporting date.

Table of Contents**10. EQUITY BASED PAYMENTS**

The following table summarizes the expense associated with equity based payments for the three and nine months ended September 30, 2011 and 2010.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
KKR Holdings-Principal Awards	\$ 91,646	\$ 181,775	\$ 269,530	\$ 547,956
KKR Holdings-Restricted Equity Units	672	9,125	13,453	60,166
Equity Incentive Plan Units	6,814		11,164	
Discretionary Compensation	24,726	47,442	92,386	109,031
<b>Total</b>	<b>\$ 123,858</b>	<b>\$ 238,342</b>	<b>\$ 386,533</b>	<b>\$ 717,153</b>

As of January 1, 2011, all expense related to equity-based awards is included within Compensation and Benefits. For the three and nine months ended September 30, 2010, \$49.8 million and \$116.8 million of expense related to equity-based payments is included within General and Administrative expense.

***KKR Holdings L.P. Equity Awards Principal Awards***

KKR principals received grants of KKR Holdings units which are exchangeable for KKR Group Partnership Units. These units are subject to minimum retained ownership requirements and in certain cases, transfer restrictions, and allow for their exchange into common units of KKR & Co. L.P. on a one-for-one basis. As of September 30, 2011, KKR Holdings owns approximately 67.4%, or 460,079,957 of the outstanding KKR Group Partnership Units.

Except for any units that vested on the date of grant, units are subject to service based vesting up to a five-year period from the date of grant. The transfer restriction period will last for a minimum of (i) one year with respect to one-half of the interests vesting on any vesting date and (ii) two years with respect to the other one-half of the interests vesting on such vesting date. While providing services to KKR, these individuals will also be subject to minimum retained ownership rules requiring them to continuously hold at least 25% of their vested interests. Upon separation from KKR, certain individuals will be subject to the terms of a non-compete agreement that may require the forfeiture of certain vested and unvested units should the terms of the non-compete agreement be violated. Holders of KKR Group Partnership Units held through KKR Holdings are not entitled to participate in distributions made on KKR Group Partnership Units until such units are vested.

Because KKR Holdings is a partnership, all of the 460,079,957 KKR Holdings units have been legally allocated, but the allocation of 32,545,707 of these units has not been communicated to each respective principal. The units that have not been communicated are subject to performance based vesting conditions, which include profitability and other similar criteria. These criteria are not sufficiently specific to constitute performance conditions for accounting purposes, and the achievement, or lack thereof, will be determined based upon the exercise of judgment by the general partner of KKR Holdings. Each principal will ultimately receive between zero and 100% of the units initially allocated. The allocation of these units has not yet been communicated to the award recipients as this was management's decision on how to best

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incentivize its principals. It is anticipated that additional service-based vesting conditions will be imposed at the time the allocation is initially communicated to the respective principals. KKR applied the guidance of Accounting Standards Code ( ASC ) 718 and concluded that these KKR Holdings units do not yet meet the criteria for recognition of compensation cost because neither the grant date nor the service inception date has occurred. In reaching a conclusion that the service inception date has not occurred, KKR considered (a) the fact that the vesting conditions are not sufficiently specific to constitute performance conditions for accounting purposes, (b) the significant judgment that can be exercised by the general partner of KKR Holdings in determining whether the vesting conditions are ultimately achieved, and (c) the absence of communication to the principals of any information related to the number of units they were initially allocated. The allocation of these units will be communicated to the award recipients when the performance-based vesting conditions have been met, and currently there is no plan as to when the communication will occur. The determination as to whether the award recipients have satisfied the performance-based vesting conditions is made by the general partner of KKR Holdings, and is based on multiple factors primarily related to the award recipients' individual performance.

The fair value of KKR Holdings unit grants is based on the closing price of KKR & Co. L.P. common units on the date of grant. KKR determined this to be the best evidence of fair value as a KKR & Co. L.P. common unit is traded in an active market and has an observable market price. Additionally, a KKR Holdings unit is an instrument with terms and

Table of Contents

conditions similar to those of a KKR & Co. L.P. common unit. Specifically, units in both KKR Holdings and KKR & Co. L.P. represent ownership interests in KKR Group Partnership Units and, subject to any vesting, minimum retained ownership requirements and transfer restrictions referenced above, each KKR Holdings unit is exchangeable into a KKR Group Partnership Unit and then into a KKR & Co. L.P. common unit on a one-for-one basis.

Units granted to principals give rise to equity-based payment charges in the condensed consolidated statements of operations based on the grant-date fair value of the award. For units vesting on the grant date, expense is recognized on the date of grant based on the fair value of a KKR & Co. L.P. common unit on the grant date multiplied by the number of vested units. Equity-based payment expense on unvested units is calculated based on the fair value of a KKR & Co. L.P. common unit at the time of grant, discounted for the lack of participation rights in the expected distributions on unvested units, which ranges from 5% to 38%, multiplied by the number of unvested units on the grant date. Additionally, the calculation of equity-based payment expense on unvested units assumes a forfeiture rate of up to 9% annually based upon expected turnover by class of principal.

As of September 30, 2011, there was approximately \$335.5 million of estimated unrecognized equity-based payment expense related to unvested awards. That cost is expected to be recognized over a weighted-average period of 1.1 years, using the graded attribution method, which treats each vesting portion as a separate award.

A summary of the status of KKR's unvested equity based awards granted to KKR principals from January 1, 2011 through September 30, 2011 is presented below:

	Units	Weighted Average Grant Date Fair Value
Balance, January 1, 2011	123,839,772	\$ 7.76
Granted	6,315,784	\$ 12.03
Vested	(4,722,970)	\$ 9.14
Forfeited	(3,441,232)	\$ 7.77
Balance, September 30, 2011	121,991,354	\$ 7.93

The weighted average remaining vesting period over which unvested units are expected to vest is 1.5 years.

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### Table of Contents

A summary of the remaining vesting tranches of KKR's unvested equity based awards granted to KKR principals is presented below:

Vesting Date	Units
October 1, 2011	29,349,212
April 1, 2012	1,922,976
October 1, 2012	28,779,092
April 1, 2013	1,360,571
October 1, 2013	28,664,256
April 1, 2014	1,325,789
October 1, 2014	28,664,256
April 1, 2015	1,325,789
October 1, 2015	584,413
April 1, 2016	15,000
	121,991,354

### *KKR Holdings L.P. Equity Awards - Restricted Equity Units*

Grants of restricted equity units based on KKR Group Partnership Units held by KKR Holdings were made to professionals, support staff, and other personnel. These are funded by KKR Holdings and do not dilute KKR's interests in the KKR Group Partnerships. The vesting of these restricted equity units occurs in installments up to five years from the date of grant.

As of September 30, 2011, there was approximately \$14.5 million of estimated unrecognized expense related to unvested awards. That cost is expected to be recognized over a weighted average period of 1.0 years, using the graded attribution method, which treats each vesting portion as a separate award.

A summary of the status of KKR Holding's unvested restricted equity units granted to professionals, support staff, and other personnel from January 1, 2011 through September 30, 2011 is presented below:

	Units		Weighted Average Grant Date Fair Value
Balance, January 1, 2011	3,984,836	\$	9.51
Granted	988,997	\$	14.20
Vested	(214,290)	\$	9.92
Forfeited	(269,299)	\$	9.99
Balance, September 30, 2011	4,490,244	\$	10.49

The weighted average remaining vesting period over which unvested units are expected to vest is 1.0 years.

### *KKR & Co. L.P. 2010 Equity Incentive Plan*

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Under the Equity Incentive Plan, KKR is permitted to grant awards relating to KKR & Co. L.P. common units. The issuance of KKR & Co. L.P. common units delivered pursuant to vested awards under the Equity Incentive Plan dilute KKR & Co. L.P. common unitholders and KKR Holdings pro rata in accordance with their respective percentage interests in the KKR Group Partnerships.

The total number of common units that may be issued under the Equity Incentive Plan is equivalent to 15% of the number of fully diluted common units outstanding, subject to annual adjustment. As of September 30, 2011, 3,756,271 KKR & Co. L.P. common units have been granted under the Equity Incentive Plan, certain of which vest over a period of up to five years from the date of grant. In certain cases, these awards and resulting KKR common units are subject to transfer restrictions and minimum retained ownership requirements. The transfer restriction period, if applicable, lasts for (i) one year with respect to one-half of the interests vesting on any vesting date and (ii) two years with respect to the other one-half of the interests vesting on such vesting date. While providing services to KKR, if applicable, certain of these individuals are also subject to minimum retained ownership rules requiring them to continuously hold at least 15% of their gross vested interests.

Expense associated with the vesting of these units is based on the closing price of the KKR & Co. L.P. common units at the time of grant, discounted for the lack of participation rights in the expected distributions on unvested units, which ranges

Table of Contents

from 5% to 38%, multiplied by the number of unvested units on the grant date. Expense is recognized on a straight line basis over the life of the award and assumes a forfeiture rate of up to 9% annually based upon expected turnover by class of recipient.

As of September 30, 2011, there was approximately \$29.8 million of estimated unrecognized expense related to unvested awards. That cost is expected to be recognized over a weighted average period of 1.7 years, using the straight line method.

A summary of the status of units granted under the Equity Incentive Plan from January 1, 2011 through September 30, 2011 is presented below:

	Units	Weighted Average Grant Date Fair Value	
Balance, January 1, 2011	30,000	\$	10.84
Granted	3,726,271	\$	11.69
Vested	(195,465)	\$	16.91
Forfeited		\$	
Balance, September 30, 2011	3,560,806	\$	11.40

The weighted average remaining vesting period over which unvested units are expected to vest is 1.9 years.

***Discretionary Compensation and Discretionary Allocations***

Certain KKR principals who hold KKR Group Partnership Units through KKR Holdings units are expected to be allocated, on a discretionary basis, distributions on KKR Group Partnership Units received by KKR Holdings. These discretionary amounts entitle the principal to receive amounts in excess of their vested equity interests. Because unvested units do not have distribution participation rights, any amounts allocated in excess of a principal's vested equity interests are reflected as equity-based payment expense. This equity-based payment expense has been recorded based on the unvested portion of quarterly earnings distributions received by KKR Holdings.

Table of Contents**11. RELATED PARTY TRANSACTIONS**

Due from and to Affiliates consists of:

	September 30, 2011		December 31, 2010
Due from Principals (a)	\$ 60,270	\$	55,937
Due from Related Entities	54,939		52,319
Due from Portfolio Companies	43,208		28,300
	\$ 158,417	\$	136,556

  

	September 30, 2011		December 31, 2010
Due to KKR Holdings L.P. in Connection with the Tax Receivable Agreement (b)	\$ 37,884	\$	16,185
Due to Related Entities	3,388		1,862
	\$ 41,272	\$	18,047

(a) Represents an amount due from KKR principals for the amount of the clawback obligation that would be required to be funded by KKR principals who do not hold direct controlling and economic interests in the KKR Group Partnerships. See Note 13 Commitments and Contingencies .

(b) Represents amounts owed to KKR Holdings and/or its principals under the Tax Receivable Agreement. See Note 2, Summary of Significant Accounting Policies Tax Receivable Agreement.

***KKR Financial Holdings LLC ( KFN )***

KFN is a publicly traded specialty finance company whose limited liability company interests are listed on the NYSE under the symbol KFN. KFN is managed by KKR but is not under the common control of the Senior Principals or otherwise consolidated by KKR as control is maintained by third-party investors. As of September 30, 2011 and December 31, 2010, KFN had consolidated assets of \$8.4 billion and shareholders' equity of \$1.6 billion. There were no outstanding shares of KFN held by KKR as of September 30, 2011. If KKR were to exercise all of each of its outstanding vested options, KKR's ownership interest in KFN would be less than 1% of KFN's outstanding shares as of September 30, 2011 and December 31, 2010.

***Discretionary Investments***

Certain of KKR's investment professionals, including its principals and other qualifying employees, are permitted to invest, and have invested, their own capital in side-by-side investments with its private equity funds and other investment vehicles. Side-by-side investments are made on the same terms and conditions as those acquired by the applicable fund or investment vehicle, except that the side-by-side investments are not



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subject to management fees or a carried interest. The cash invested by these individuals aggregated \$51.9 million and \$4.1 million for the three months ended September 30, 2011 and 2010, respectively and \$82.0 million and \$39.7 million for the nine months ended September 30, 2011 and 2010, respectively. These investments are not included in the accompanying condensed consolidated financial statements.

### *Aircraft and Other Services*

Certain of the Senior Principals own aircraft that KKR uses for business purposes in the ordinary course of its operations. These Senior Principals paid for the purchase of these aircraft with their personal funds and bear all operating, personnel and maintenance costs associated with their operation. The hourly rates that KKR pays for the use of these aircraft are based on current market rates for chartering private aircraft of the same type. KKR incurred \$1.4 million and \$2.1 million for the use of these aircraft for the three months ended September 30, 2011 and 2010, respectively and \$3.8 million and \$4.3 million for the nine months ended September 30, 2011 and 2010, respectively.

### *Facilities*

Certain of the Senior Principals are partners in a real-estate based partnership that maintains an ownership interest in KKR's Menlo Park location. Payments made to this partnership were \$1.6 million for the three months ended September 30, 2011 and 2010, and \$4.8 million for the nine months ended September 30, 2011 and 2010, respectively.

Table of Contents

**12. SEGMENT REPORTING**

KKR operates through three reportable business segments. These segments, which are differentiated primarily by their investment objectives and strategies, consist of the following:

***Private Markets***

Through the Private Markets segment, KKR manages and sponsors a group of private equity funds and co-investment vehicles that invest capital for long-term appreciation, either through controlling ownership of a company or strategic minority positions. These investment funds and co-investment vehicles are managed by Kohlberg Kravis Roberts & Co. L.P., an SEC registered investment adviser. KKR also manages investments in infrastructure and natural resources.

***Public Markets***

Through the Public Markets segment, KKR manages a specialty finance company, a number of investment funds, structured finance vehicles and separately managed accounts that invest capital in (i) liquid credit strategies, such as leveraged loans and high yield bonds, (ii) liquid long/short equity strategies, (iii) and less liquid credit or equity strategies such as mezzanine debt and special situations investments. These funds, vehicles and accounts are managed by KKR Asset Management LLC, an SEC registered investment adviser.

***Capital Markets and Principal Activities***

KKR's Capital Markets and Principal Activities segment combines KKR's principal assets with its global capital markets business. KKR's capital markets business supports the firm, its portfolio companies and its clients by providing tailored capital markets advice and by developing and implementing both traditional and non-traditional capital solutions for investments and companies seeking financing. KKR's capital markets services include arranging debt and equity financing for transactions, placing and underwriting securities offerings, structuring new investment products and providing capital markets services. KKR's principal asset base primarily includes investments in its private equity funds and co-investments in certain portfolio companies of such funds.

***Key Performance Measures***

Fee Related Earnings (FRE) and Economic Net Income (Loss) (ENI) are key performance measures used by management. These measures are used by management in making resource deployment and operating decisions as well as assessing the overall performance of each of KKR's business segments.

***FRE***

FRE is comprised of segment operating revenues, less segment operating expenses. The components of FRE on a segment basis differ from the equivalent GAAP amounts on a consolidated basis as a result of: (i) the inclusion of management fees earned from consolidated funds that were eliminated in consolidation; (ii) the exclusion of fees and expenses of certain consolidated entities; (iii) the exclusion of charges relating to the amortization of intangible assets; (iv) the exclusion of charges relating to carry pool allocations; (v) the exclusion of non-cash equity charges and other non-cash compensation charges borne by KKR Holdings or incurred under the Equity Incentive Plan; (vi) the exclusion of certain reimbursable expenses; and (vii) the exclusion of certain non-recurring items.

***ENI***

ENI is a measure of profitability for KKR's reportable segments and is comprised of: (i) FRE; plus (ii) segment investment income (loss), which is reduced for carry pool allocations and management fee refunds; less (iii) certain economic interests in KKR's segments held by third parties. ENI differs from net income on a GAAP basis as a result of: (i) the exclusion of the items referred to in FRE above; (ii) the exclusion of investment income relating to noncontrolling interests; and (iii) the exclusion of income taxes.

KKR's reportable segments are presented prior to giving effect to the allocation of income (loss) between KKR and KKR Holdings and as such represents KKR's business in total.

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Table of Contents

The following table presents the financial data for KKR's reportable segments as of and for the three months ended September 30, 2011:

	As of and for the Three Months Ended September 30, 2011			Total Reportable Segments
	Private Markets	Public Markets	Capital Markets and Principal Activities	
<b>Fees</b>				
Management and incentive fees:				
Management fees	\$ 106,748	\$ 27,301	\$	\$ 134,049
Incentive fees				
Management and incentive fees	106,748	27,301		134,049
<b>Monitoring and transaction fees:</b>				
Monitoring fees	20,892			20,892
Transaction fees	40,196	3,760	54,675	98,631
Fee credits (1)	(27,229)	(1,564)		(28,793)
Net monitoring and transaction fees	33,859	2,196	54,675	90,730
Total fees	140,607	29,497	54,675	224,779
<b>Expenses</b>				
Compensation and benefits	47,390	12,144	7,129	66,663
Occupancy and related charges	11,273	1,097	305	12,675
Other operating expenses	40,768	3,807	2,624	47,199
Total expenses	99,431	17,048	10,058	126,537
Fee related earnings	41,176	12,449	44,617	98,242
<b>Investment income (loss)</b>				
Gross carried interest	(360,282)	(6,105)		(366,387)
Less: Allocation to KKR carry pool (2)	148,749	2,442		151,191
Less: Management fee refunds (3)	21,115			21,115
Net carried interest	(190,418)	(3,663)		(194,081)
Other investment income (loss)	(1,942)	288	(492,758)	(494,412)
Total investment income (loss)	(192,360)	(3,375)	(492,758)	(688,493)
<b>Income (loss) before noncontrolling interests in income of consolidated entities</b>				
	(151,184)	9,074	(448,141)	(590,251)
Income (loss) attributable to noncontrolling interests (4)	790	164	886	1,840
Economic net income (loss)	\$ (151,974)	\$ 8,910	\$ (449,027)	\$ (592,091)
Total Assets	\$ 901,260	\$ 69,131	\$ 5,439,360	\$ 6,409,751
Total Partners' Capital	\$ 686,520	\$ 47,387	\$ 4,875,790	\$ 5,609,697

(1) KKR's agreements with the limited partners of certain of its investment funds require KKR to share with these limited partners an agreed upon percentage of monitoring and transaction fees received from Portfolio Companies ( "Fee Credits" ). Limited partners receive Fee Credits only with respect to monitoring and transaction fees that are allocable to the fund's investment in the Portfolio Company and not, for example, any fees allocable to capital invested through co-investment vehicles. Fee Credits are calculated after deducting certain fund-related expenses and generally amount to 80% of allocable monitoring and transaction fees after fund-related expenses are recovered,

although the actual percentage may vary from fund to fund.

(2) With respect to KKR's active and future investment funds and co-investment vehicles that provide for carried interest, KKR will allocate to its principals, other professionals and selected other individuals who work in these operations a portion of the carried interest earned in relation to these funds as part of its carry pool.

Table of Contents

(3) Certain of KKR's investment funds require that KKR refund up to 20% of any cash management fees earned from limited partners in the event that the funds recognize a carried interest. At such time as the fund recognizes a carried interest in an amount sufficient to cover 20% of the cash management fees earned or a portion thereof, carried interest is reduced, not to exceed 20% of cash management fees earned. In periods where investment returns subsequently decrease or turn negative, recognized carried interest will be reduced and consequently the amount of the management fee refund would be reduced resulting in income being recognized during the period.

(4) Represents economic interests that will (i) allocate to a former principal an aggregate of 1% of profits and losses of KKR's management companies until a future date and (ii) allocate to a third party investor approximately 2% of the equity in KKR's capital markets business.

The following table reconciles KKR's total reportable segments to the condensed consolidated financial statements as of and for the three months ended September 30, 2011:

	As of and for the Three Months Ended September 30, 2011		
	Total Reportable Segments	Adjustments	Consolidated
Fees(a)	\$ 224,779	\$ (59,971)	\$ 164,808
Expenses(b)	\$ 126,537	\$ 2,293	\$ 128,830
Investment income (loss)(c)	\$ (688,493)	\$ (2,532,305)	\$ (3,220,798)
Income (loss) before taxes	\$ (590,251)	\$ (2,594,569)	\$ (3,184,820)
Income (loss) attributable to noncontrolling interests	\$ 1,840	\$ (2,469,914)	\$ (2,468,074)
Income (loss) attributable to KKR Holdings	\$	\$ (484,879)	\$ (484,879)
Total assets(d)	\$ 6,409,751	\$ 32,224,011	\$ 38,633,762
Total KKR & Co. L.P. Partners' Capital (e)	\$ 5,609,697	\$ (4,344,458)	\$ 1,265,239

(a) The fees adjustment primarily represents (i) the elimination of management fees of \$113,791 upon consolidation of the KKR Funds, (ii) the elimination of fee credits of \$26,786 upon consolidation of the KKR Funds, (iii) a gross up of reimbursable expenses of \$15,368 and (iv) other adjustments of \$11,666.

(b) The expenses adjustment primarily represents (i) the inclusion of non-cash equity charges borne by KKR Holdings or incurred under the Equity Incentive Plan, which amounted to \$123,858 (ii) allocations to the carry pool of (\$151,191), (iii) a gross up of reimbursable expenses of \$15,368, (iv) operating expenses of \$13,736 primarily associated with the inclusion of operating expenses upon consolidation of the KKR Funds and other entities and (v) other adjustments of \$522.

(c) The investment income (loss) adjustment primarily represents (i) the inclusion of a net investment loss of \$2,359,999 attributable to noncontrolling interests upon consolidation of the KKR Funds, (ii) allocations to the carry pool of (\$151,191), and (iii) management fee refunds of (\$21,115).

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(d) Substantially all of the total assets adjustment represents the inclusion of private equity and other investments that are attributable to noncontrolling interests upon consolidation of the KKR Funds.

(e) Substantially all of the total KKR & Co. L.P.'s partners' capital adjustment represents the exclusion of noncontrolling interests held by KKR Holdings L.P.

Table of Contents

The reconciliation of economic net income (loss) to net income (loss) attributable to KKR as reported in the condensed consolidated statements of operations consists of the following:

	<b>Three Months Ended September 30, 2011</b>	
Economic net income (loss)	\$	(592,091)
Income taxes		(11,535)
Amortization of intangibles and other, net		(797)
Non-cash equity based charges		(123,858)
Allocation to noncontrolling interests held by KKR Holdings L.P.		484,879
Net income attributable to KKR & Co. L.P.	\$	(243,402)



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Table of Contents

The following table presents the financial data for KKR's reportable segments as of and for the three months ended September 30, 2010:

	As of and for the Three Months Ended September 30, 2010			Total Reportable Segments
	Private Markets	Public Markets	Capital Markets and Principal Activities	
<b>Fees</b>				
Management and incentive fees:				
Management fees	\$ 98,337	\$ 14,208	\$	\$ 112,545
Incentive fees		9,555		9,555
Management and incentive fees	98,337	23,763		122,100
<b>Monitoring and transaction fees:</b>				
Monitoring fees	21,780			21,780
Transaction fees	19,816	1,672	19,146	40,634
Fee credits (1)	(12,941)	(742)		(13,683)
Net monitoring and transaction fees	28,655	930	19,146	48,731
Total fees	126,992	24,693	19,146	170,831
<b>Expenses</b>				
Compensation and benefits	37,861	7,708	3,487	49,056
Occupancy and related charges	9,513	615	245	10,373
Other operating expenses	36,733	3,160	2,003	41,896
Total expenses	84,107	11,483	5,735	101,325
Fee related earnings	42,885	13,210	13,411	69,506
<b>Investment income (loss)</b>				
Gross carried interest	236,792	1,131		237,923
Less: Allocation to KKR carry pool (2)	(90,704)	(452)		(91,156)
Less: Management fee refunds (3)	(17,387)			(17,387)
Net carried interest	128,701	679		129,380
Other investment income (loss)	2,524	148	117,334	120,006
Total investment income (loss)	131,225	827	117,334	249,386
<b>Income (loss) before noncontrolling interests in income of consolidated entities</b>				
	174,110	14,037	130,745	318,892
Income (loss) attributable to noncontrolling interests (4)	394	125	1,048	1,567
Economic net income (loss)	\$ 173,716	\$ 13,912	\$ 129,697	\$ 317,325
Total Assets	\$ 802,918	\$ 67,140	\$ 5,321,702	\$ 6,191,760
Total Partners' Capital	\$ 656,309	\$ 51,705	\$ 4,500,522	\$ 5,208,536

(1) KKR's agreements with the limited partners of certain of its investment funds require KKR to share with these limited partners an agreed upon percentage of monitoring and transaction fees received from Portfolio Companies ( "Fee Credits" ). Limited partners receive Fee Credits only with respect to monitoring and transaction fees that are allocable to the fund's investment in the Portfolio Company and not, for example, any fees allocable to capital invested through co-investment vehicles. Fee Credits are calculated after deducting certain fund-related expenses and generally amount to 80% of allocable monitoring and transaction fees after fund-related expenses are recovered, although the actual percentage may vary from fund to fund.

(2) With respect to KKR's active and future investment funds and co-investment vehicles that provide for carried interest, KKR will allocate to its principals, other professionals and selected other individuals who work in these operations a portion of the carried interest earned in relation to these funds as part of its carry pool.

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### Table of Contents

(3) Certain of KKR's investment funds require that KKR refund up to 20% of any cash management fees earned from limited partners in the event that the funds recognize a carried interest. At such time as the fund recognizes a carried interest in an amount sufficient to cover 20% of the cash management fees earned or a portion thereof, carried interest is reduced, not to exceed 20% of cash management fees earned. In periods where investment returns subsequently decrease or turn negative, recognized carried interest will be reduced and consequently the amount of the management fee refund would be reduced resulting in income being recognized during the period.

(4) Represents economic interests that will (i) allocate to a former principal an aggregate of 1% of profits and losses of KKR's management companies until a future date and (ii) allocate to a third party investor approximately 2% of the equity in KKR's capital markets business.

The following table reconciles KKR's total reportable segments to the condensed consolidated financial statements as of and for the three months ended September 30, 2010:

	<b>As of and for the Three Months Ended September 30, 2010</b>		
	<b>Total Reportable Segments</b>	<b>Adjustments</b>	<b>Consolidated</b>
Fees(a)	\$ 170,831	\$ (74,813)	\$ 96,018
Expenses(b)	\$ 101,325	\$ 348,542	\$ 449,867
Investment income (loss)(c)	\$ 249,386	\$ 1,475,141	\$ 1,724,527
Income (loss) before taxes	\$ 318,892	\$ 1,051,786	\$ 1,370,678
Income (loss) attributable to noncontrolling interests	\$ 1,567	\$ 1,291,806	\$ 1,293,373
Income (loss) attributable to KKR Holdings	\$	\$ 52,186	\$ 52,186
Total assets(d)	\$ 6,191,760	\$ 28,672,199	\$ 34,863,959
Total KKR & Co. L.P. Partners' Capital (e)	\$ 5,208,536	\$ (4,101,355)	\$ 1,107,181

(a) The fees adjustment primarily represents (i) the elimination of management fees of \$97,046, (ii) fee credits of \$13,302 upon consolidation of the KKR Funds, and (iii) a gross up of reimbursable expenses of \$8,931.

(b) The expenses adjustment primarily represents (i) the inclusion of non-cash equity charges which amounted to \$238,342, (ii) allocations to the carry pool of \$91,156, (iii) a gross up of reimbursable expenses of \$8,931, (iv) operating expenses of \$6,578 primarily associated with the inclusion of operating expenses upon consolidation of the KKR Funds, and (v) other adjustments of \$3,535.

(c) The investment income (loss) adjustment primarily represents (i) the inclusion of net investment income of \$1,366,598 attributable to noncontrolling interests upon consolidation of the KKR Funds, (ii) allocations to the carry pool of \$91,156, and (iii) management fee refunds of \$17,387.

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(d) Substantially all of the total assets adjustment represents the inclusion of private equity and other investments that are attributable to noncontrolling interests upon consolidation of the KKR Funds.

(e) Substantially all of the total partners' capital adjustment represents the exclusion of private equity and other investments that are attributable to noncontrolling interests.

Table of Contents

The reconciliation of economic net income (loss) to net income (loss) attributable to KKR as reported in the condensed consolidated statements of operations consists of the following:

	<b>Three Months Ended September 30, 2010</b>	
Economic net income (loss)	\$	317,325
Income taxes		(16,263)
Amortization of intangibles and other, net		(1,678)
Non-cash equity based charges		(238,342)
Allocation to noncontrolling interests held by KKR Holdings L.P.		(52,186)
Net income attributable to KKR & Co. L.P.	\$	8,856

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Table of Contents

The following table presents the financial data for KKR's reportable segments as of and for the nine months ended September 30, 2011:

	As of and for the Nine Months Ended September 30, 2011			
	Private Markets	Public Markets	Capital Markets and Principal Activities	Total Reportable Segments
<b>Fees</b>				
Management and incentive fees:				
Management fees	\$ 323,684	\$ 64,144	\$	\$ 387,828
Incentive fees		28,159		28,159
Management and incentive fees	323,684	92,303		415,987
Monitoring and transaction fees:				
Monitoring fees	141,972			141,972
Transaction fees	101,506	7,845	111,441	220,792
Fee credits (1)	(110,129)	(3,867)		(113,996)
Net monitoring and transaction fees	133,349	3,978	111,441	248,768
Total fees	457,033	96,281	111,441	664,755
<b>Expenses</b>				
Compensation and benefits	139,570	33,967	19,376	192,913
Occupancy and related charges	32,792	2,870	994	36,656
Other operating expenses	115,076	11,649	7,883	134,608
Total expenses	287,438	48,486	28,253	364,177
Fee related earnings	169,595	47,795	83,188	300,578
<b>Investment income (loss)</b>				
Gross carried interest	170,096	(2,978)		167,118
Less: Allocation to KKR carry pool (2)	(69,106)	1,191		(67,915)
Less: Management fee refunds (3)	(15,594)			(15,594)
Net carried interest	85,396	(1,787)		83,609
Other investment income (loss)	(185)	598	85,306	85,719
Total investment income (loss)	85,211	(1,189)	85,306	169,328
<b>Income (loss) before noncontrolling interests in income of consolidated entities</b>				
	254,806	46,606	168,494	469,906
Income (loss) attributable to noncontrolling interests (4)	1,885	480	2,086	4,451
Economic net income (loss)	\$ 252,921	\$ 46,126	\$ 166,408	\$ 465,455
Total Assets	\$ 901,260	\$ 69,131	\$ 5,439,360	\$ 6,409,751
Total Partners' Capital	\$ 686,520	\$ 47,387	\$ 4,875,790	\$ 5,609,697

(1) KKR's agreements with the limited partners of certain of its investment funds require KKR to share with these limited partners an agreed upon percentage of monitoring and transaction fees received from Portfolio Companies ( "Fee Credits" ). Limited partners receive Fee Credits only with respect to monitoring and transaction fees that are allocable to the fund's investment in the Portfolio Company and not, for example, any fees allocable to capital invested through co-investment vehicles. Fee Credits are calculated after deducting certain fund-related expenses and generally amount to 80% of allocable monitoring and transaction fees after fund-related expenses are recovered, although the actual percentage may vary from fund to fund.

(2) With respect to KKR's active and future investment funds and co-investment vehicles that provide for carried interest, KKR will allocate to its principals, other professionals and selected other individuals who work in these operations a portion of the carried interest earned in relation to these funds as part of its carry pool.

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### Table of Contents

(3) Certain of KKR's investment funds require that KKR refund up to 20% of any cash management fees earned from limited partners in the event that the funds recognize a carried interest. At such time as the fund recognizes a carried interest in an amount sufficient to cover 20% of the cash management fees earned or a portion thereof, carried interest is reduced, not to exceed 20% of cash management fees earned. In periods where investment returns subsequently decrease or turn negative, recognized carried interest will be reduced and consequently the amount of the management fee refund would be reduced resulting in income being recognized during the period.

(4) Represents economic interests that will (i) allocate to a former principal an aggregate of 1% of profits and losses of KKR's management companies until a future date and (ii) allocate to a third party investor approximately 2% of the equity in KKR's capital markets business.

The following table reconciles KKR's total reportable segments to the condensed consolidated financial statements as of and for the nine months ended September 30, 2011:

	<b>As of and for the Nine Months Ended September 30, 2011</b>		
	<b>Total Reportable Segments</b>	<b>Adjustments</b>	<b>Consolidated</b>
Fees(a)	\$ 664,755	\$ (150,492)	\$ 514,263
Expenses(b)	\$ 364,177	\$ 519,691	\$ 883,868
Investment income (loss)(c)	\$ 169,328	\$ 571,689	\$ 741,017
Income (loss) before taxes	\$ 469,906	\$ (98,494)	\$ 371,412
Income (loss) attributable to noncontrolling interests	\$ 4,451	\$ 291,203	\$ 295,654
Income (loss) attributable to KKR Holdings	\$	\$ 52,051	\$ 52,051
Total assets(d)	\$ 6,409,751	\$ 32,224,011	\$ 38,633,762
Total KKR & Co. L.P. Partners' Capital (e)	\$ 5,609,697	\$ (4,344,458)	\$ 1,265,239

(a) The fees adjustment primarily represents (i) the elimination of management fees of \$329,331 upon consolidation of the KKR Funds, (ii) the elimination of fee credits of \$110,655 upon consolidation of the KKR Funds, (iii) a gross up of reimbursable expenses of \$29,631 and (iv) other adjustments of \$38,553.

(b) The expenses adjustment primarily represents (i) the inclusion of non-cash equity charges borne by KKR Holdings or incurred under the Equity Incentive Plan, which amounted to \$386,533, (ii) allocations to the carry pool of \$67,915, (iii) a gross up of reimbursable expenses of \$29,631, (iv) operating expenses of \$31,183 primarily associated with the inclusion of operating expenses upon consolidation of the KKR Funds and other entities and (v) other adjustments of \$4,429.

(c) The investment income (loss) adjustment primarily represents (i) the inclusion of net investment income of \$488,180 attributable to noncontrolling interests upon consolidation of the KKR Funds, (ii) allocations to the carry pool of \$67,915, and (iii) management fee refunds of \$15,594.



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(d) Substantially all of the total assets adjustment represents the inclusion of private equity and other investments that are attributable to noncontrolling interests upon consolidation of the KKR Funds.

(e) Substantially all of the total KKR & Co. L.P.'s partners' capital adjustment represents the exclusion of noncontrolling interests held by KKR Holdings L.P.

Table of Contents

The reconciliation of economic net income (loss) to net income (loss) attributable to KKR as reported in the condensed consolidated statements of operations consists of the following:

	<b>Nine Months Ended September 30, 2011</b>	
Economic net income (loss)	\$	465,455
Income taxes		(67,923)
Amortization of intangibles and other, net		(3,164)
Non-cash equity based charges		(386,533)
Allocation to noncontrolling interests held by KKR Holdings L.P.		(52,051)
Net income attributable to KKR & Co. L.P.	\$	(44,216)

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Table of Contents

The following table presents the financial data for KKR's reportable segments as of and for the nine months ended September 30, 2010:

	As of and for the Nine Months Ended September 30, 2010			Total Reportable Segments
	Private Markets	Public Markets	Capital Markets and Principal Activities	
<b>Fees</b>				
Management and incentive fees:				
Management fees	\$ 293,543	\$ 40,700	\$	\$ 334,243
Incentive fees		30,405		30,405
Management and incentive fees	293,543	71,105		364,648
<b>Monitoring and transaction fees:</b>				
Monitoring fees	64,824			64,824
Transaction fees	65,058	9,825	58,726	133,609
Fee credits (1)	(36,890)	(6,338)		(43,228)
Net monitoring and transaction fees	92,992	3,487	58,726	155,205
Total fees	386,535	74,592	58,726	519,853
<b>Expenses</b>				
Compensation and benefits	117,165	22,324	11,251	150,740
Occupancy and related charges	27,189	1,763	639	29,591
Other operating expenses	100,965	9,850	5,476	116,291
Total expenses	245,319	33,937	17,366	296,622
Fee related earnings	141,216	40,655	41,360	223,231
<b>Investment income (loss)</b>				
Gross carried interest	788,045	2,583		790,628
Less: Allocation to KKR carry pool (2)	(285,534)	(1,033)		(286,567)
Less: Management fee refunds (3)	(119,034)			(119,034)
Net carried interest	383,477	1,550		385,027
Other investment income (loss)	(1,532)	530	820,741	819,739
Total investment income (loss)	381,945	2,080	820,741	1,204,766
<b>Income (loss) before noncontrolling interests</b>				
in income of consolidated entities	523,161	42,735	862,101	1,427,997
Income (loss) attributable to noncontrolling interests (4)	580	380	1,857	2,817
Economic net income (loss)	\$ 522,581	\$ 42,355	\$ 860,244	\$ 1,425,180
Total Assets	\$ 802,918	\$ 67,140	\$ 5,321,702	\$ 6,191,760
Total Partners' Capital	\$ 656,309	\$ 51,705	\$ 4,500,522	\$ 5,208,536

(1) KKR's agreements with the limited partners of certain of its investment funds require KKR to share with these limited partners an agreed upon percentage of monitoring and transaction fees received from Portfolio Companies ( "Fee Credits" ). Limited partners receive Fee Credits only with respect to monitoring and transaction fees that are allocable to the fund's investment in the Portfolio Company and not, for example, any fees allocable to capital invested through co-investment vehicles. Fee Credits are calculated after deducting certain fund-related expenses and generally amount to 80% of allocable monitoring and transaction fees after fund-related expenses are recovered, although the actual percentage may vary from fund to fund.

(2) With respect to KKR's active and future investment funds and co-investment vehicles that provide for carried interest, KKR will allocate to its principals, other professionals and selected other individuals who work in these operations a portion of the carried interest earned in relation to these funds as part of its carry pool.

## Edgar Filing: KKR & Co. L.P. - Form 10-Q

### Table of Contents

(3) Certain of KKR's investment funds require that KKR refund up to 20% of any cash management fees earned from limited partners in the event that the funds recognize a carried interest. At such time as the fund recognizes a carried interest in an amount sufficient to cover 20% of the cash management fees earned or a portion thereof, carried interest is reduced, not to exceed 20% of cash management fees earned. In periods where investment returns subsequently decrease or turn negative, recognized carried interest will be reduced and consequently the amount of the management fee refund would be reduced resulting in income being recognized during the period.

(4) Represents economic interests that will (i) allocate to a former principal an aggregate of 1% of profits and losses of KKR's management companies until a future date and (ii) allocate to a third party investor approximately 2% of the equity in KKR's capital markets business.

The following table reconciles KKR's total reportable segments to the condensed consolidated financial statements as of and for the nine months ended September 30, 2010:

	<b>As of and for the Nine Months Ended September 30, 2010</b>		
	<b>Total Reportable Segments</b>	<b>Adjustments</b>	<b>Consolidated</b>
Fees(a)	\$ 519,853	\$ (230,734)	\$ 289,119
Expenses(b)	\$ 296,622	\$ 1,047,139	\$ 1,343,761
Investment income (loss)(c)	\$ 1,204,766	\$ 4,508,656	\$ 5,713,422
Income (loss) before taxes	\$ 1,427,997	\$ 3,230,783	\$ 4,658,780
Income (loss) attributable to noncontrolling interests	\$ 2,817	\$ 3,954,502	\$ 3,957,319
Income (loss) attributable to KKR Holdings	\$	\$ 487,864	\$ 487,864
Total assets(d)	\$ 6,191,760	\$ 28,672,199	\$ 34,863,959
Total KKR & Co. L.P. Partners' Capital (e)	\$ 5,208,536	\$ (4,101,355)	\$ 1,107,181

(a) The fees adjustment primarily represents (i) the elimination of management fees of \$287,238, (ii) fee credits of \$37,975 upon consolidation of the KKR Funds, and (iii) a gross up of reimbursable expenses of \$18,529.

(b) The expenses adjustment primarily represents (i) the inclusion of non-cash equity charges which amounted to \$717,153, (ii) allocations to the carry pool of \$286,567, (iii) a gross up of reimbursable expenses of \$18,529 (iv) operating expenses of \$13,856 primarily associated with the inclusion of operating expenses upon consolidation of the KKR Funds and (v) other adjustments of \$11,034.

(c) The investment income (loss) adjustment primarily represents (i) the inclusion of net investment income of \$4,103,055 attributable to noncontrolling interests upon consolidation of the KKR Funds, (ii) allocations to the carry pool of \$286,567, and (iii) management fee refunds of \$119,034.

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(d) Substantially all of the total assets adjustment represents the inclusion of private equity and other investments that are attributable to noncontrolling interests upon consolidation of the KKR Funds.

(e) Substantially all of the total partners' capital adjustment represents the exclusion of private equity and other investments that are attributable to noncontrolling interests.

Table of Contents

The reconciliation of economic net income (loss) to net income (loss) attributable to KKR as reported in the statements of operations consists of the following:

	<b>Nine Months Ended September 30, 2010</b>	
Economic net income (loss)	\$	1,425,180
Income taxes		(60,998)
Amortization of intangibles and other, net		(6,566)
Non-cash equity based charges		(717,153)
Allocation to noncontrolling interests held by KKR Holdings L.P.		(487,864)
Net income attributable to KKR & Co. L.P.	\$	152,599

**13. COMMITMENTS AND CONTINGENCIES***Debt Covenants*

Borrowings of KKR contain various debt covenants. These covenants do not, in management's opinion, materially restrict KKR's investment or financing strategies. KKR is in compliance with all of its debt covenants as of September 30, 2011.

*Investment Commitments*

As of September 30, 2011, KKR had unfunded commitments to its private equity and other investment vehicles of \$746.1 million. In addition, KKR's capital markets business had unfunded commitments of \$80.8 million related to three Portfolio Companies' revolving credit facilities as of September 30, 2011.

*Contingent Repayment Guarantees*

The instruments governing KKR's private equity funds and certain other investment vehicles generally include a clawback provision that, if triggered, may give rise to a contingent obligation that may require the general partner to return amounts to the fund for distribution to the limited partners at the end of the life of the fund. Under a clawback provision, upon the liquidation of a fund, the general partner is required to return, on an after-tax basis, previously distributed carry to the extent that, due to the diminished performance of later investments, the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled. As of September 30, 2011, the amount of carried interest KKR principals have received, that is subject to this clawback provision was \$791.0 million, assuming that all applicable private equity funds and certain other investment vehicles were liquidated at no value. Had the investments in such funds been liquidated at their September 30, 2011 fair values, the clawback obligation would have been \$73.5 million, of which \$60.3 million is recorded in due from affiliates, \$6.8 million is due from noncontrolling interest holders and \$6.4 million is the obligation of KKR.

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Certain KKR principals who received carried interest distributions with respect to the private equity funds had personally guaranteed, on a several basis and subject to a cap, the contingent obligations of the general partners of the private equity funds to repay amounts to fund limited partners pursuant to the general partners' clawback obligations.

KKR principals remain responsible for any clawback obligations relating to carry distributions received prior to October 1, 2009 up to a maximum of \$223.6 million. At September 30, 2011, KKR has recorded a receivable of \$55.9 million within Due from Affiliates for the amount of the clawback obligation that would be required to be funded by KKR principals who do not hold direct controlling economic interests in the KKR Group Partnerships.

Carry distributions are allocated to KKR, KKR Holdings and KKR principals (as carry pool participants) in accordance with the terms of the instruments governing the KKR Group Partnerships. KKR will indemnify its principals for any personal guarantees that they have provided with respect to such amounts.

The instruments governing certain of KKR's private equity funds may also include a net loss sharing provision, that, if triggered, may give rise to a contingent obligation that may require the general partners to contribute capital to the



Table of Contents

fund, to fund 20% of the net losses on investments. In connection with the net loss sharing provisions, certain of KKR's private equity vehicles allocate a greater share of their investment losses to KKR relative to the amounts contributed by KKR to those vehicles. In these vehicles, such losses would be required to be paid by KKR to the limited partners in those vehicles in the event of a liquidation of the fund regardless of whether any carried interest had previously been distributed. Based on the fair market values as of September 30, 2011, there would have been no net loss sharing obligation. If the vehicles were liquidated at zero value, the contingent repayment obligation would have been approximately \$1,095.8 million as of September 30, 2011.

*Indemnifications*

In the normal course of business, KKR enters into contracts that contain a variety of representations and warranties and provide general indemnifications. KKR's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against KKR that have not yet occurred. However, based on experience, KKR expects the risk of material loss to be remote.

*Litigation*

From time to time, KKR is involved in various legal proceedings, lawsuits and claims incidental to the conduct of KKR's business. KKR's business is also subject to extensive regulation, which may result in regulatory proceedings against it.

In August 1999, KKR and certain of its current and former personnel were named as defendants in an action brought in the Circuit Court of Jefferson County, Alabama, or the Alabama State Court, alleging breach of fiduciary duty and conspiracy in connection with the acquisition of Bruno's, Inc. (Bruno's), one of KKR's former portfolio companies, in 1995. The action was removed to the U.S. Bankruptcy Court for the Northern District of Alabama. In April 2000, the complaint in this action was amended to further allege that KKR and others violated state law by fraudulently misrepresenting the financial condition of Bruno's in an August 1995 subordinated notes offering relating to the acquisition and in Bruno's subsequent periodic financial disclosures. In January 2001, the action was transferred to the U.S. District Court for the Northern District of Alabama. In August 2009, the action was consolidated with a similar action brought against the underwriters of the August 1995 subordinated notes offering, which is pending before the Alabama State Court. The plaintiffs are seeking compensatory and punitive damages, in an unspecified amount to be proven at trial, for losses they allegedly suffered in connection with their purchase of the subordinated notes. In September 2009, KKR and the other named defendants moved to dismiss the action. In April 2010, the Alabama State Court granted in part and denied in part the motion to dismiss. As suggested by the Alabama State Court, KKR filed a petition seeking appeal of certain rulings made by the Alabama State Court when denying the motion to dismiss. On August 19, 2011, the Alabama Supreme Court denied KKR's petition, and the action is proceeding to discovery in Alabama State Court. On October 6, 2011, the plaintiffs' investment adviser moved to dismiss a third-party complaint filed by KKR and other defendants asserting a contribution claim against the plaintiffs' investment adviser. Briefing on the motion to dismiss this third-party-complaint is ongoing.

In 2005, KKR and certain of its current and former personnel were named as defendants in consolidated shareholder derivative actions in the Court of Chancery of the State of Delaware relating to PRIMEDIA Inc. (PRIMEDIA), one of its portfolio companies. These actions claimed that the board of directors of PRIMEDIA breached its fiduciary duty of loyalty in connection with the redemption of certain shares of preferred stock in 2004 and 2005. The plaintiffs further alleged that KKR benefited from these redemptions of preferred stock at the expense of PRIMEDIA and that KKR usurped a corporate opportunity of PRIMEDIA in 2002 by purchasing shares of its preferred stock at a discount on the open market while causing PRIMEDIA to refrain from doing the same. In February 2008, the special litigation committee formed by the board of directors of PRIMEDIA, following a review of plaintiffs' claims, filed a motion to dismiss the actions. In March 2010, plaintiffs filed an amended complaint, including additional allegations concerning purchases of PRIMEDIA's preferred stock in 2002. Plaintiffs sought unspecified damages on behalf

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of PRIMEDIA and an award of attorneys' fees and costs. On June 16, 2010, the Court of Chancery entered an order dismissing all claims asserted against the defendants. On July 15, 2010, the plaintiffs filed a notice of appeal with the Supreme Court of Delaware. On June 20, 2011, the Supreme Court of Delaware reversed the decision of the Court of Chancery and remanded the action to the Court of Chancery. On August 8, 2011, the Court of Chancery dismissed the action based on a stipulation by the parties that the plaintiffs lost standing to prosecute the derivative claims when the acquisition of PRIMEDIA as discussed in the following paragraph was completed.

On May 23, 2011, KKR and certain of its personnel were named as defendants, along with others, in two shareholder class action complaints filed in the Court of Chancery of the State of Delaware challenging the acquisition of PRIMEDIA by a third party pursuant to a merger transaction, which was completed on July 13, 2011. These actions allege, among other things, that PRIMEDIA board members, KKR, and certain KKR affiliates, breached their fiduciary duties by entering into the merger agreement at an unfair price and failing to disclose all material information about the merger. Plaintiffs also allege that the

Table of Contents

merger price is unfair in light of the value of certain shareholder derivative claims that now have been dismissed as described in the preceding paragraph. On June 7, 2011, the Court of Chancery denied a motion to preliminarily enjoin the merger. On July 18, 2011, the Court of Chancery consolidated the two actions and appointed lead counsel for plaintiffs. On October 7, 2011, defendants moved to dismiss the operative complaint in the consolidated action. The operative complaint seeks, in relevant part, unspecified monetary damages and rescission of the merger. Briefing on the motion to dismiss is ongoing.

Additionally, on May 20, 2011 and May 24, 2011, two shareholder class actions challenging the PRIMEDIA merger were filed in Georgia state courts, in Fulton County and Gwinnett County, respectively. Both actions assert similar allegations and seek similar relief as the Delaware shareholder class actions above. On June 2, 2011, plaintiff in the Fulton County action moved for leave to file an amended complaint, which further names KKR and others, as defendants. The Fulton County action was stayed in favor of the Delaware action by an order dated July 11, 2011. On June 1, 2011, plaintiff in the Gwinnett County action filed a motion for expedited proceedings and, on June 3, 2011, moved to enjoin the merger. The Gwinnett County action was stayed in favor of the Delaware action by an order dated August 29, 2011.

In December 2007, KKR, along with 15 other private equity firms and investment banks, were named as defendants in a purported class action complaint filed in the United States District Court for the District of Massachusetts by shareholders in certain public companies acquired by private equity firms since 2003. In August 2008, KKR, along with 16 other private equity firms and investment banks, were named as defendants in a purported consolidated amended class action complaint. The suit alleges that from mid-2003 defendants have violated antitrust laws by allegedly conspiring to rig bids, restrict the supply of private equity financing, fix the prices for target companies at artificially low levels, and divide up an alleged market for private equity services for leveraged buyouts. The amended complaint seeks injunctive relief on behalf of all persons who sold securities to any of the defendants in leveraged buyout transactions and specifically challenges nine transactions. The first stage of discovery concluded on or about April 15, 2010. On August 18, 2010, the court granted plaintiffs' motion to proceed to a second stage of discovery in part and denied it in part. Specifically, the court granted a second stage of discovery as to eight additional transactions but denied a second stage of discovery as to any transactions beyond the additional eight specified transactions. On October 7, 2010, the plaintiffs filed under seal a fourth amended complaint that includes new factual allegations concerning the additional eight transactions and the original nine transactions. The fourth amended complaint also includes eight purported sub-classes of plaintiffs seeking unspecified monetary damages and/or restitution with respect to eight of the original nine challenged transactions and new separate claims against two of the original nine challenged transactions. On January 13, 2011, the court granted a motion filed by KKR and certain other defendants to dismiss all claims alleged by a putative damages sub-class in connection with the acquisition of PanAmSat Corp. and separate claims for relief related to the PanAmSat transaction. The second phase of discovery permitted by the court is completed. On July 11, 2011, plaintiffs filed a motion seeking leave to file a proposed fifth amended complaint that seeks to challenge ten additional transactions in addition to the transactions identified in the previous complaints. Defendants opposed plaintiffs' motion. On September 7, 2011, the court granted plaintiffs' motion in part and denied it in part. Specifically, the court granted a third stage of limited discovery as to the ten additional transactions identified in plaintiffs' proposed fifth amended complaint but denied plaintiffs' motion seeking leave to file a proposed fifth amended complaint. The court stated that it will entertain a renewed motion by plaintiffs to file a proposed fifth amended complaint at the close of the third phase of discovery. The third phase of discovery permitted by the court is ongoing and currently scheduled to conclude on April 17, 2012. The Court further ordered that there will be no further discovery after April 17, 2012.

KKR, along with two other private equity firms (collectively the Sponsors), was named as a defendant in purported shareholder class actions filed in the Court of Chancery of the State of Delaware arising out of the acquisition of Del Monte Foods Company (Del Monte) by Blue Acquisition Group, Inc. and Blue Merger Sub Inc., entities controlled by private equity funds affiliated with the Sponsors (the Acquisition Entities). This transaction was announced on November 25, 2010 and was completed on March 8, 2011 (the Del Monte Transaction). All of the shareholder actions that were filed in the Court of Chancery following the announcement of the Del Monte Transaction were consolidated on December 31, 2010 (the Delaware Del Monte Action). In a consolidated complaint filed on January 10, 2011, the plaintiff in the Delaware Del Monte Action alleged, among other things, that the Del Monte board of directors breached its fiduciary duties by agreeing to sell Del Monte at an unfair price and through an unfair process and by filing a materially misleading and incomplete proxy statement and that the Sponsors and the Acquisition Entities aided and abetted these fiduciary breaches. On February 14, 2011, the Court of Chancery issued a ruling which, among other things, found on the preliminary record before the court that the plaintiff had demonstrated a reasonable likelihood of success on the merits of its aiding and abetting claim against the Sponsors, including KKR. The ruling enjoined Del Monte from proceeding with its stockholder vote, previously scheduled for February 15, 2011, for twenty days and preliminarily enjoined certain deal protection provisions of the merger.

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agreement pending the stockholder vote. On February 18, 2011, an amended consolidated complaint was filed in the Delaware Del Monte Action asserting claims for: (i) breach of fiduciary duty against the Del Monte directors, (ii) aiding and abetting the directors' breaches of fiduciary duty against the Sponsors, the Acquisition Entities, and Barclays Capital, Inc. ( "Barclays" ), which served as a financial advisor to Del Monte in connection with the Del Monte Transaction, (iii) breach of contract against the Sponsors

Table of Contents

arising from confidentiality agreements between the Sponsors and Del Monte, and (iv) tortious interference with contract against Barclays arising from the aforementioned confidentiality agreements between the Sponsors and Del Monte. The amended consolidated complaint seeks, among other things, injunctive relief, rescission of the merger agreement, damages and attorneys' fees. On March 29, 2011, all of the defendants in the Delaware Del Monte Action, including KKR, answered the amended consolidated complaint. On July 27, 2011, Del Monte Corporation, as successor-in-interest to Del Monte, was joined as a party and defendant in the Delaware Del Monte Action. On October 6, 2011, the parties filed a Stipulation and Agreement of Compromise and Settlement in the Delaware Del Monte Action. If the proposed settlement is approved by the court, the Delaware Del Monte Action will be dismissed and all shareholder claims that were asserted or could have been asserted (including claims asserted in the California federal and state court actions and the Pipe Fitters Action described in the following paragraph) against KKR and the other defendants will be released in exchange for, among other things, a payment by Del Monte and Barclays but not by KKR. The settlement hearing is scheduled for December 1, 2011 in the Delaware Court of Chancery.

Similar shareholder actions were filed against Del Monte, the Del Monte directors, the Sponsors and/or the Acquisition Entities in California Superior Court and the United States District Court for the Northern District of California. The federal cases pending in the Northern District of California were consolidated and subsequently voluntarily dismissed without prejudice. Plaintiffs in all but one of the California state court actions have moved for voluntary dismissal without prejudice. The remaining California state court action has been stayed pursuant to court order. On March 7, 2011, a purported antitrust class action captioned Pipe Fitters Local Union No. 120 Pension Fund v. Barclays Capital Inc. et al. (Case No. 3:10-cv-01064-EDL) was filed in the United States District Court for the Northern District of California (the Pipe Fitters Action). On May 4, 2011, plaintiff filed an amended complaint which named as defendants the Sponsors, Barclays, a managing director at Barclays, and Goldman Sachs Group, Inc. (which provided a portion of the financing in connection with the Del Monte Transaction) and alleged that the defendants violated federal antitrust laws by, among other things, allegedly conspiring to suppress the transaction price. The amended complaint in Pipe Fitters Action sought, among other things, injunctive relief, damages and attorneys' fees. On June 10, 2011, defendants moved to dismiss the amended complaint. On August 30, 2011, following briefing and argument on defendants' motion to dismiss the amended complaint in the Pipe Fitters Action, the court dismissed the amended complaint without prejudice and with leave to file another amended complaint.

On March 4, 2011, KKR received a request from the SEC for information regarding issues relating to the Del Monte Transaction. On May 20, 2011 the SEC issued a subpoena to KKR seeking substantially the same documents and information as the March 4, 2011 request for information. KKR is cooperating with the SEC's investigation.

In September 2006 and March 2009, KKR received requests for certain documents and other information from the Antitrust Division of the U.S. Department of Justice (DOJ) in connection with the DOJ's investigation of private equity firms to determine whether they have engaged in conduct prohibited by United States antitrust laws. KKR is cooperating with the DOJ's investigation.

In January 2011, KKR received a request from the SEC for information regarding KKR's investors and clients that the SEC defines as sovereign wealth funds and certain services provided by KKR. KKR is cooperating with the SEC's investigation.

Moreover, in the ordinary course of business KKR is subject to regulatory examinations or investigations and also is and can be both the defendant and the plaintiff in numerous actions with respect to acquisitions, bankruptcy, insolvency and other types of proceedings. Such lawsuits may involve claims that adversely affect the value of certain investments owned by KKR's funds.

No loss contingency has been recorded in any period presented in the condensed consolidated financial statements, because such losses are either not probable or reasonably estimable (or both) at the present time. Such matters are subject to many uncertainties and their ultimate outcomes are not predictable with assurance. Consequently, management is unable to estimate a range of potential loss, if any, related to these

matters. At this time, management has not concluded whether the final resolution of any of these matters will have a material effect upon the condensed consolidated financial statements.

***Principal Protected Product for Private Equity Investments***

The fund agreements for a private equity vehicle referred to as KKR's principal protected product for private equity investments contain provisions that require the fund underlying the principal protected product for private equity investments (the Master Fund) to liquidate certain of its portfolio investments in order to satisfy liquidity requirements of the fund agreements, if the performance of the Master Fund is lower than certain benchmarks defined in the agreements. In an instance where the Master Fund is not in compliance with the defined liquidity requirements and does not have sufficient liquidity to

Table of Contents

meet its defined requirements, KKR has an obligation to purchase up to \$4.1 million of illiquid portfolio investments of the Master Fund at 95% of their current fair market value, reduced from \$18.4 million effective January 1, 2011. As of September 30, 2011, the Master Fund does not have a liquidity shortfall and therefore KKR has no obligation.

**14. REGULATED ENTITIES**

KKR has a registered broker-dealer which is subject to the minimum net capital requirements of the SEC and the Financial Industry Regulatory Authority ( FINRA ). Additionally, KKR has an entity based in London which is subject to the capital requirements of the U.K. Financial Services Authority ( FSA ), another entity based in Hong Kong which is subject to the capital requirements of the Hong Kong Securities and Futures Ordinance, and another entity based in Mumbai which is subject to capital requirements of the Reserve Bank of India ( RBI ). All of these broker dealer entities have continuously operated in excess of their respective minimum regulatory capital requirements.

The regulatory capital requirements referred to above may restrict KKR 's ability to withdraw capital from its registered broker-dealer entities. As of September 30, 2011, approximately \$49.8 million of cash at these registered broker-dealer entities may be restricted as to the payment of cash distributions and advances to KKR.

**15. SUBSEQUENT EVENTS**

A distribution of \$0.10 per KKR & Co. L.P. common unit was announced on November 4, 2011 and will be paid on November 29, 2011 to KKR & Co. L.P. unitholders of record as of the close of business on November 14, 2011. KKR Holdings will receive its pro rata share of the distribution from the KKR Group Partnerships.

Table of Contents

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

*The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements of KKR & Co. L.P., together with its consolidated subsidiaries, and the related notes included elsewhere in this report and our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed with the Securities and Exchange Commission on March 7, 2011, including the audited consolidated and combined financial statements and the related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained therein. The historical condensed consolidated financial data discussed below reflects the historical results and financial position of KKR. In addition, this discussion and analysis contains forward looking statements and involves numerous risks and uncertainties, including those described under Cautionary Note Regarding Forward-looking Statements and Risk Factors. Actual results may differ materially from those contained in any forward looking statements.*

**Overview**

Led by Henry Kravis and George Roberts, we are a leading global investment firm with \$58.7 billion in AUM as of September 30, 2011 and a 35-year history of leadership, innovation and investment excellence. When our founders started our firm in 1976, they established the principles that guide our business approach today, including a patient and disciplined investment process; the alignment of our interests with those of our investors, portfolio companies and other stakeholders; and a focus on attracting world class talent.

Our business offers a broad range of investment management services to our investors and provides capital markets services to our firm, our portfolio companies and our clients. Throughout our history, we have consistently been a leader in the private equity industry, having completed more than 195 private equity investments with a total transaction value in excess of \$450 billion. In recent years, we have grown our firm by expanding our geographical presence and building businesses in new areas, such as fixed income, capital markets, infrastructure, natural resources and real estate. Our new efforts build on our core principles and industry expertise, allowing us to leverage the intellectual capital and synergies in our businesses, and to capitalize on a broader range of the opportunities we source. Additionally, we have increased our focus on servicing our existing investors and have invested meaningfully in developing relationships with new investors.

We conduct our business with offices throughout the world, providing us with a pre-eminent global platform for sourcing transactions, raising capital and carrying out capital markets activities. We have grown our AUM significantly, from \$15.1 billion as of December 31, 2004 to \$58.7 billion as of September 30, 2011, representing a compounded annual growth rate of 22.2%. Our growth has been driven by value that we have created through our operationally focused investment approach, the expansion of our existing businesses, our entry into new lines of business, innovation in the products that we offer investors, an increased focus on providing tailored solutions to our clients and the integration of capital markets distribution activities.

As a global investment firm, we earn management, monitoring, transaction and incentive fees for providing investment management, monitoring and other services to our funds, vehicles, managed accounts, specialty finance company and portfolio companies, and we generate transaction-specific income from capital markets transactions. We earn additional investment income from investing our own capital alongside that of our investors and from the carried interest we receive from our funds and certain of our other investment vehicles. A carried interest entitles the sponsor of a fund to a specified percentage of investment gains that are generated on third-party capital that is invested.



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We seek to consistently generate attractive investment returns by employing world-class people, following a patient and disciplined investment approach and driving growth and value creation in the assets we manage. Our investment teams have deep industry knowledge and are supported by a substantial and diversified capital base, an integrated global investment platform, the expertise of operating consultants and senior advisors and a worldwide network of business relationships that provide a significant source of investment opportunities, specialized knowledge during due diligence and substantial resources for creating and realizing value for stakeholders. We believe that these aspects of our business will help us continue to expand and grow our business and deliver strong investment performance in a variety of economic and financial conditions.

### **Business Segments**

#### *Private Markets*

Through the Private Markets segment, KKR manages and sponsors a group of private equity funds and co-investment vehicles that invest capital for long-term appreciation, either through controlling ownership of a company or strategic minority

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### Table of Contents

positions. These investment funds and co-investment vehicles are managed by Kohlberg Kravis Roberts & Co. L.P., an SEC registered investment adviser. KKR also manages investments in infrastructure and natural resources.

The table below presents information as of September 30, 2011 relating to the historical performance of certain of our Private Markets investment vehicles since inception, which we believe illustrates the benefits of our investment approach. This data does not reflect additional capital raised since September 30, 2011 or acquisitions or disposals of investments, changes in investment values or distributions occurring after that date. Past performance is not a guarantee of future results.

Private Markets Investment Funds	Amount		Fair Value of Investments			Gross IRR*	Net IRR*	Multiple of Invested Capital**
	Commitment	Invested	Realized Value (\$ in Millions)	Unrealized Value	Total Value			
<i>Legacy Funds (1)</i>								
1976	\$ 31.4	\$ 31.4	\$ 537.2	\$	\$ 537.2	39.5%	35.5%	17.1
1980	356.8	356.8	1,827.8		1,827.8	29.0%	25.8%	5.1
1982	327.6	327.6	1,290.7		1,290.7	48.1%	39.2%	3.9
1984	1,000.0	1,000.0	5,963.5		5,963.5	34.6%	28.9%	6.0
1986	671.8	671.8	9,080.7		9,080.7	34.4%	28.9%	13.5
1987	6,129.6	6,129.6	14,791.8	112.1	14,903.9	12.1%	8.9%	2.4
1993	1,945.7	1,945.7	4,129.2	15.1	4,144.3	23.6%	16.8%	2.1
1996	6,011.6	6,011.6	12,270.4	203.5	12,473.9	18.0%	13.3%	2.1
<i>Included Funds</i>								
European Fund (1999) (2)	3,085.4	3,085.4	7,719.0	949.7	8,668.7	27.0%	20.3%	2.8
Millennium Fund (2002)	6,000.0	6,000.0	6,810.9	4,814.6	11,625.5	23.1%	16.6%	1.9
European Fund II (2005)	5,750.8	5,750.8	1,445.0	3,838.5	5,283.5	-2.0%	-2.7%	0.9
2006 Fund (2006)	17,642.2	14,808.5	3,282.2	15,013.9	18,296.1	6.5%	4.1%	1.2
Asian Fund (2007)	3,983.2	2,659.9	191.9	3,755.7	3,947.6	19.1%	11.3%	1.5
European Fund III (2008) (2)	5,967.8	2,596.5		2,657.0	2,657.0	1.7%	-5.3%	1.0
E2 Investors (Annex Fund) (2009) (2)	540.8	154.3		220.0	220.0	30.0%	28.7%	1.4
China Growth Fund (2010)	1,010.0	157.7		236.6	236.6	89.6%	48.4%	1.5
Natural Resources (2010)	1,086.5	82.0	6.9	66.9	73.8	NM	NM	0.9
Infrastructure Fund (2010)	513.7	40.1		38.4	38.4	NM	NM	1.0
<b>All Funds</b>	<b>\$ 62,054.9</b>	<b>\$ 51,809.7</b>	<b>\$ 69,347.2</b>	<b>\$ 31,922.0</b>	<b>\$ 101,269.2</b>	<b>25.7%</b>	<b>19.0%</b>	<b>2.0</b>

(1) These funds are not included in the KKR business. The last investment for each of the 1976 Fund, the 1980 Fund, the 1982 Fund, the 1984 Fund and the 1986 Fund was liquidated on May 14, 2003, July 11, 2003, December 11, 1997, July 17, 1998 and December 29, 2004, respectively. The 1987 Fund and the 1993 Fund currently hold one investment and the 1996 Fund currently holds two investments. It is not known when those investments will be liquidated.

(2) The capital commitments of the European Fund, the European Fund II, the European Fund III and the Annex Fund include euro-denominated commitments of 196.5 million, 2,597.2 million, 2,788.8 million and 165.5 million, respectively. Such amounts have been converted into U.S. dollars based on (i) the foreign exchange rate at the date of purchase for each investment and (ii) the exchange rate prevailing on September 30, 2011 in the case of unfunded commitments.

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\* IRRs measure the aggregate annual compounded returns generated by a fund's investments over a holding period. Net IRRs are calculated after giving effect to the allocation of realized and unrealized carried interest and the payment of any applicable management fees. Gross IRRs are calculated before giving effect to the allocation of carried interest and the payment of any applicable management fees.

\*\* The multiples of invested capital measure the aggregate returns generated by a fund's investments in absolute terms. Each multiple of invested capital is calculated by adding together the total realized and unrealized values of a fund's investments and dividing by the total amount of capital invested by the fund. Such amounts do not give effect to the allocation of any realized and unrealized returns on a fund's investments to the fund's general partner pursuant to a carried interest or the payment of any applicable management fees.

### *Public Markets*

Through the Public Markets segment, KKR manages a specialty finance company, a number of investment funds, structured finance vehicles and separately managed accounts that invest capital in (i) liquid credit strategies, such as leveraged loans and high yield bonds, (ii) liquid long/short equity strategies, (iii) and less liquid credit and equity strategies such as mezzanine

Table of Contents

debt and special situations investments. These funds, vehicles and accounts are managed by KKR Asset Management LLC, an SEC registered investment adviser.

We generally review our performance in the Public Markets segment by investment strategy as opposed to by investor vehicle. The following chart presents information on the returns of our key strategies from inception to September 30, 2011 as compared to their applicable benchmark (1). Past performance is not a guarantee of future results.

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(1) The Benchmarks referred to herein include the S&P/LSTA Leveraged Loan Index (the S&P/LSTA Loan Index) and the Bank of America Merrill Lynch High Yield Master II Index (the BoAML HY Master II Index and, together with the S&P/LSTA Loan Index, the Indices). The S&P/LSTA Loan Index is an index that comprises all loans that meet the inclusion criteria and that have marks from the LSTA/LPC mark-to-market service. The inclusion criteria consist of the following: (i) syndicated term loan instruments consisting of term loans (both amortizing and institutional), acquisition loans (after they are drawn down) and bridge loans; (ii) secured; (iii) U.S. dollar denominated; (iv) minimum term of one year at inception; and (v) minimum initial spread of LIBOR plus 1.25%. The BoAML HY Master II Index is a market value weighted index of below investment grade U.S. dollar denominated corporate bonds publicly issued in the U.S. domestic market. Yankee bonds (debt of foreign issuers issued in the U.S. domestic market) are included in the BoAML HY Master II Index provided that the issuer is domiciled in a country having investment grade foreign currency long-term debt rating. Qualifying bonds must have maturities of one year or more, a fixed coupon schedule and minimum outstanding of US\$100 million. In addition, issues having a credit rating lower than BBB3, but not in default, are also included. The indices do not reflect the reinvestment of income or dividends and the indices are not subject to management fees, incentive allocations or expenses. It is not possible to invest directly in unmanaged indices.

(2) The Secured Credit Unlevered model performance track record is presented as supplemental information. The Secured Credit Unlevered model represents performance of KKR's Secured Credit Levered composite calculated on an unlevered basis. KKR's Secured Credit Levered composite has an investment objective that allows it to invest in assets other than senior secured term loans and high yield securities, which includes asset backed securities, commercial mortgage backed securities, preferred stock, public equity, private equity and certain freestanding derivatives. In addition, KKR's Secured Credit Levered composite has employed leverage in its respective portfolios as part of its investment strategy. Gains realized with borrowed funds may cause returns to increase at a faster rate than would be the case without borrowings. If, however, investment results fail to cover the principal, interest and other costs of borrowings, returns could also decrease faster than if there had been no borrowings. Accordingly, the unlevered returns contained herein do not reflect the actual returns, and are not intended to be indicative of the future results of KKR's Secured Credit Levered composite. It is not expected that KKR's Secured Credit Levered composite will achieve comparable results. The Benchmark used for purposes of comparison for the Secured Credit strategy presented herein is the S&P/LSTA Loan Index. There are differences, in some cases, significant differences, between KKR's investments and the investments included in the Indices. For instance, KKR's composite may invest in securities that have a greater degree of risk and volatility, as well as liquidity risk, than those securities contained in the Indices.



Table of Contents

(3) Performance is based on a blended composite of Bank Loans Plus High Yield strategy accounts. The Benchmark used for purposes of comparison for the Bank Loans Plus High Yield strategy is based on 65% S&P/LSTA Loan Index and 35% ML HY Master II Index.

(4) The Benchmark used for purposes of comparison for the High Yield carve-out strategy presented herein is based on the Bank of America Merrill Lynch High Yield Master II Index. The High Yield carve-out is comprised of all investments included in KKR-sponsored portfolios that have been identified as below investment grade or were rated BB or lower at time of issuance by Standard & Poor's. The collection of investments included in the High Yield carve-out come from various investment funds, vehicles and accounts sponsored by KKR.

(5) Performance is a blended composite of accounts in the Opportunistic Credit strategy. The Benchmark used for purposes of comparison is the BoAML HY Master II Index.

The table below presents information as of September 30, 2011 relating to our Public Markets investment vehicles.

(\$ in millions)	AUM	FPAUM	Typical Mgmt Fee Rate	Incentive Fee / Carried Interest	Hurdle Rate	Duration of Capital
KFN	\$ 1,512	\$ 1,512	1.75%	25.00%	8.00%	Permanent(1)
Liquid Credit SMAs/Funds	2,741	2,741	0.50-1.00%	N/A	N/A	Subject to Redemptions
CLOs	7,487	938	0.50%	N/A	N/A	10-14 Years(2)
Mezzanine and Special Situations SMAs/Funds	2,794	2,749	1.00-1.50%(3)	10.0-20.0%	8.00%	13-15 Years(2)
Corporate Capital Trust	15	15	1.00%	10.0%	7.00%	7 years(4)
Long/Short Equities Fund	220	122	1.25-1.50%	17.5-20.0%	N/A	Subject to Redemptions
Strategic Capital Funds (SCF)	207	207	0.25%	N/A	N/A	In liquidation
<b>Total</b>	<b>\$ 14,976</b>	<b>\$ 8,284</b>				

(1) The management agreement may be terminated only in limited circumstances and, except for a termination arising from certain events of cause, upon payment of a termination fee to KKR.

(2) Term for duration of capital is since inception. Inception dates for CLOs were between 2005 and 2007 and for Mezzanine and Special Situations separately managed accounts and funds from 2009 through 2010.

(3) Lower fees on uninvested capital in certain vehicles.

(4) By December 31, 2018, the capital in this vehicle may become permanent.

**Capital Markets and Principal Activities**

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KKR's Capital Markets and Principal Activities segment combines KKR's principal assets with its global capital markets business. KKR's capital markets business supports the firm, its portfolio companies and its clients by providing tailored capital markets advice and by developing and implementing both traditional and non-traditional capital solutions for investments and companies seeking financing. KKR's capital markets services include arranging debt and equity financing for transactions, placing and underwriting securities offerings, structuring new investment products and providing capital markets services. KKR's principal asset base primarily includes investments in its private equity funds and co-investments in certain portfolio companies of such funds.

### **Business Environment**

As a global investment firm, we are affected by financial and economic conditions in North America, Europe, Asia and elsewhere in the world. Global equity markets have a substantial effect on our financial condition and results of operations, as equity prices, which have been and may continue to be volatile, significantly impact the valuation of our portfolio companies and, therefore, the investment income that we recognize. For our investments that are publicly listed and thus have readily observable market prices, global equity markets have a direct impact on valuation. For other investments, these markets have an indirect impact on valuation as we typically utilize a market multiples valuation approach as one of the methodologies to ascertain fair value. In addition, the receptivity of equity markets to initial public offerings, or IPOs, as well as subsequent equity offerings by companies already public, impacts our ability to realize investment gains.

Table of Contents

The downward trend in equity markets observed in the latter part of the second quarter intensified during the third quarter of 2011 resulting in significant market volatility and declines in most of the broader equity market indices. Specifically, the S&P 500 and MSCI World Index finished the quarter down 13.9% and 16.5%, respectively. The volatility in the global equity markets during the third quarter of 2011 was driven largely by unfavorable investor reactions to a variety of geopolitical and macroeconomic events including the perception of weakening U.S. economic growth, a potential slowdown in the global economy, and sovereign debt concerns in Europe. Since the end of the third quarter, the S&P 500 and the MSCI World Index have rebounded, and the stock prices of certain of our public portfolio companies have increased, including HCA, Inc. (NYSE: HCA), the stock price of which has increased by approximately 17% as of November 4, 2011. Returns in the below investment grade credit markets also declined in the third quarter of 2011, with the S&P/LSTA Leveraged Loan index and the BofA Merrill Lynch High Yield Master II Index decreasing 3.9% and 6.3%, respectively.

Conditions in global credit markets also have a substantial effect on our financial condition and results of operations. We rely on the ability of our funds to obtain committed debt financing on favorable terms in order to complete new private equity transactions. Similarly, our portfolio companies regularly require access to the global credit markets in order to obtain financing for their operations and to refinance or extend the maturities of their outstanding indebtedness. To the extent that conditions in the credit markets render such financing difficult to obtain or more expensive, this may negatively impact the operating performance and valuations of those portfolio companies and, therefore, our investment returns on our funds. In addition, during economic downturns or periods of slow economic growth, the inability to refinance or extend the maturities of portfolio company debt (and thereby extend our investment holding period) can be significant to our ability to realize investment gains from these portfolio companies when economic conditions improve. Credit markets can also impact valuations. For example, we typically use a discounted cash flow analysis as one of the methodologies to ascertain the fair value of our investments that do not have readily observable market prices. If applicable interest rates rise, then the assumed cost of capital for those portfolio companies would be expected to increase under the discounted cash flow analysis, and this effect would negatively impact their valuations if not offset by other factors. Conversely, a fall in interest rates can positively impact valuations of certain portfolio companies if not offset by other factors. During the third quarter of 2011, a fall in applicable interest rates had the effect of positively impacting the valuations of certain portfolio companies valued using the discounted cash flow analysis, as one of the methodologies to ascertain fair value. During this quarter, this positive impact of falling interest rates on discounted cash flow valuations in certain cases offset the negative impact of the market multiples valuation approach, which is another methodology used to ascertain fair value, and generally resulted in less of a decline in value than for those investments that had a readily observable market price.

Our Public Markets segment manages a number of funds and other accounts that invest capital in a variety of credit and equity strategies, including leveraged loans, high yield bonds and mezzanine debt. As a result, conditions in global credit and equity markets have a direct impact on both the performance of these investments as well as the ability to make additional investments on favorable terms in the future.

In addition, our Capital Markets and Principal Activities segment generates fees through a variety of activities in connection with the issuance and placement of equity and debt securities and credit facilities, with the size of fees generally correlated to overall transaction sizes. As a result, the conditions in global equity and credit markets impact both the frequency and size of fees generated by this segment.

Finally, conditions in commodity markets may impact the performance of our portfolio companies in a variety of ways, including through direct or indirect impact on the cost of the inputs used in their operations as well as the pricing and profitability of the products or services that they sell. The price of commodities has historically been subject to considerable volatility and certain commodity prices have risen considerably on a historical basis. If certain of our portfolio companies are unable to raise prices to offset increases in the cost of raw materials or other inputs or if consumers defer purchases of or seek substitutes for the products of such portfolio companies, such portfolio companies could experience lower operating income which may, in turn, reduce the valuation of those portfolio investments. However, the results of operations and valuations of certain of our other portfolio companies, for example those involved in the development of oil and natural gas properties, may benefit from an increase in commodity prices.



**Basis of Financial Presentation**

The condensed consolidated financial statements include the accounts of our management and capital markets companies, certain variable interest entities, the general partners of certain unconsolidated co-investment vehicles and the general partners of our private equity and fixed income funds and their respective consolidated funds, where applicable.

In accordance with accounting principles generally accepted in the United States of America ( GAAP ), certain entities, including a substantial number of our funds, are consolidated notwithstanding the fact that we may hold only a minority economic interest or non-economic variable interest in those entities. In particular, the majority of our consolidated

Table of Contents

funds consist of funds in which we hold a general partner or managing member interest that gives us substantive controlling 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. As of September 30, 2011, our private markets segment included nine consolidated investment funds and eleven unconsolidated co-investment and other vehicles. Our public markets segment included seven consolidated investment vehicles and nine unconsolidated vehicles.

When an entity is consolidated, we reflect the assets, liabilities, fees, expenses, investment income and cash flows of the consolidated entity on a gross basis. For example, the majority of the economic interests in a consolidated fund, which are held by third party investors, are reflected as noncontrolling interests. While the consolidation of a consolidated fund does not have an effect on the amounts of net income attributable to KKR or KKR's partners' capital that KKR reports, the consolidation does significantly impact the financial statement presentation. This is due to the fact that the assets, liabilities, fees, expenses and investment income of the consolidated funds are reflected on a gross basis while the allocable share of those amounts that are attributable to noncontrolling interests are reflected as single line items. The single line items in which the assets, liabilities, fees, expenses and investment income attributable to noncontrolling interests are recorded are presented as noncontrolling interests in consolidated entities on the statements of financial condition and net income attributable to noncontrolling interests in consolidated entities on the statements of operations. For a further discussion of our consolidation policies, see Critical Accounting Policies Consolidation.

**Key Financial Measures**

*Fees*

Fees consist primarily of (i) monitoring, consulting and transaction fees from providing advisory and other services, (ii) management and incentive fees from providing investment management services to unconsolidated funds, a specialty finance company, structured finance vehicles, and separately managed accounts, and (iii) fees from capital markets activities. These fees are based on the contractual terms of the governing agreements. A substantial portion of monitoring and transaction fees earned in connection with managing portfolio companies are shared with fund investors.

Fees reported in our condensed consolidated financial statements do not include the management fees that we earn from consolidated funds, because those fees are eliminated in consolidation. However, because those management fees are earned from, and funded by, third-party investors who hold noncontrolling interests in the consolidated funds, net income attributable to KKR is increased by the amount of the management fees that are eliminated in consolidation. Accordingly, while the consolidation of funds impacts the amount of fees that are recognized in our financial statements, it does not affect the ultimate amount of net income attributable to KKR or KKR's partners' capital.

For a further discussion of our fee policies, see Critical Accounting Policies Fees.

*Expenses*

**Compensation and Benefits**

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Compensation and Benefits expense includes cash compensation consisting of salaries, bonuses, and benefits. In addition, compensation and benefits expense also includes equity-based payments consisting of (i) charges associated with the vesting of equity-based awards and (ii) carry pool allocations.

All KKR principals and other employees of certain consolidated entities receive a base salary that is paid by KKR or its consolidated entities, and is accounted for as compensation and benefits expense. These employees are also eligible to receive discretionary cash bonuses based on performance, overall profitability and other matters. While cash bonuses paid to most employees are funded by KKR and certain consolidated entities and result in customary compensation and benefits expense, cash bonuses that are paid to certain of KKR's most senior employees are funded by KKR Holdings with distributions that it receives on its KKR Group Partnership Units. To the extent that distributions received by these individuals exceed the amounts that they are otherwise entitled to through their vested units in KKR Holdings, this excess is funded by KKR Holdings and reflected in Compensation and Benefits in the condensed consolidated statements of operations. Further disclosure regarding equity-based payments is presented in Note 10 Equity-based Payments.

Table of Contents

*General, Administrative and Other Expense*

General, administrative and other expense consists primarily of professional fees paid to legal advisors, accountants, advisors and consultants, insurance costs, travel and related expenses, communications and information services, depreciation and amortization charges and other general and operating expenses. General, administrative and other expense is not borne by fund investors and is not offset by credits attributable to fund investors noncontrolling interests in consolidated funds.

*Fund Expenses*

Fund expenses consist primarily of costs incurred in connection with pursuing potential investments that do not result in completed transactions (such as travel expenses, professional fees and research costs). A substantial portion of our fund expenses are borne by fund investors.

*Investment Income (Loss)*

*Net Gains (Losses) from Investment Activities*

Net gains (losses) from investment activities consist of realized and unrealized gains and losses arising from our investment activities. The majority of our net gains (losses) from investment activities are related to our private equity investments. Fluctuations in net gains (losses) from investment activities between reporting periods is driven primarily by changes in the fair value of our investment portfolio as well as the realization of investments. The fair value of, as well as the ability to recognize gains from, our private equity investments is significantly impacted by the global financial markets, which, in turn, affects the net gains (losses) from investment activities recognized in any given period. Upon the disposition of an investment, previously recognized unrealized gains and losses are reversed and an offsetting realized gain or loss is recognized in the current period. Since our investments are carried at fair value, fluctuations between periods could be significant due to changes to the inputs to our valuation process over time. For a further discussion of our fair value measurements and fair value of investments, see Critical Accounting Policies Fair Value of Investments.

*Dividend Income*

Dividend income consists primarily of distributions that private equity funds receive from portfolio companies in which they invest. Private equity funds recognize dividend income primarily in connection with (i) dispositions of operations by portfolio companies, (ii) distributions of excess cash generated from operations of portfolio companies and (iii) other significant refinancings undertaken by portfolio companies.

*Interest Income*

Interest income consists primarily of interest that is received on our fixed income instruments in which consolidated funds invest, principal assets and cash balances.

*Interest Expense*

Interest expense is incurred from credit facilities entered into by KKR, debt issued by KKR, and debt outstanding at our consolidated funds entered into with the objective of enhancing returns, which are generally not direct obligations of the general partners of our private equity funds or management companies. In addition to these interest costs, we capitalize debt financing costs incurred in connection with new debt arrangements. Such costs are amortized into interest expense using either the interest method or the straight-line method, as appropriate. See Liquidity .

*Income Taxes*

The KKR Group Partnerships and certain of their subsidiaries operate in the United States as partnerships for U.S. federal income tax purposes and as corporate entities in non-U.S. jurisdictions. Accordingly, these entities, in some cases, are subject to New York City unincorporated business taxes, or non-U.S. income taxes. However, we hold our interest in one of the KKR Group Partnerships through KKR Management Holdings Corp., which is treated as a corporation for U.S. federal income tax purposes, and certain other wholly-owned subsidiaries of the KKR Group Partnerships are treated as corporations for U.S. federal income tax purposes. Accordingly, such wholly-owned subsidiaries of KKR, including KKR Management Holdings Corp., and of the KKR Group Partnerships, are subject to federal, state and local corporate income taxes at the entity level and the related tax provision attributable to KKR's share of this income is reflected in the financial statements.

We use the liability method to account for income taxes in accordance with GAAP. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of

Table of Contents

assets and liabilities and their respective tax basis 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 all or a portion of the deferred tax assets will not be realized.

Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining tax expense and in evaluating tax positions including evaluating uncertainties. We review our tax positions quarterly and adjust our tax balances as new information becomes available.

***Net Income (Loss) Attributable to Noncontrolling Interests***

Net income (loss) attributable to noncontrolling interests represents the ownership interests that third parties hold in entities that are consolidated in the financial statements. The allocable share of income and expense attributable to those interests is accounted for as net income (loss) attributable to noncontrolling interests. Historically, the amount of net income (loss) attributable to noncontrolling interests has been substantial and has resulted in significant charges and credits in the statements of operations. Given the consolidation of certain of our investment funds we expect this activity to continue.

***Segment Results***

We present the results of our reportable business segments in accordance with Accounting Standards Codification Section 280, Segment Reporting. This guidance is based on a management approach, which requires segment presentation based on internal organization and the internal financial reporting used by management to make operating decisions, assess performance and allocate resources. All inter-segment transactions are eliminated in the segment presentation.

Our management makes operating decisions, assesses performance and allocates resources based on financial and operating data and measures that are presented without giving effect to the consolidation of any of the funds that we manage. In addition, there are other components of our reportable segment results that differ from the equivalent GAAP results on a consolidated basis. These differences are described below.

***Segment Operating and Performance Measures***

***Fee Related Earnings***

Fee related earnings ( FRE ) is comprised of segment operating revenues, less segment operating expenses. The components of FRE on a segment basis differ from the equivalent GAAP amounts on a combined basis as a result of: (i) the inclusion of management fees earned from consolidated funds that were eliminated in consolidation; (ii) the exclusion of fees and expenses of certain consolidated entities; (iii) the

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exclusion of charges relating to the amortization of intangible assets; (iv) the exclusion of charges relating to carry pool allocations; (v) the exclusion of non-cash equity charges and other non-cash compensation charges borne by KKR Holdings or incurred under the KKR & Co. L.P. 2010 Equity Incentive Plan; (vi) the exclusion of certain reimbursable expenses; and (vii) the exclusion of certain non-recurring items. You should note that KKR's calculation of FRE may differ from the calculations of other investment managers and, as a result, its measurements of FRE may not be comparable to similar measures presented by other investment managers.

### *Fee Credits*

Fee credits require us to share an agreed upon percentage of monitoring and transaction fees received from portfolio companies with limited partners in certain of our investment funds. Limited partners receive fee credits only with respect to monitoring and transaction fees that are allocable to their fund's investment in the portfolio company and not, for example, any fees allocable to capital invested through co-investment vehicles. Fee credits are calculated after deducting certain fund-related expenses and generally amount to 80% of allocable monitoring and transaction fees after fund-related expenses are recovered, although the actual percentage may vary from fund to fund.

### *Investment Income (Loss)*

Investment income is composed of net carried interest and other investment income (loss). Carried interests entitle the general partner of our private equity funds to a greater allocable share of the fund's earnings from investments relative to the capital contributed by the general partner and correspondingly reduces third party investors' share of those earnings. Carried interests are earned on realized and unrealized gains (losses) on fund investments as well as dividends received by our funds. Amounts earned pursuant to carried interests are included in investment income to the extent that cumulative investment returns

Table of Contents

in a given fund are positive. If these investment returns decrease or turn negative in subsequent periods, recognized carried interests will be reduced and reflected as investment losses. Gross carried interest is reduced for carry pool allocations and refunds of management fees payable upon the recognition of carried interest.

Allocations to our carry pool represent approximately 40% of carried interest earned in funds and vehicles eligible to receive carry distributions to be allocated to our principals plus any allocation of carried interest to our other personnel as part of our profit sharing plan. No carry pool allocations are recorded in funds and vehicles that are in either a clawback position or a net loss sharing position and therefore carry pool allocations may not always equal 40% of gross carried interest.

Certain of our investment funds require that we refund up to 20% of any cash management fees earned from limited partners in the event that the funds recognize a carried interest. At such time as the fund recognizes a carried interest in an amount sufficient to cover 20% of the cash management fees earned or a portion thereof, carried interest is reduced, not to exceed 20% of cash management fees earned.

Other investment income (loss) is comprised of realized and unrealized gains (losses) and dividends on capital invested by the general partners of our funds and by us, as well as interest income and interest expense.

*Economic Net Income (Loss)*

Economic net income (loss) ( ENI ) is a measure of profitability for KKR 's reportable segments and is comprised of: (i) FRE; plus (ii) segment investment income, which is reduced for carry pool allocations and management fee refunds; less (iii) certain economic interests in KKR 's segments held by third parties. ENI differs from net income on a GAAP basis as a result of: (i) the exclusion of the items referred to in FRE above; (ii) the exclusion of investment income relating to noncontrolling interests; and (iii) the exclusion of income taxes.

*Assets Under Management ( AUM )*

AUM represents the assets from which KKR is entitled to receive fees or a carried interest and general partner capital. KKR calculates the amount of AUM as of any date as the sum of: (i) the fair value of the investments of KKR 's investment funds plus uncalled capital commitments from these funds; (ii) the fair value of investments in KKR 's co-investment vehicles; (iii) the net asset value of certain of KKR 's fixed income products; (iv) the value of outstanding structured finance vehicles; and (v) the fair value of other assets managed by KKR. KKR 's definition of AUM is not based on any definition of AUM that is set forth in the agreements governing the investment funds, vehicles or accounts that it manages or calculated pursuant to any regulatory requirements.

*Fee Paying Assets Under Management ( FPAUM )*



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FPAUM represents only those assets under management from which KKR receives fees. FPAUM is the sum of all of the individual fee bases that are used to calculate KKR's fees and differs from AUM in the following respects: (i) assets from which KKR does not receive a fee are excluded (i.e., assets with respect to which it receives only carried interest) and (ii) certain assets, primarily in its private equity funds, are reflected based on capital commitments and invested capital as opposed to fair value because fees are not impacted by changes in the fair value of underlying investments.

### *Committed Dollars Invested*

Committed dollars invested is the aggregate amount of capital commitments that have been invested by KKR's investment funds and carry-yielding co-investment vehicles during a given period. Such amounts include: (i) capital invested by fund investors and co-investors with respect to which KKR is entitled to a fee or carried interest and (ii) capital invested by KKR.

### *Uncalled Commitments*

Uncalled commitments represent unfunded capital commitments that KKR's investment funds and carry paying co-investment vehicles have received from partners to contribute capital to fund future investments.

KKR's calculation of FRE, ENI, AUM and FPAUM may differ from the calculation of other investment managers and, as a result, its measurements of FRE, ENI, AUM and FPAUM may not be comparable to similar measures presented by other investment managers.

Table of Contents**Unaudited Condensed Consolidated Results of Operations**

The following is a discussion of our unaudited condensed consolidated results of operations for the three and nine-months ended September 30, 2011 and 2010. You should read this discussion in conjunction with the condensed consolidated financial statements and related notes included elsewhere in this report. For a more detailed discussion of the factors that affected the results of operations of our three business segments in these periods, see Segment Analysis.

The following tables set forth information regarding our results of operations for the three and nine-months ended September 30, 2011 and 2010.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(\$ in thousands)		(\$ in thousands)	
<b>Revenues</b>				
Fees	\$ 164,808	\$ 96,018	\$ 514,263	\$ 289,119
<b>Expenses</b>				
Compensation and Benefits	48,948	331,180	677,917	1,045,332
Occupancy and Related Charges	13,702	10,373	39,085	29,568
General, Administrative and Other	52,555	94,000	130,579	229,770
Fund Expenses	13,625	14,314	36,287	39,091
Total Expenses	128,830	449,867	883,868	1,343,761
<b>Investment Income (Loss)</b>				
Net Gains (Losses) from Investment Activities	(3,339,020)	1,450,124	467,278	4,768,245
Dividend Income	71,106	218,232	107,129	808,512
Interest Income	64,858	66,603	218,975	171,058
Interest Expense	(17,742)	(10,432)	(52,365)	(34,393)
Total Investment Income (Loss)	(3,220,798)	1,724,527	741,017	5,713,422
<b>Income (Loss) Before Taxes</b>				
	(3,184,820)	1,370,678	371,412	4,658,780
Income Taxes	11,535	16,263	67,923	60,998
<b>Net Income (Loss)</b>				
	(3,196,355)	1,354,415	303,489	4,597,782
Less: Net Income (Loss) Attributable to Noncontrolling Interests in Consolidated Entities				
	(2,468,074)	1,293,373	295,654	3,957,319
Less: Net Income (Loss) Attributable to Noncontrolling Interests Held by KKR Holdings L.P.				
	(484,879)	52,186	52,051	487,864
<b>Net Income (Loss) Attributable to KKR &amp; Co. L.P.</b>				
	\$ (243,402)	\$ 8,856	\$ (44,216)	\$ 152,599

*Three months ended September 30, 2011 compared to three months ended September 30, 2010*

*Fees*

Fees were \$164.8 million for the three months ended September 30, 2011, an increase of \$68.8 million, compared to fees of \$96.0 million for the three months ended September 30, 2010. The increase was primarily due to an increase in transaction fees of \$58.0 million and a net increase in gross monitoring fees of \$17.2 million. The increase in gross monitoring fees was primarily the result of \$11.7 million of consulting fees earned by an entity that was not consolidated prior to 2011. The increase in gross transaction fees of \$58.0 million primarily reflects an increase in both the number and size of fee-generating investments in our private markets business as well as an increase in overall capital markets transaction activity. These increases were partially offset by a decrease in incentive fees earned from KFN of \$9.6 million as a result of no incentive fee having been earned in the third quarter of 2011 driven by KFN not achieving certain required benchmarks.

Table of Contents*Expenses*

Expenses were \$128.8 million for the three months ended September 30, 2011, a decrease of \$321.0 million, compared to \$449.9 million for the three months ended September 30, 2010. The decrease was primarily due to a net decrease in equity-based payments of \$357.6 million, partially offset by an increase in cash-based compensation and benefits of \$24.8 million. The net decrease in equity-based payments is due primarily to (i) a benefit in our carry pool allocation in the third quarter of 2011 as a result of the reversal of previously recognized carried interest in connection with a decline in the carrying value of our carry-earning investment vehicles, and (ii) to a lesser extent, fewer KKR Holdings units vesting for expense recognition purposes under the graded attribution method of expense recognition. The increase in cash-based compensation and benefits reflects the hiring of additional personnel and the inclusion of compensation incurred by an entity that was not consolidated prior to 2011. Offsetting the net decreases described above are overall increases in occupancy and other operating expenses in connection with the expansion of our businesses.

*Net Gains (Losses) from Investment Activities*

Net losses from investment activities were \$3,339.0 million for the three months ended September 30, 2011, a decrease of \$4,789.1 million, compared to a net gain of \$1,450.1 million for the three months ended September 30, 2010. The following is a summary of net gains (losses) from investment activities:

	<b>Three Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
	(\$ in thousands)	
Private Equity Investments	\$ (3,380,575)	\$ 1,662,060
Other Net Gains (Losses) from Investment Activities	41,555	(211,936)
Net Gains (Losses) from Investment Activities	\$ (3,339,020)	\$ 1,450,124

The majority of our net gains (losses) from investment activities relate to our private equity portfolio. The following is a summary of the components of net gains (losses) from investment activities for Private Equity Investments which illustrates the variances from the prior period. See [Segment Analysis Private Markets Segment](#) for further information regarding gains and losses in our private equity portfolio:

	<b>Three Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
	(\$ in thousands)	
Realized Gains	\$ 508,138	\$ 931,012
Unrealized Losses from Sales of Investments and Realization of Gains (a)	(528,801)	(1,047,508)
Realized Losses		
Unrealized Gains from Sales of Investments and Realization of Losses (b)		
Unrealized Gains from Changes in Fair Value	832,255	2,453,316
Unrealized Losses from Changes in Fair Value	(4,192,167)	(674,760)
Net Gains (Losses) from Investment Activities	\$ (3,380,575)	\$ 1,662,060

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(a) Amounts represent the reversal of previously recognized unrealized gains in connection with realization events where such gains become realized.

(b) Amounts represent the reversal of previously recognized unrealized losses in connection with realization events where such losses become realized.

Table of Contents

*Dividend Income*

Dividend income was \$71.1 million for the three months ended September 30, 2011, a decrease of \$147.1 million compared to dividend income of \$218.2 million for the three months ended September 30, 2010. During the three months ended September 30, 2011, we received \$68.3 million of dividends from Tarkett S.A. (manufacturing sector) and an aggregate of \$2.8 million of dividends from other investments. During the three months ended September 30, 2010, we received \$216.2 million of dividends from Visant Inc. (media sector) and an aggregate of \$2.0 million of dividends from other investments. These types of dividends from portfolio companies may occur in the future; however, their size and frequency are variable.

*Interest Income*

Interest income was \$64.9 million for the three months ended September 30, 2011, a decrease of \$1.7 million, compared to \$66.6 million for the three months ended September 30, 2010. The decrease primarily reflects a net decrease in the level of fixed income instruments in our portfolio.

*Interest Expense*

Interest expense was \$17.7 million for the three months ended September 30, 2011, an increase of \$7.3 million, compared to \$10.4 million for the three months ended September 30, 2010. The increase was primarily due to higher average borrowing costs for the three months ended September 30, 2011 driven by the issuance of the Senior Notes in late September of 2010.

*Income (Loss) Before Taxes*

Due to the factors described above, loss before taxes was \$3,184.8 million for the three months ended September 30, 2011, a decrease of \$4,555.5 million, compared to income of \$1,370.7 million for the three months ended September 30, 2010.

*Net Income (Loss) Attributable to Noncontrolling Interests in Consolidated Entities*

Net loss attributable to noncontrolling interests in consolidated entities was \$2,468.1 million for the three months ended September 30, 2011, a decrease of \$3,761.4 million, compared to net income of \$1,293.4 million for the three months ended September 30, 2010. The decrease was driven primarily by the overall decrease in the components of net gains (losses) from investment activities described above.

*Net Income (Loss) Attributable to Noncontrolling Interests Held by KKR Holdings L.P.*

Net loss attributable to noncontrolling interests held by KKR Holdings L.P. was \$484.9 million for the three months ended September 30, 2011, a decrease of \$537.1 million, compared to net income of \$52.2 million for the three months ended September 30, 2010. The decrease was driven primarily by the overall decrease in the components of net gains (losses) from investment activities described above.

*Nine months ended September 30, 2011 compared to nine months ended September 30, 2010*

*Fees*

Fees were \$514.3 million for the nine months ended September 30, 2011, an increase of \$225.2 million, compared to \$289.1 million for the nine months ended September 30, 2010. The net increase was primarily due to (i) a net increase in gross monitoring fees of \$126.8 million, (ii) an increase in gross transaction fees of \$87.2 million and (iii) an increase in management fees of \$11.5 million. The increase in gross monitoring fees was primarily the result of \$76.6 million of fees received from the termination of monitoring fee arrangements in connection with the IPOs or sales of three portfolio companies, HCA, Inc. (NYSE: HCA), The Nielsen Company B.V. (NYSE: NLSN) and Seven Media Group (ASX: SWM) as well as \$38.6 million of consulting fees earned by an entity that was not consolidated prior to 2011. Termination payments may occur in the future; however, they are infrequent in nature and are generally correlated with initial public offerings or other sales activity in our private equity portfolio. The increase in gross transaction fees of \$87.2 million primarily reflects an

Table of Contents

increase in both the number and size of fee-generating investments in our private markets business as well as an increase in overall capital markets transaction activity and the increase in management fees of \$11.5 million primarily reflects new capital raised in both our private markets and public markets investment vehicles.

*Expenses*

Expenses were \$883.9 million for the nine months ended September 30, 2011, a decrease of \$459.9 million, compared to \$1,343.8 million for the nine months ended September 30, 2010. The decrease was primarily due to a net decrease in equity-based payments of \$550.0 million, partially offset by an increase in cash-based compensation and benefits of \$65.1 million. The net decrease in equity-based payments is due primarily to a lower carry pool allocation as a result of the recognition of lower carried interest in the first nine months of 2011 as compared to the comparable prior period as well as fewer KKR Holdings units vesting for expense recognition purposes under the graded attribution method of expense recognition. The increase in cash-based compensation and benefits reflects the hiring of additional personnel and the inclusion of compensation incurred by an entity that was not consolidated prior to 2011. Offsetting the net decrease in compensation and benefits expense is an overall increase in occupancy and other operating expenses in connection with the expansion of our businesses.

*Net Gains (Losses) from Investment Activities*

Net gains from investment activities were \$467.3 million for the nine months ended September 30, 2011, a decrease of \$4,301.1 million compared to \$4,768.2 million for the nine months ended September 30, 2010. The following is a summary of net gains (losses) from investment activities:

	Nine Months Ended September 30,	
	2011	2010
	(\$ in thousands)	
Private Equity Investments	\$ 520,810	\$ 4,579,985
Other Net Gains (Losses) from Investment Activities	(53,532)	188,260
Net Gains (Losses) from Investment Activities	\$ 467,278	\$ 4,768,245

The majority of our net gains (losses) from investment activities relate to our private equity portfolio. The following is a summary of the components of net gains (losses) from investment activities for Private Equity Investments which illustrates the variances from the prior period. See [Segment Analysis Private Markets Segment](#) for further information regarding gains and losses in our private equity portfolio.

	Nine Months Ended September 30,	
	2011	2010
	(\$ in thousands)	
Realized Gains	\$ 2,877,428	\$ 1,578,235
Unrealized Losses from Sales of Investments and Realization of Gains (a)	(2,745,925)	(1,668,142)



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Realized Losses	(38,265)	(122,876)
Unrealized Gains from Sales of Investments and Realization of Losses (b)	30,110	157,876
Unrealized Gains from Changes in Fair Value	5,650,756	6,710,909
Unrealized Losses from Changes in Fair Value	(5,253,294)	(2,076,017)
Net Gains (Losses) from Investment Activities	\$ 520,810	\$ 4,579,985

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(a) Amounts represent the reversal of previously recognized unrealized gains in connection with realization events where such gains become realized.

(b) Amounts represent the reversal of previously recognized unrealized losses in connection with realization events where such losses become realized.

Table of Contents

*Dividend Income*

Dividend income was \$107.1 million for the nine months ended September 30, 2011, a decrease of \$701.4 million compared to dividend income of \$808.5 million for the nine months ended September 30, 2010. During the nine months ended September 30, 2011, we received \$94.5 million of dividends from Tarkett S.A. and Legrand Holdings S.A. (ENXTPA: LR), and an aggregate of \$12.6 million of dividends from other investments. During the nine months ended September 30, 2010, we received \$800.9 million of dividends from HCA Inc., Visant Inc., and Legrand Holdings S.A. and an aggregate of \$7.6 million of dividends from other investments. These types of dividends from portfolio companies may occur in the future; however, their size and frequency are variable.

*Interest Income*

Interest income was \$219.0 million for the nine months ended September 30, 2011, an increase of \$47.9 million, compared to \$171.1 million for the nine months ended September 30, 2010. The increase primarily reflects an increase in the level of fixed income instruments in our public markets investment vehicles.

*Interest Expense*

Interest expense was \$52.4 million for the nine months ended September 30, 2011, an increase of \$18.0 million, compared to \$34.4 million for the nine months ended September 30, 2010. The increase was primarily due to higher average borrowing costs for the nine months ended September 30, 2011 driven by the issuance of the Senior Notes in late September of 2010.

*Income (Loss) Before Taxes*

Due to the factors described above, income before taxes was \$371.4 million for the nine months ended September 30, 2011, a decrease of \$4,287.4 million, compared to \$4,658.8 million for the nine months ended September 30, 2010.

*Net Income (Loss) Attributable to Noncontrolling Interests in Consolidated Entities*

Net income attributable to noncontrolling interests in consolidated entities was \$295.7 million for the nine months ended September 30, 2011, a decrease of \$3,661.7 million, compared to \$3,957.3 million for the nine months ended September 30, 2010. The decrease was driven primarily by the overall decrease in the components of net gains (losses) from investment activities described above.

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### *Net Income (Loss) Attributable to Noncontrolling Interests Held by KKR Holdings L.P.*

Net income attributable to noncontrolling interests held by KKR Holdings L.P. was \$52.1 million for the nine months ended September 30, 2011, a decrease of \$435.8 million, compared to \$487.9 million for the nine months ended September 30, 2010. The decrease was driven primarily by the overall decrease in the components of net gains (losses) from investment activities described above.

### **Segment Analysis**

The following is a discussion of the results of our three reportable business segments for the three and nine months ended September 30, 2011 and 2010. You should read this discussion in conjunction with the information included under **Basis of Financial Presentation** **Segment Results** and the condensed consolidated financial statements and related notes included elsewhere in this filing.

Table of Contents*Private Markets Segment*

The following tables set forth information regarding the results of operations and certain key operating metrics for our Private Markets segment for the three and nine months ended September 30, 2011 and 2010.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
	(\$ in thousands)		(\$ in thousands)	
<b>Fees</b>				
Management and incentive fees:				
Management fees	\$ 106,748	\$ 98,337	\$ 323,684	\$ 293,543
Incentive fees				
Management and incentive fees	106,748	98,337	323,684	293,543
Monitoring and transaction fees:				
Monitoring fees	20,892	21,780	141,972	64,824
Transaction fees	40,196	19,816	101,506	65,058
Total fee credits	(27,229)	(12,941)	(110,129)	(36,890)
Net transaction and Monitoring fees	33,859	28,655	133,349	92,992
Total fees	140,607	126,992	457,033	386,535
<b>Expenses</b>				
Compensation and benefits	47,390	37,861	139,570	117,165
Occupancy and related charges	11,273	9,513	32,792	27,189
Other operating expenses	40,768	36,733	115,076	100,965
Total expenses	99,431	84,107	287,438	245,319
Fee related earnings	41,176	42,885	169,595	141,216
<b>Investment income (loss)</b>				
Gross carried interest	(360,282)	236,792	170,096	788,045
Less: allocation to KKR carry pool	148,749	(90,704)	(69,106)	(285,534)
Less: management fee refunds	21,115	(17,387)	(15,594)	(119,034)
Net carried interest	(190,418)	128,701	85,396	383,477
Other investment income (loss)	(1,942)	2,524	(185)	(1,532)
Total investment income (loss)	(192,360)	131,225	85,211	381,945
<b>Income (Loss) before noncontrolling interests</b>				
in income of consolidated entities	(151,184)	174,110	254,806	523,161
<b>Income (Loss) attributable to noncontrolling interests</b>				
	790	394	1,885	580
Economic Net Income (Loss)	\$ (151,974)	\$ 173,716	\$ 252,921	\$ 522,581
<b>Assets Under Management</b>				
Assets Under Management	\$ 43,744,400	\$ 41,878,700	\$ 43,744,400	\$ 41,878,700
Fee Paying Assets Under Management	\$ 37,936,800	\$ 36,032,300	\$ 37,936,800	\$ 36,032,300
Committed Dollars Invested	\$ 1,654,900	\$ 349,500	\$ 2,884,900	\$ 2,184,200
Uncalled Commitments	\$ 11,243,600	\$ 12,495,400	\$ 11,243,600	\$ 12,495,400

**Three months ended September 30, 2011 compared to three months ended September 30, 2010***Fees*

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Fees were \$140.6 million for the three months ended September 30, 2011, an increase of \$13.6 million, compared to fees of \$127.0 million for the three months ended September 30, 2010. The net increase was primarily due to an increase in gross transaction fees of \$20.4 million and an increase in management fees of \$8.4 million. The increase in gross transaction

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### Table of Contents

fees was primarily due to an increase in both the size and number of fee-generating investments completed. The increase in management fees was primarily due to an increase in fee paying capital at our private equity funds. These increases were partially offset by an increase in credits earned by limited partners under fee sharing arrangements in our private equity funds due primarily to the increased gross transaction fees.

### *Expenses*

Expenses were \$99.4 million for the three months ended September 30, 2011, an increase of \$15.3 million, compared to expenses of \$84.1 million for the three months ended September 30, 2010. The increase was primarily the result of (i) an increase of \$9.5 million in compensation and benefits expense and (ii) an increase in occupancy and related charges of \$1.8 million, each of which is a reflection of the hiring of additional personnel and the continued expansion of our business; and (iii) an increase in other operating expenses of \$4.0 million primarily due to an increase in professional fees reflecting the expansion of our business.

### *Fee Related Earnings*

Fee related earnings in our Private Markets segment were \$41.2 million for the three months ended September 30, 2011, a decrease of \$1.7 million, compared to fee related earnings of \$42.9 million for the three months ended September 30, 2010. The decrease was due to the increase in expenses, partially offset by the increase in fees as described above.

### *Investment Income (Loss)*

Investment loss was \$192.4 million for the three months ended September 30, 2011, a decrease of \$323.6 million, compared to investment income of \$131.2 million for the three months ended September 30, 2010. For the three months ended September 30, 2011, investment loss was comprised primarily of the reversal of previously recognized net carried interest in connection with a decline in the carrying value of our carry-earning investment vehicles of \$190.4 million.

The following table presents the components of net carried interest for the three months ended September 30, 2011 and 2010.

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(\$ in thousands)</b>	
Net Realized Gains (Losses)	\$ 79,510	\$ 185,205
Net Unrealized Gains (Losses)	(441,835)	16,384
Dividends and Interest	2,043	35,203
Gross carried interest	(360,282)	236,792
Less: Allocation to KKR carry pool	148,749	(90,704)
Less: Management fee refunds	21,115	(17,387)

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Net carried interest	\$	(190,418)	\$	128,701
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Net realized gains (losses) for the three months ended September 30, 2011 consist primarily of partial sales of Avago Technologies Limited (NYSE: AVGO), Dollar General Corporation (NYSE: DG) and Aricent, Inc. (technology sector).

Net realized gains (losses) for the three months ended September 30, 2010 consists of the partial sales of East Resources Inc. (energy sector) and Avago Technologies Limited.

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### Table of Contents

The following table presents net unrealized gains (losses) of carried interest by fund for the three months ended September 30, 2011 and 2010.

	<b>Three Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
	(\$ in thousands)	
Co-Investment Vehicles	\$ 13,814	\$ 9,211
China Growth Fund	3,597	
KKR E2 Investors (Annex Fund)	(7,798)	331
European III Fund	(13,705)	6,178
Asian Fund	(37,106)	45,987
European Fund	(61,863)	29,014
2006 Fund	(164,188)	(86,487)
Millennium Fund	(174,586)	12,150
Total (a)	\$ (441,835)	\$ 16,384

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(a) The above table excludes any funds for which there were no unrealized gains (losses) of carried interest during either of the periods presented. For the three months ended September 30, 2011 and 2010, the European Fund II was excluded.

For the three months ended September 30, 2011, approximately 81% of net unrealized losses in our portfolio were attributable to a decline in the share prices of various publicly held investments, the most significant of which was HCA Inc. (NYSE: HCA), and to a lesser extent The Nielsen Company B.V. (NYSE: NLSN), Sealy Corporation (NYSE: ZZ), Far Eastern Horizon LTD (HK: 3360) and NXP Semiconductors NV (NASDAQ:NXPI). In addition, there were significant unrealized losses due to the reversal of previously recognized unrealized gains in connection with the partial sales of Avago Technologies Limited and Dollar General Corporation. Our private portfolio contributed the remainder of the change in value, with the largest contributors being unrealized losses relating to Energy Future Holdings Corp. (energy sector), Yageo Corporation (technology sector) and Visma AS (technology sector). The decreased valuations, in the aggregate, generally related to declines in market comparables due to overall declines in equity markets or, in one or more cases, an unfavorable business outlook. These unrealized losses were partially offset by unrealized gains in certain portfolio companies, with the most significant being Dollar General Corporation, a publicly held investment, and Colonial Pipeline, Inc. (energy sector), a private portfolio company.

For the three months ended September 30, 2010, approximately 26% of net unrealized gains from changes in value were attributable to increased share prices of various publicly held investments, the most significant of which was Dollar General Corporation. Our private portfolio contributed the remainder of the net unrealized gains, the most significant of which were unrealized gains in HCA Inc. (healthcare sector) and Oriental Brewery Co. Ltd. (consumer sector), offset by an unrealized loss relating to Energy Future Holdings Corp. (energy sector). The increased valuations, in the aggregate, generally related to both improvements in market comparables and individual company performance.

Dividend and interest income for the three months ended September 30, 2011 consists primarily of dividends earned from Tarkett S.A. (manufacturing sector) and Avago Technologies Limited. Dividend and interest income for the three months ended September 30, 2010 consisted primarily of a dividend earned from Visant Corporation. Management fee refunds represented a benefit of \$21.1 million for the three months ended September 30, 2011, as compared to a charge of \$17.4 million for the three months ended September 30, 2010, as certain funds declined in value triggering the reversal of management fee refunds related to management fees earned in prior quarters.

*Economic Net Income (Loss)*



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Economic net income (loss) in our Private Markets segment was (\$152.0) million for the three months ended September 30, 2011, a decrease of \$325.7 million, compared to economic net income of \$173.7 million for the three months ended September 30, 2010. The decrease in investment income described above was the primary contributor to the period over period decrease in economic net income (loss).

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### Table of Contents

#### *Assets Under Management*

The following table reflects the changes in our Private Markets AUM from June 30, 2011 to September 30, 2011:

(\$ in thousands)	
June 30, 2011 AUM	\$ 47,071,900
New Capital Raised	172,800
Distributions	(546,000)
Foreign Exchange	(193,300)
Change in Value	(2,761,000)
September 30, 2011 AUM	\$ 43,744,400

AUM for the Private Markets segment was \$43.7 billion at September 30, 2011, a decrease of \$3.4 billion, compared to \$47.1 billion at June 30, 2011. The decline in AUM was primarily the result of (i) \$2.8 billion from net declines in the market values of our private equity portfolio companies and (ii) \$0.5 billion of distributions from our funds which were comprised of \$0.4 billion of realized gains and \$0.1 billion of return of original cost.

The net changes in value in our private equity funds were driven primarily by net unrealized losses of \$0.9 billion, \$0.6 billion, \$0.5 billion, \$0.3 billion, 0.2 billion, and \$0.1 billion in our Millennium Fund, 2006 Fund, European Fund II, European Fund, European Fund III and Asian Fund, respectively.

Approximately 71% of the net change in value for the three months ended September 30, 2011 was attributable to changes in share prices of various publicly held investments, most notably decreases in HCA, Inc., NXP Semiconductors NV, Legrand Holdings S.A., The Nielsen Company B.V. and Sealy Corporation. These decreases were partially offset by increases in certain publicly held investments including Dollar General Corporation and Jazz Pharmaceuticals, Inc. (NYSE: JAZZ). Our private portfolio contributed the remainder of the change in value, with the largest contributor being unrealized losses relating to Energy Future Holdings Corp. and Kion GmbH (manufacturing sector). The decreased valuations, in the aggregate, generally related to declines in market comparables due to overall declines in equity markets or, in one or more cases, an unfavorable business outlook. These unrealized losses were partially offset by unrealized gains relating to Unisteel Technology Ltd. (technology sector) and Intelligence Ltd. (service sector) due to improved company performance.

#### *Fee Paying Assets Under Management*

The following table reflects the changes in our Private Markets FPAUM from June 30, 2011 to September 30, 2011:

(\$ in thousands)	
June 30, 2011 FPAUM	\$ 38,430,300
New Capital Raised	103,500
Distributions	(7,000)

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Foreign Exchange		(552,400)
Change in Value		(37,600)
September 30, 2011 FPAUM	\$	37,936,800

FPAUM in our Private Markets segment was \$37.9 billion at September 30, 2011, a decrease of \$0.5 billion, compared to \$38.4 billion at June 30, 2011. The decrease was primarily attributable to \$0.6 billion of unfavorable foreign exchange adjustments on euro-denominated commitments to our funds offset by \$0.1 billion of new capital raised.

### *Committed Dollars Invested*

Committed dollars invested were \$1.7 billion for the three months ended September 30, 2011, an increase of \$1.4 billion, compared to committed dollars invested of \$0.3 billion for the three months ended September 30, 2010, reflecting a larger number of completed transactions during the 2011 period.

Table of Contents

*Uncalled Commitments*

As of September 30, 2011, our Private Markets Segment had \$11.2 billion of remaining uncalled capital commitments that could be called for investments in new transactions, including \$2.8 billion of uncalled capital commitments from our 2006 Fund. As of November 4, 2011 the 2006 Fund has committed capital to approximately \$0.8 billion of pending transactions and contingent commitments, although there can be no assurance that any of these capital commitments will be drawn as contemplated for a variety of reasons, including the risk that pending transactions do not close or that contingent commitments are not deployed.

*Nine months ended September 30, 2011 compared to nine months ended September 30, 2010*

*Fees*

Fees were \$457.0 million for the nine months ended September 30, 2011, an increase of \$70.5 million, compared to fees of \$386.5 million for the nine months ended September 30, 2010. The net increase was primarily due to (i) a net increase in gross monitoring fees of \$77.1 million; (ii) an increase in gross transaction fees of \$36.4 million and (iii) an increase in management fees of \$30.1 million. The increase in gross monitoring fees was the result of \$76.6 million of fees received from the termination of monitoring fee arrangements in connection with the IPOs or sales of three portfolio companies, HCA, Inc., The Nielsen Company B.V., and Seven Media Group which impacted fees by \$39.7 million net of associated fee credits. These types of termination payments may occur in the future; however, they are infrequent in nature and are generally correlated with an initial public offering or other sale activity in our private equity portfolio. The increase in gross transaction fees of \$36.4 million primarily reflects an increase in both the number and size of fee-generating investments. The increase in management fees of \$30.1 million resulted primarily from an increase in fee paying capital at our private equity funds. These increases were partially offset by an increase in credits earned by limited partners under fee sharing arrangements in our private equity funds due primarily to the increased gross transaction and monitoring fees.

*Expenses*

Expenses were \$287.4 million for the nine months ended September 30, 2011, an increase of \$42.1 million, compared to expenses of \$245.3 million for the nine months ended September 30, 2010. The increase was primarily the result of (i) an increase of \$22.4 million in compensation and benefits expense and (ii) an increase in occupancy and related charges of \$5.6 million, each of which reflects the hiring of additional personnel and the continued expansion of our business; and (iii) an increase in other operating expenses of \$14.1 million primarily due to an increase in professional fees related to the continued expansion of our business, and expenses related to the formation of and capital raising for new private equity funds.

*Fee Related Earnings*

Fee related earnings in our Private Markets segment were \$169.6 million for the nine months ended September 30, 2011, an increase of \$28.4 million, compared to fee related earnings of \$141.2 million for the nine months ended September 30, 2010. The increase was due primarily to

the increase in fees, partially offset by the increase in expenses as described above.

*Investment Income*

Investment income was \$85.2 million for the nine months ended September 30, 2011, a decrease of \$296.7 million compared to investment income of \$381.9 million for the nine months ended September 30, 2010. For the nine months ended September 30, 2011, investment income (loss) was comprised of net carried interest of \$85.4 million and other investment income (loss) of (\$0.2) million which primarily reflects losses on foreign exchange contracts.

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### Table of Contents

The following table presents the components of net carried interest for the nine months ended September 30, 2011 and 2010.

	Nine Months Ended September 30,	
	2011	2010
	(\$ in thousands)	
Net Realized Gains (Losses)	\$ 392,692	\$ 286,963
Net Unrealized Gains (Losses)	(229,066)	378,843
Dividends and Interest	6,470	122,239
Gross carried interest	170,096	788,045
Less: Allocation to KKR carry pool	(69,106)	(285,534)
Less: Management fee refunds	(15,594)	(119,034)
Net carried interest	\$ 85,396	\$ 383,477

Net realized gains (losses) for the nine months ended September 30, 2011 consist primarily of the realized gains on the partial sales of Avago Technologies Limited, Legrand Holdings S.A., Dollar General Corporation, Seven Media Group and HCA Inc.

Net realized gains (losses) for the nine months ended September 30, 2010 consists primarily of realized gains on partial sales of Dollar General Corporation, Legrand Holdings S.A., Eastman Kodak Company (NYSE: EK) and Avago Technologies Limited, offset by realized losses on the write-off of our investment in Masonite International, Inc. (manufacturing sector).

The following table presents net unrealized gains (losses) of carried interest by fund for the nine months ended September 30, 2011 and 2010.

	Nine Months Ended September 30,	
	2011	2010
	(\$ in thousands)	
Co-Investment Vehicles	\$ 38,532	\$ 39,239
Asian Fund	32,681	79,502
China Growth Fund	11,465	
KKR E2 Investors (Annex Fund)	328	690
European III Fund	(5,215)	6,178
2006 Fund	(14,161)	173,564
Millennium Fund	(119,458)	40,821
European Fund	(173,238)	38,849
Total (a)	\$ (229,066)	\$ 378,843

(a) The above table excludes any funds for which there were no unrealized gains (losses) of carried interest during either of the periods presented. For the nine months ended September 30, 2011 and 2010, the European Fund II was excluded.

For the nine months ended September 30, 2011, the net unrealized losses of \$229.1 million included \$323.2 million of reversals of previously recognized unrealized gains in connection with partial sales of portfolio companies which was partially offset by \$94.1 million of net unrealized

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gains reflecting increases in the value of various portfolio companies. The reversals of previously recognized unrealized gains resulted primarily from the partial sales of Avago Technologies Limited, Legrand Holdings S.A, Dollar General Corporation, HCA Inc. and Seven Media Group. Of the \$94.1 million of net increases in value, approximately 24% was attributable to increased share prices of various publicly held investments, the most significant of which were gains on Dollar General Corporation, Jazz Pharmaceuticals, Inc., and The Nielsen Company B.V. These increases were partially offset by decreased share prices of various publicly held investments, the most significant of which were losses on HCA, Inc., Ma Anshan Modern Farming Co. Ltd., and Legrand Holdings S.A. Our private portfolio contributed the remainder of the net unrealized gains from changes in value, the most significant of which were unrealized gains on Hilcorp Resources LLC (energy sector), Oriental Brewery (consumer sector), Intelligence Ltd., and Colonial Pipeline Company. The increased valuations, in the aggregate, generally related to improvements in individual company performance and in the case of Hilcorp Resources

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### Table of Contents

LLC, an increase that reflected the valuation of an agreement to exit the investment. The unrealized gains on our private portfolio were partially offset by unrealized losses on Energy Future Holdings Corp. and Biomet, Inc. (healthcare) reflecting decreased valuations, in the aggregate, generally related to declines in market comparables due to overall declines in equity markets or, in one or more cases, an unfavorable business outlook.

For the nine months ended September 30, 2010, approximately 23% of net unrealized gains from changes in value were attributable to increased share prices of various publicly held investments, the most significant of which were Dollar General Corporation and Legrand Holdings S.A. Our private portfolio contributed the remainder of the net unrealized gains, the most significant of which were East Resources, Inc., HCA Inc. (healthcare sector), and Alliance Boots GmbH (healthcare sector). The increased valuations, in the aggregate, generally related to improvements in individual company performance and in the case of East Resources, Inc., an increase that reflected the valuation of an agreement to exit the investment.

Dividend income for the nine months ended September 30, 2011 consisted primarily of dividends earned from Legrand Holdings S.A., Tarkett S.A. and Avago Technologies Limited. Dividend income for the nine months ended September 30, 2010 consists primarily of dividends earned from HCA Inc. and Visant Corporation. Management fee refunds amounted to \$15.6 million for the nine months ended September 30, 2011, as compared to \$119.0 million for the nine months ended September 30, 2010. The lower management fee refund figure primarily reflects the 2006 Fund becoming carry-earning in 2010, as well as management fee refunds that represented a benefit in the current quarter due to certain funds declining in value which triggered the reversal of management fee refunds related to management fees earned in prior quarters.

### *Economic Net Income (Loss)*

Economic net income in our Private Markets segment was \$252.9 million for the nine months ended September 30, 2011, a decrease of \$269.7 million, compared to economic net income of \$522.6 million for the nine months ended September 30, 2010. The decrease in investment income described above was the primary contributor to the period over period decrease in economic net income.

### *Assets Under Management*

The following table reflects the changes in our Private Markets AUM from December 31, 2010 to September 30, 2011.

	(\$ in thousands)	
December 31, 2010 AUM	\$	46,223,900
New Capital Raised		989,000
Distributions		(4,419,300)
Foreign Exchange		13,100
Change in Value		937,700
September 30, 2011 AUM	\$	43,744,400



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AUM in our Private Markets segment was \$43.7 billion at September 30, 2011, a decrease of \$2.5 billion, compared to \$46.2 billion at December 31, 2010. The decrease was primarily attributable to distributions from our funds totaling \$4.4 billion, comprised of \$2.8 billion of realized gains and \$1.6 billion of return of original cost. The decrease was partially offset by \$1.0 billion in new capital raised relating primarily to our natural resources strategy and net unrealized gains from changes in the market value of our private equity portfolio of \$0.9 billion.

The net unrealized investment gains in our private equity funds were driven primarily by net unrealized gains of \$0.5 billion and \$0.2 billion in our 2006 Fund and Asian Fund, respectively. Approximately 43% of the net change in value for the nine months ended September 30, 2011 was attributable to changes in share prices of various publicly listed investments, most notably increases in Dollar General Corporation, Jazz Pharmaceuticals, Inc., The Nielsen Company B.V., and Avago Technologies partially offset by decreases in HCA, Inc., Sealy Corporation, Legrand Holdings S.A., NXP Semiconductors B.V. and Ma Anshan Modern Farming Co. Ltd. Both HCA Inc. and The Nielsen Company B.V. conducted an initial public

Table of Contents

offering during the nine months ended September 30, 2011. Our private portfolio contributed the remainder of the change in value, with the largest contributors being unrealized gains relating to Hilcorp Resources, LLC, Colonial Pipeline Company, Oriental Brewery and Intelligence Ltd. These unrealized gains were partially offset by unrealized losses, including Northgate Information Systems plc (technology sector), Energy Future Holdings Corp., Tarkett S.A., Toys R Us, Inc. (retail sector), and Biomet, Inc. The increased valuations, in the aggregate, generally related to improvements in individual company performance and in the case of Hilcorp Resources LLC, an increase that reflects the valuation of an agreement to exit the investment. The decreased valuations, in the aggregate, generally related to declines in market comparables due to overall declines in equity markets or, in one or more cases, an unfavorable business outlook or company performance.

*Fee Paying Assets Under Management*

The following table reflects the changes in our Private Markets FPAUM from December 31, 2010 to September 30, 2011:

	(\$ in thousands)	
December 31, 2010 FPAUM	\$	38,186,700
New Capital Raised		919,700
Distributions		(1,133,600)
Foreign Exchange		(9,900)
Change in Value		(26,100)
September 30, 2011 FPAUM	\$	37,936,800

FPAUM in our Private Markets segment was \$37.9 billion at September 30, 2011, a decrease of \$0.3 billion, compared to \$38.2 billion at December 31, 2010. These decreases were primarily the result of distributions of \$1.1 billion in our private equity funds representing a reduction of invested capital associated with realization activity, which was partially offset by new capital raised of \$0.9 billion relating primarily to our natural resources strategy.

*Committed Dollars Invested*

Committed dollars invested were \$2.9 billion for the nine months ended September 30, 2011, an increase of \$0.7 billion compared to committed dollars invested of \$2.2 billion for the nine months ended September 30, 2010. The increase was due primarily to an increase in the number and size of private equity investments closed during the first nine months of 2011 as compared with the first nine months of 2010.

*Uncalled Commitments*

As of September 30, 2011, our Private Markets Segment had \$11.2 billion of remaining uncalled capital commitments that could be called for investments in new transactions, including \$2.8 billion of uncalled capital commitments from our 2006 Fund. As of November 4, 2011 the 2006 Fund has committed capital to approximately \$0.8 billion of pending transactions and contingent commitments, although there can be no assurance that any of these capital commitments will be drawn as contemplated for a variety of reasons, including the risk that pending transactions do not close or that contingent commitments are not deployed.



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Table of Contents

**Public Markets Segment**

The following tables set forth information regarding the results of operations and certain key operating metrics for our Public Markets segment for the three months ended September 30, 2011 and 2010.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
	(\$ in thousands)		(\$ in thousands)	
<b>Fees</b>				
Management and incentive fees:				
Management fees	\$ 27,301	\$ 14,208	\$ 64,144	\$ 40,700
Incentive fees		9,555	28,159	30,405
Management and incentive fees	27,301	23,763	92,303	71,105
Monitoring and transaction fees:				
Monitoring fees				
Transaction fees	3,760	1,672	7,845	9,825
Total fee credits	(1,564)	(742)	(3,867)	(6,338)
Net transaction and Monitoring fees	2,196	930	3,978	3,487
Total fees	29,497	24,693	96,281	74,592
<b>Expenses</b>				
Compensation and benefits	12,144	7,708	33,967	22,324
Occupancy and related charges	1,097	615	2,870	1,763
Other operating expenses	3,807	3,160	11,649	9,850
Total expenses	17,048	11,483	48,486	33,937
Fee related earnings	12,449	13,210	47,795	40,655
<b>Investment income (loss)</b>				
Gross carried interest	(6,105)	1,131	(2,978)	2,583
Less: allocation to KKR carry pool	2,442	(452)	1,191	(1,033)
Less: management fee refunds				
Net carried interest	(3,663)	679	(1,787)	1,550
Other investment income (loss)	288	148	598	530
Total investment income (loss)	(3,375)	827	(1,189)	2,080
<b>Income (Loss) before noncontrolling interests</b>				
in income of consolidated entities	9,074	14,037	46,606	42,735
<b>Income (Loss) attributable to noncontrolling interests</b>				
	164	125	480	380
<b>Economic Net Income (Loss)</b>	\$ 8,910	\$ 13,912	\$ 46,126	\$ 42,355
<b>Assets Under Management</b>				
Assets Under Management	\$ 14,976,400	\$ 13,619,800	\$ 14,976,400	\$ 13,619,800
Fee Paying Assets Under Management	\$ 8,284,400	\$ 6,672,900	\$ 8,284,400	\$ 6,672,900
Committed Dollars Invested	\$ 152,300	\$ 190,900	\$ 546,500	\$ 378,100
Uncalled Commitments	\$ 1,563,600	\$ 1,255,500	\$ 1,563,600	\$ 1,255,500

**Three months ended September 30, 2011 compared to three months ended September 30, 2010**

*Fees*

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Fees were \$29.5 million for the three months ended September 30, 2011, an increase of \$4.8 million, compared to fees of \$24.7 million for the three months ended September 30, 2010. The increase is primarily due to an increase in management fee income of \$13.1 million, which was partially offset by a decrease in incentive fees of \$9.6 million. The increase in

Table of Contents

management fees is attributable to a higher fee-paying base at September 30, 2011 compared to September 30, 2010 as a result of new capital raised as well as \$7.1 million of incremental management fees associated with the final closing of the Mezzanine Fund where new investors paid management fees back to the inception of the fund. The decrease in incentive fees is a result of KFN's financial performance not exceeding certain required benchmarks for the quarter.

*Expenses*

Expenses were \$17.0 million for the three months ended September 30, 2011, an increase of \$5.5 million, compared to expenses of \$11.5 million for the three months ended September 30, 2010. The increase was primarily due to an increase in compensation and benefits expense of \$4.4 million primarily attributable to an increase in headcount to support growth in our Public Markets segment, including our equity strategies platform.

*Fee Related Earnings*

Fee related earnings were \$12.4 million for the three months ended September 30, 2011, a decrease of \$0.8 million, compared to \$13.2 million for the three months ended September 30, 2010. The decrease in fee related earnings is primarily due to the increase in expenses, partially offset by the increase in fee income, as described above.

*Investment Income (Loss)*

Investment loss was \$3.4 million for the three months ended September 30, 2011, a decrease of \$4.2 million compared to investment income of \$0.8 million for the three months ended September 30, 2010. The decrease was primarily driven by the reversal of previously recognized net carried interests due to a decline in the carrying value of certain investment vehicles from which we are entitled to a carried interest.

*Economic Net Income*

Economic net income in our Public Markets segment was \$8.9 million for the three months ended September 30, 2011, a decrease of \$5.0 million compared to economic net income of \$13.9 million for the three months ended September 30, 2010. The decrease in investment income described above was the main contributor to the period over period decrease in economic net income.

*Assets Under Management*

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The following table reflects the changes in our Public Markets AUM from June 30, 2011 to September 30, 2011:

	(\$ in thousands)	
June 30, 2011 AUM	\$	14,868,300
New Capital Raised		784,100
Distributions		(438,000)
Change in Value		(238,000)
September 30, 2011 AUM	\$	14,976,400

AUM in our Public Markets segment was \$15.0 billion at September 30, 2011, an increase of \$0.1 billion, compared to \$14.9 billion at June 30, 2011. The increase for the period was due to \$0.8 billion of new capital raised, which was offset by a decrease in net asset value of \$0.2 billion as well as \$0.4 billion of distributions from structured finance vehicles and mezzanine/capital solutions funds and vehicles and redemptions in our liquid credit separately managed accounts.

Table of Contents*Fee Paying Assets Under Management*

The following table reflects the changes in our Public Markets FPAUM from June 30, 2011 to September 30, 2011:

	(\$ in thousands)	
June 30, 2011 FPAUM	\$	8,005,600
New Capital Raised		682,200
Distributions		(226,800)
Foreign Exchange		
Change in Value		(176,600)
September 30, 2011 FPAUM	\$	8,284,400

FPAUM in our Public Markets segment was \$8.3 billion at September 30, 2011, an increase of \$0.3 billion, compared to \$8.0 billion at June 30, 2011. The increase for the period was due to \$0.7 billion of new capital raised, which was partially offset by (i) a decrease in net asset value of certain vehicles of \$0.2 billion, and (ii) \$0.2 billion of redemptions in our liquid credit separately managed accounts and distributions from a structured finance vehicle.

*Committed Dollars Invested*

Committed dollars invested were \$152.3 million for the three months ended September 30, 2011, compared to \$190.9 million for the three months ended September 30, 2010, reflecting fewer completed transactions during the current period.

*Uncalled Commitments*

As of September 30, 2011, our Public Markets segment had \$1.6 billion of uncalled commitments that could be called for investments in new transactions.

*Nine months ended September 30, 2011 compared to nine months ended September 30, 2010**Fees*

Fees were \$96.3 million for the nine months ended September 30, 2011, an increase of \$21.7 million, compared to \$74.6 million for the nine months ended September 30, 2010. Total fees increased primarily due to an increase in management fees of \$23.4 million, due to a higher



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fee-paying base at September 30, 2011 compared to September 30, 2010 as a result of new capital raised.

### *Expenses*

Expenses in our Public Markets segment were \$48.5 million for the nine months ended September 30, 2011, an increase of \$14.6 million, compared to expenses of \$33.9 million for the nine months ended September 30, 2010. The increase was primarily due to an increase in compensation and benefits expense of \$11.6 million primarily attributable to an increase in personnel to support growth in our Public Markets segment, including our equity strategies platform.

### *Fee Related Earnings*

Fee related earnings in our Public Markets segment were \$47.8 million for the nine months ended September 30, 2011, an increase of \$7.1 million, compared to fee related earnings of \$40.7 million for the nine months ended September 30, 2010. The increase in fee related earnings is primarily due to the increase in fee income, partially offset by the increase in expenses, as described above.

### *Investment Income (Loss)*

Our Public Markets segment had an investment loss of \$1.2 million for the nine months ended September 30, 2011, a decrease of \$3.3 million, compared to investment income of \$2.1 million for the nine months ended September 30, 2010. The decrease was primarily driven by

Table of Contents

the reversal of previously recognized net carried interest due to a decline in the carrying value of our investment vehicles from which we are entitled to a carried interest.

*Economic Net Income*

Economic net income in our Public Markets segment was \$46.1 million for the nine months ended September 30, 2011, an increase of \$3.7 million, compared to an economic net income of \$42.4 million for the nine months ended September 30, 2010. The increase in fee related earnings described above was the main contributor to the period over period increase in economic net income.

*Assets Under Management*

The following table reflects the changes in our Public Markets AUM from December 31, 2010 to September 30, 2011:

	(\$ in thousands)	
December 31, 2010 AUM	\$	14,773,600
New Capital Raised		1,135,500
Distributions		(1,186,200)
Change in Value		253,500
September 30, 2011 AUM	\$	14,976,400

AUM in our Public Markets segment was \$15.0 billion at September 30, 2011, an increase of \$0.2 billion, compared to \$14.8 billion at December 31, 2010. The increase during the period was the net result of \$1.1 billion in new capital raised, as well as a \$0.3 billion increase in the net asset value of certain investment vehicles, largely offset by \$1.2 billion of redemptions in our liquid credit separately managed accounts and distributions from a structured finance vehicle.

*Fee Paying Assets Under Management*

The following table reflects the changes in our Public Markets FPAUM from December 31, 2010 to September 30, 2011:

	(\$ in thousands)	
December 31, 2010 FPAUM	\$	7,824,400
New Capital Raised		1,024,000
Distributions		(826,800)
Change in Value		262,800
September 30, 2011 FPAUM	\$	8,284,400

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FPAUM in our Public Markets segment was \$8.3 billion at September 30, 2011, an increase of \$0.5 billion, compared to \$7.8 billion at December 31, 2010. The increase during the period was the net result of \$1.0 billion in new fee paying capital raised as well as a \$0.3 billion increase in the net asset value of certain investment vehicles, largely offset by \$0.8 billion of redemptions in our liquid credit separately managed accounts and a distribution from a structured finance vehicle.

### *Committed Dollars Invested*

Committed dollars invested were \$546.5 million for the nine months ended September 30, 2011, compared to \$378.1 million for the three months ended September 30, 2010, reflecting more completed transactions during the current period.

### *Uncalled Commitments*

As of September 30, 2011, our Public Markets segment had \$1.6 billion of remaining uncalled commitments that could be called for investment in new transactions.

Table of Contents*Capital Markets and Principal Activities Segment*

The following table sets forth information regarding the results of operations and certain key operating metrics for our Capital Markets and Principal Activities segment for the three and nine months ended September 30, 2011 and 2010.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
	(\$ in thousands)		(\$ in thousands)	
Fees				
Management and incentive fees:				
Management fees	\$	\$	\$	\$
Incentive fees				
Monitoring and transaction fees:				
Monitoring fees				
Transaction fees	54,675	19,146	111,441	58,726
Total fee credits				
Net transaction and Monitoring fees	54,675	19,146	111,441	58,726
Total fees	54,675	19,146	111,441	58,726
Expenses				
Compensation and benefits	7,129	3,487	19,376	11,251
Occupancy and related charges	305	245	994	639
Other operating expenses	2,624	2,003	7,883	5,476
Total expenses	10,058	5,735	28,253	17,366
Fee related earnings	44,617	13,411	83,188	41,360
Investment income (loss)				
Gross carried interest				
Less: allocation to KKR carry pool				
Less: management fee refunds				
Net carried interest				
Other investment income (loss)	(492,758)	117,334	85,306	820,741
Total investment income (loss)	(492,758)	117,334	85,306	820,741
Income (Loss) before noncontrolling interests in income of consolidated entities	(448,141)	130,745	168,494	862,101
Income (Loss) attributable to noncontrolling interests	886	1,048	2,086	1,857
Economic Net Income (Loss)	\$ (449,027)	\$ 129,697	\$ 166,408	\$ 860,244

*Three months ended September 30, 2011 compared to three months ended September 30, 2010**Fees*

Fees were \$54.7 million for the three months ended September 30, 2011, an increase of \$35.6 million, compared to fees of \$19.1 million for the three months ended September 30, 2010. The increase was primarily due to an increase in the size and number of capital markets transactions

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during the period. Overall, we completed 18 capital markets transactions in the third quarter of 2011 compared to 13 transactions in the third quarter of 2010. These fees are earned in connection with underwriting, syndication and other capital markets services. While each of the capital markets transactions that we undertake in this segment is separately negotiated, our fee rates are generally higher with respect to underwriting or syndicating the offerings of equity securities than with respect to the issuance of debt securities, and the amount of fees that we collect for like transactions generally correlates with overall transaction sizes. Our capital markets business is dependent on the overall capital markets environment, which is influenced by equity prices, credit spreads and volatility.

Table of Contents*Expenses*

Expenses were \$10.1 million for the three months ended September 30, 2011, an increase of \$4.4 million, compared to expenses of \$5.7 million for the three months ended September 30, 2010. The increase was primarily due to a \$3.6 million increase in compensation and benefits expense and a \$0.6 million increase in other operating expenses relating primarily to increased headcount and the overall expansion of the capital markets business.

*Fee Related Earnings*

Due primarily to the increase in fees described above, fee related earnings were \$44.6 million for the three months ended September 30, 2011, an increase of \$31.2 million, compared to fee related earnings of \$13.4 million for the three months ended September 30, 2010.

*Investment Income (Loss)*

The following table presents the components of other investment income (loss) for the three months ended September 30, 2011 and 2010.

	<b>Three Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
	(\$ in thousands)	
Net Realized Gains (Losses)	\$ 75,777	\$ 6,330
Net Unrealized Gains (Losses)	(573,759)	100,740
Dividend Income	3,484	8,153
Interest Income	12,127	6,053
Interest Expense	(10,387)	(3,942)
<b>Other Investment Income (Loss)</b>	<b>\$ (492,758)</b>	<b>\$ 117,334</b>

Investment loss was \$492.8 million for the three months ended September 30, 2011, a decrease of \$610.1 million compared to investment income of \$117.3 million for the three months ended September 30, 2010.

For the three months ended September 30, 2011, net realized gains were comprised of \$72.0 million of gains from the sale of private equity investments, the most significant of which was Dollar General Corporation, and \$3.8 million of net realized gains from the sale of non-private equity investments. The net unrealized losses were comprised of \$552.4 million of net unrealized depreciation of private equity investments, the most significant of which were HCA, Inc., NXP Semiconductors NV, and The Nielsen Company B.V., and \$21.4 million of net depreciation of non-private equity investments.

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For the three months ended September 30, 2010, net realized gains were comprised of \$3.8 million of gains primarily from the sale of certain private equity investments, the most significant of which was Avago Technologies Limited, and \$2.5 million of net realized gains from the sale of non-private equity investments. The net unrealized gains were comprised of \$120.8 million of net unrealized appreciation of private equity investments, the most significant of which were HCA, Inc. and Dollar General Corporation, partially offset by \$20.1 million of net unrealized depreciation of non-private equity investments.

The increase in interest expense is driven primarily by the issuance of the Senior Notes in late September 2010, and the increase in interest income is due primarily to an increase in the level of fixed income instruments held on our balance sheet.

### *Economic Net Income (Loss)*

Economic net income (loss) was (\$449.0) million for the three months ended September 30, 2011, a decrease of \$578.7 million, compared to economic net income of \$129.7 million for the three months ended September 30, 2010. The decrease in investment income described above was the main contributor to the decrease in economic net income.

Table of Contents*Nine months ended September 30, 2011 compared to nine months ended September 30, 2010**Fees*

Fees were \$111.4 million for the nine months ended September 30, 2011, an increase of \$52.7 million, compared to \$58.7 million for the nine months ended September 30, 2010. The increase was primarily due to an increase in the number of capital markets transactions during the period. We completed 54 capital markets transactions during the nine months ended September 30, 2011, as compared to 38 transactions during the nine months ended September 30, 2010. While each of the capital markets transactions that we undertake in this segment is separately negotiated, our fee rates are generally higher with respect to underwriting the offerings of equity securities than with respect to the issuance of debt securities, and the amount of fees that we collect for like transactions generally correlates with overall transaction sizes. Our capital markets business is dependent on the overall capital markets environment, which is influenced by equity prices, credit spreads and volatility.

*Expenses*

Total expenses were \$28.3 million for the nine months ended September 30, 2011, an increase of \$10.9 million, compared to expenses of \$17.4 million for the nine months ended September 30, 2010. The increase was primarily due to an \$8.1 million increase in compensation and benefits expense and a \$2.4 million increase in other operating expenses relating primarily to increased headcount and the overall expansion of the capital markets business.

*Fee Related Earnings*

Fee related earnings were \$83.2 million for the nine months ended September 30, 2011, an increase of \$41.8 million, compared to fee related earnings of \$41.4 million during the nine months ended September 30, 2010. The increase was due primarily to the increase in fees as described above.

*Investment Income (Loss)*

The following table presents the components of other investment income (loss) for the nine months ended September 30, 2011 and 2010.

	Nine Months Ended September 30,		
	2011	2010	
	(\$ in thousands)		
Net Realized Gains (Losses)	\$ 223,374	\$ (61,997)	
Net Unrealized Gains (Losses)	(150,219)	750,367	



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Dividend Income	8,205	129,838
Interest Income	35,987	17,399
Interest Expense	(32,041)	(14,866)
<b>Other Investment Income (Loss)</b>	<b>\$ 85,306</b>	<b>\$ 820,741</b>

Investment income was \$85.3 million for the nine months ended September 30, 2011 a decrease of \$735.4 million compared to investment income of \$820.7 million for the nine months ended September 30, 2010.

For the nine months ended September 30, 2011, net realized gains were comprised of \$255.2 million of gains from the sale of certain private equity investments, the most significant of which were Dollar General Corporation, HCA, Inc. and Avago Technologies Limited, partially offset by \$31.8 million of net realized losses from the sale of non-private equity investments, the most significant of which was Orient Corporation (financial services sector). The net unrealized losses were comprised primarily of the reversal of previously recognized unrealized gains in connection with partial sales of private equity investments, most notably HCA Inc. These unrealized losses relating to reversals were partially offset by net unrealized gains reflecting increases in the value of various private equity investments most notably Dollar General Corporation.

Table of Contents

For the nine months ended September 30, 2010, net realized losses were comprised of \$132.6 million of losses primarily from the disposition of Aveos, a non-private equity investment, which was partially offset by net realized gains of \$70.6 million relating to the sale of certain private equity investments, the most significant of which was Dollar General Corporation. The net unrealized gains were comprised of \$598.9 million of net unrealized appreciation of private equity investments, the most significant of which were Dollar General Corporation, HCA, Inc. and Alliance Boots GmbH. In addition, there were other net unrealized gains of \$151.4 million relating primarily to the reversal of previously recognized unrealized losses in connection with the disposition of Aveos.

Dividend income decreased \$121.6 million from the nine months ended September 30, 2010 primarily as a result of a significant dividend received in the prior period relating to HCA, Inc.

The increase in interest expense above is driven primarily by the issuance of the Senior Notes in late September 2010, and the increase in interest income is due primarily to an increase in the level of fixed income instruments in our capital markets and principal activities segment.

*Economic Net Income (Loss)*

Economic net income was \$166.4 million for the nine months ended September 30, 2011, a decrease of \$693.8 million, compared to economic net income of \$860.2 million for the nine months ended September 30, 2010. The decrease in investment income as described above was the main contributor to the decrease in economic net income.

Table of Contents**Segment Partners Capital**

The following table presents our segment statement of financial condition as September 30, 2011:

	As of September 30, 2011			
	Private Markets Segment	Public Markets Segment	Capital Markets and Principal Activities Segment	Total Reportable Segments
Cash and cash equivalents	\$ 300,452	\$ 22,528	\$ 516,238	\$ 839,218
Investments			4,865,176	4,865,176
Unrealized carry	459,681	1,214		460,895
Other assets	141,127	45,389	57,946	244,462
<b>Total assets</b>	<b>\$ 901,260</b>	<b>\$ 69,131</b>	<b>\$ 5,439,360</b>	<b>\$ 6,409,751</b>
Debt obligations	\$	\$	\$ 500,000	\$ 500,000
Other liabilities	215,959	20,970	45,511	282,440
Total liabilities	\$ 215,959	\$ 20,970	\$ 545,511	\$ 782,440
Noncontrolling interests	(1,219)	774	18,059	17,614
<b>Partners capital</b>	<b>\$ 686,520</b>	<b>\$ 47,387</b>	<b>\$ 4,875,790</b>	<b>\$ 5,609,697</b>
<b>Book value per adjusted unit</b>	<b>\$ 1.00</b>	<b>\$ 0.07</b>	<b>\$ 7.10</b>	<b>\$ 8.17</b>

The following table provides a reconciliation of KKR's GAAP Common Units Outstanding to Adjusted Units.

	Units
<b>GAAP Common Units Outstanding - Basic</b>	<b>222,944,668</b>
Unvested Common Units	3,739,066
<b>GAAP Common Units Outstanding - Diluted</b>	<b>226,683,734</b>
Adjustments:	
KKR Holdings Units	460,079,957
<b>Adjusted Units</b>	<b>686,763,691</b>

<b>Total Reportable Segments Partners Capital</b>	<b>\$ 5,609,697</b>
Equity impact of KKR Management Holdings Corp. and other	(55,533)
Noncontrolling Interests held by KKR Holdings L.P.	4,288,925
<b>Total KKR &amp; Co. L.P. Partners Capital</b>	<b>\$ 1,265,239</b>

**Liquidity**

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, which we anticipate will be settled for cash within one year. Our primary cash flow activities on an unconsolidated basis involve: (i) generating cash flow from operations; (ii) generating income from investment activities, including the sale of investments and other assets; (iii) funding capital commitments that we have made to our funds; (iv) funding our growth initiatives; (v) underwriting commitments within our capital markets business; (vi) distributing cash flow to our owners; and (vii) borrowings, interest payments and repayments under credit agreements, the Senior Notes and other borrowing arrangements. As of September 30, 2011, we had an available cash balance of approximately \$0.8 billion.

Table of Contents

*Sources of Cash*

Our principal sources of cash and cash equivalents consist of amounts received from: (i) our operating activities, including the fees earned from our funds, managed accounts, portfolio companies, capital markets transactions and other investment products; (ii) realizations on carried interest from our investment funds; (iii) realizations on principal investments; and (iv) borrowings under our credit facilities and other borrowing arrangements described below.

Carried interest is distributed to the general partner of a vehicle with a clawback or net loss sharing provision only after all of the following are met: (i) a realization event has occurred (e.g., sale of a portfolio company, dividend, etc.); (ii) the vehicle has achieved positive overall investment returns since its inception; and (iii) with respect to investments with a fair value below cost, cost has been returned to investors in an amount sufficient to reduce remaining cost to the investments' fair value.

We have access to funding under various credit facilities and other borrowing arrangements that we have entered into with major financial institutions or which we receive from the capital markets. The following is a summary of the principal terms of these facilities and other borrowing arrangements.

*Revolving Credit Agreements*

For the three and nine months ending September 30, 2011, (i) no borrowings were made and (ii) no borrowings were outstanding, under any of the revolving credit agreements described below. We may, however, utilize these facilities prospectively in the normal course of our operations.

- On February 26, 2008, Kohlberg Kravis Roberts & Co. L.P. entered into a credit agreement with a major financial institution (the Corporate Credit Agreement). The Corporate Credit Agreement originally provided for revolving borrowings of up to \$1.0 billion, with a \$50.0 million sublimit for swing-line notes and a \$25.0 million sublimit for letters of credit. On February 22, 2011, the parties amended the terms of the Corporate Credit Agreement (the Amended and Restated Corporate Credit Agreement) such that effective March 1, 2011, availability for borrowings under the credit facility was reduced from \$1.0 billion to \$700 million and the maturity was extended to March 1, 2016. In addition, the KKR Group Partnerships became co-borrowers of the facility, and KKR & Co. L.P. and the Issuer of the Senior Notes became guarantors of the Corporate Credit Agreement, together with certain general partners of our private equity funds. On September 3, 2011, the Amended and Restated Corporate Credit Agreement was amended to admit a new lender, subject to the same terms and conditions, to provide a commitment of \$50 million. This commitment has increased the availability for borrowings under the credit facility to \$750 million. As of and for the three and nine months ended September 30, 2011, no borrowings were outstanding under the Amended and Restated Corporate Credit Agreement.

- On February 27, 2008, KKR Capital Markets entered into a revolving credit agreement with a major financial institution (the KCM Credit Agreement). The KCM Credit Agreement, as amended, provides for revolving borrowings of up to \$500 million with a \$500 million sublimit for letters of credit. The KCM Credit Agreement has a maturity date of February 27, 2013. Borrowings under this facility may only be used for our capital markets business. As of and for the three and nine months ended September 30, 2011, no borrowings were outstanding under the KCM Credit Agreement.

- In June 2007, KKR PEI Investments L.P., (the KPE Investment Partnership ) entered into a five-year revolving credit agreement, expiring in June 2012, with a syndicate of lenders (the Principal Credit Agreement ). The Principal Credit Agreement provides for up to \$925.0 million of senior secured credit subject to availability under a borrowing base determined by the value of certain investments pledged as collateral security for obligations under the agreement. The borrowing base is subject to certain investment concentration limitations and the value of the investments constituting the borrowing base is subject to certain advance rates based on type of investment. During May 2011 and September 2011, KKR made an offer for the outstanding commitments under the Principal Credit Agreement resulting in \$285.0 million and \$95.0 million in commitments, respectively, being assigned to a KKR subsidiary. As of September 30, 2011, a wholly-owned subsidiary of KKR holds \$445.0 million of commitments which has effectively reduced KKR 's availability under the Principal Credit Agreement on a consolidated basis to \$480.0 million. As of and for the three and nine months ended September 30, 2011, no borrowings were outstanding under the Principal Credit Agreement.

*Senior Notes*

- On September 29, 2010, KKR Group Finance Co. LLC (the Issuer ), a subsidiary of KKR Management Holdings Corp., issued \$500 million aggregate principal amount of 6.375% Senior Notes (the Senior Notes ),

Table of Contents

which were issued at a price of 99.584%. The Senior Notes are unsecured and unsubordinated obligations of the Issuer and will mature on September 29, 2020, unless earlier redeemed or repurchased. The Senior Notes are fully and unconditionally guaranteed, jointly and severally, by KKR & Co. L.P. and the KKR Group Partnerships. The guarantees are unsecured and unsubordinated obligations of the guarantors. The Senior Notes bear interest at a rate of 6.375% per annum, accruing from September 29, 2010.

***Liquidity Needs***

We expect that our primary liquidity needs will consist of cash required to: (i) continue to grow our business, including funding our capital commitments made to existing and future funds, seeding new businesses and strategies, any net capital requirements of our capital markets companies and co-investments alongside our funds; (ii) service debt obligations, as well as any contingent liabilities that may give rise to future cash payments; (iii) fund cash operating expenses; (iv) pay amounts that may become due under our tax receivable agreement with KKR Holdings as described below; (v) make cash distributions in accordance with our distribution policy; and (vi) underwrite commitments within our capital markets business. We may also require cash to fund contingent obligations including those under clawback and net-loss sharing arrangements. See Liquidity Contractual Obligations, Commitments and Contingencies on an Unconsolidated Basis. We believe that the sources of liquidity described above will be sufficient to fund our working capital requirements for the next 12 months.

The agreements governing our active investment funds generally require the general partners of the funds to make minimum capital commitments to the funds, which usually range from 2% to 4% of a fund's total capital commitments at final closing. In addition, we are responsible for the uncalled commitments of the KPE Investment Partnership as a partner in our private equity funds. The following table presents our uncalled commitments to our active investment funds as of September 30, 2011:

	<b>Uncalled Commitments (\$ in thousands)</b>
<b><i>Private Markets</i></b>	
European Fund III	\$ 274,200
2006 Fund	217,200
Asian Fund	99,100
Infrastructure Fund	46,100
E2 Investors (Annex Fund)	28,100
Natural Resources	20,500
China Growth Fund	8,000
Other Private Markets Commitments	4,700
Total Private Markets Commitments	697,900
<b><i>Public Markets</i></b>	
Mezzanine Fund	38,600
Special Situations Vehicles	9,600
Total Public Markets Commitments	48,200
Total Uncalled Commitments	\$ 746,100

We expect to fund commitments with available cash, proceeds from realizations of principal assets and other sources of liquidity available to us.

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We and certain intermediate holding companies that are taxable corporations for U.S. federal, state and local income tax purposes, may be required to acquire KKR Group Partnership Units from time to time pursuant to our exchange agreement with KKR Holdings. KKR Management Holdings L.P. made an election under Section 754 of the Internal Revenue Code that will remain in effect for each taxable year in which an exchange of KKR Group Partnership Units for common units occurs, which may result in an increase in our intermediate holding companies' share of the tax basis of the assets of the KKR Group Partnerships at the time of an exchange of KKR Group Partnership Units. Certain of these exchanges are expected to result in an increase in our intermediate holding companies' share of the tax basis of the tangible and intangible assets of the KKR Group Partnerships, primarily attributable to a portion of the goodwill inherent in our business that would not otherwise have been available. This increase in tax basis may increase depreciation and amortization deductions for tax purposes and therefore



Table of Contents

reduce the amount of income tax our intermediate holding companies would otherwise be required to pay in the future. This increase in tax basis may also decrease gain (or increase loss) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets.

We have entered into a tax receivable agreement with KKR Holdings requiring our intermediate holding companies to pay to KKR Holdings or transferees of its KKR Group Partnership Units 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the intermediate holding companies actually realize as a result of this increase in tax basis, as well as 85% of the amount of any such savings the intermediate holding companies actually realize as a result of increases in tax basis that arise due to future payments under the agreement. A termination of the agreement or a change of control could give rise to similar payments based on tax savings that we would be deemed to realize in connection with such events. This payment obligation is an obligation of our intermediate holding companies and not of either KKR Group Partnership. As such, the cash distributions to common unitholders may vary from holders of KKR Group Partnership Units (held by KKR Holdings and our principals) to the extent payments are made under the tax receivable agreement to selling holders of KKR Group Partnership Units to date. As the payments reflect actual tax savings received by the intermediate holding companies, there may be a timing difference between the tax savings received by the intermediate holding companies and the cash payments to selling holders of KKR Group Partnership Units. To date, no cash payments were made under the tax receivable agreement.

We expect our intermediate holding companies to benefit from the remaining 15% of cash savings, if any, in income tax that they realize. In the event that other of our current or future subsidiaries become taxable as corporations and acquire KKR Group Partnership Units in the future, or if we become taxable as a corporation for U.S. federal income tax purposes, we expect that each will become subject to a tax receivable agreement with substantially similar terms.

We intend to make quarterly cash distributions in amounts that in the aggregate are expected to constitute substantially all of the cash earnings of our investment management business each year in excess of amounts determined by KKR to be necessary or appropriate to provide for the conduct of our business, to make appropriate investments in our business and our investment funds and to comply with applicable law and any of our debt instruments or other agreements. KKR does not intend to distribute gains on principal investments, other than certain additional distributions that KKR may determine to make. These additional distributions, if any, are generally intended to cover certain tax liabilities, as calculated by KKR. When KKR & Co. L.P. receives distributions from the KKR Group Partnerships, KKR Holdings receives its pro rata share of such distributions from the KKR Group Partnerships. For purposes of KKR's distribution policy, our distributions are expected to consist of: (i) FRE, (ii) carry distributions received from KKR's investment funds which have not been allocated as part of its carry pool, and (iii) any additional distributions for certain taxes as described above. This amount is expected to be reduced by (i) corporate and applicable local taxes, if any, (ii) noncontrolling interests, and (iii) amounts determined by KKR to be necessary or appropriate for the conduct of its business and other matters as discussed above.

The declaration and payment of any distributions are subject to the discretion of the board of directors of the general partner of KKR & Co. L.P. and the terms of its limited partnership agreement. There can be no assurance that distributions will be made as intended or at all or that such distributions will be sufficient to pay any particular KKR & Co. L.P. unitholder's actual U.S. or non-U.S. tax liability.

We may also be required to fund various underwriting commitments in our capital markets business in connection with the underwriting of loans, securities or other financial instruments. We generally expect that these commitments will be syndicated to third parties or otherwise fulfilled or terminated, although we may in some instances elect to retain a portion of the commitments for our own account.



Table of Contents***Contractual Obligations, Commitments and Contingencies on an Unconsolidated Basis***

In the ordinary course of business, we enter into contractual arrangements that may require future cash payments. The following table sets forth information relating to anticipated future cash payments as of September 30, 2011 on an unconsolidated basis (i.e. before consolidation of our funds and other entities).

Types of Contractual Obligations	<1 Year	1-3 Years	Payments due by Period		Total
			3-5 Years	>5 Years	
			(\$ in millions)		
Uncalled commitments to investment funds (1)	\$ 746.1	\$	\$	\$	\$ 746.1
Debt payment obligations (2)				500.0	500.0
Interest obligations on debt (3)	35.9	65.5	64.5	127.5	293.4
Underwriting Commitments (4)	54.9				54.9
Lending Commitments (5)	80.8				80.8
Lease obligations	38.5	77.7	77.3	159.0	352.5
Total	\$ 956.2	\$ 143.2	\$ 141.8	\$ 786.5	\$ 2,027.7

(1) These uncalled commitments represent amounts committed by us to fund a portion of the purchase price paid for each investment made by our investment funds. Because capital contributions are due on demand, the above commitments have been presented as falling due within one year. However, given the size of such commitments and the rates at which our investment funds make investments, we expect that the capital commitments presented above will be called over a period of several years. See Liquidity Liquidity Needs.

(2) Represents Senior Notes which are presented gross of unamortized discount.

(3) These interest obligations on debt represent estimated interest to be paid over the maturity of the related debt obligation, which has been calculated assuming the debt outstanding at September 30, 2011 is not repaid until its maturity. Future interest rates are assumed to be those in effect as of September 30, 2011, including both variable and fixed rates provided for by the relevant debt agreements. The amounts presented above include accrued interest on outstanding indebtedness.

(4) Represents various commitments in our capital markets business in connection with the underwriting of loans, securities and other financial instruments. As of November 4, 2011, none of these commitments have been syndicated to third parties or otherwise fulfilled or terminated.

(5) Represents obligations in our capital markets business to lend under various revolving credit facilities.

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In the normal course of business, we also enter into contractual arrangements that contain a variety of representations and warranties and that include general indemnification obligations. Our maximum exposure under such arrangements is unknown due to the fact that the exposure would relate to claims that may be made against us in the future. Accordingly, no amounts have been included in our condensed consolidated financial statements as of September 30, 2011 relating to indemnification obligations.

The partnership documents governing our private equity funds generally include a clawback provision that, if triggered, may give rise to a contingent obligation that may require the general partner to return amounts to the fund for distribution to investors at the end of the life of the fund. Our principals are responsible for any clawback obligation relating to carry distributions received prior to October 1, 2009 up to a maximum of \$223.6 million. Carry distributions arising subsequent to October 1, 2009 may give rise to clawback obligations that will be allocated generally to carry pool participants and the KKR Group Partnerships in accordance with the terms of the instruments governing the KKR Group Partnerships. As of September 30, 2011, assuming that all applicable private equity funds were liquidated at no value, the amount of carried interest distributed that would be subject to this clawback provision would be \$791.0 million, of which \$567.4 million would be borne by KKR and carry pool participants and \$223.6 million would be borne by our principals. Had the investments in such funds been liquidated at their September 30, 2011 fair values, the clawback obligation would have been \$73.5 million, of which \$60.3 million is recorded in due from affiliates, \$6.8 million is due from noncontrolling interest holders and \$6.4 million is the obligation of KKR.

The instruments governing certain of our private equity funds may also include a net loss sharing provision, that, if triggered, may give rise to a contingent obligation that may require the general partners to contribute capital to the fund, to fund 20% of the net losses on investments attributed to the limited partners of such fund. In connection with the net loss sharing provisions, certain of our private equity vehicles allocate a greater share of their investment losses to us relative to the amounts

Table of Contents

contributed by us to those vehicles. In these vehicles, such losses would be required to be paid by us to the limited partners in those vehicles in the event of a liquidation of the fund regardless of whether any carried interest had been previously distributed. Based on the fair market values as of September 30, 2011, there would have been no net loss sharing obligation. If the vehicles were liquidated at zero value, the net loss sharing obligation would have been approximately \$1,095.8 million as of September 30, 2011.

Unlike the clawback provisions, the KKR Group Partnerships will be responsible for amounts due under net loss sharing arrangements and will indemnify our principals for personal guarantees that they have provided with respect to such amounts.

***Contractual Obligations, Commitments and Contingencies on a Consolidated Basis***

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 September 30, 2011. This table differs from the table presented above which sets forth contractual commitments on an unconsolidated basis principally because this table includes the obligations of our consolidated funds and other entities.

Types of Contractual Obligations	Payments due by Period				Total
	<1 Year	1-3 Years	3-5 Years (\$ in millions)	>5 Years	
Uncalled commitments to investment funds (1)	\$ 12,807.2	\$	\$	\$	\$ 12,807.2
Debt payment obligations (2)	40.7	387.9	638.5	500.0	1,567.1
Interest obligations on debt (3)	47.4	112.8	179.4	127.5	467.1
Underwriting Commitments (4)	54.9				54.9
Lending Commitments (5)	80.8				80.8
Lease obligations	38.5	77.7	77.3	159.0	352.5
<b>Total</b>	<b>\$ 13,069.5</b>	<b>\$ 578.4</b>	<b>\$ 895.2</b>	<b>\$ 786.5</b>	<b>\$ 15,329.6</b>

(1) These uncalled commitments represent amounts committed by us and our fund investors to fund the purchase price paid for each investment made by our investment funds. Because capital contributions are due on demand, the above commitments have been presented as falling due within one year. However, given the size of such commitments and the rates at which our investment funds make investments, we expect that the capital commitments presented above will be called over a period of several years. See Liquidity Liquidity Needs.

(2) Amounts include Senior Notes, gross of unamortized discount as well as financing arrangements entered into by our consolidated funds. Certain of our consolidated fund investment vehicles have entered into financing arrangements in connection with specific investments with the objective of enhancing returns. Such financing arrangements include \$796.4 million of financing provided through total return swaps and \$270.7 million of financing provided through a term loan and revolving credit facilities. These financing arrangements have been entered into with the objective of enhancing returns and are not direct obligations of the general partners of our private equity funds or our management companies.

(3) These interest obligations on debt represent estimated interest to be paid over the maturity of the related debt obligation, which has been calculated assuming the debt outstanding at September 30, 2011 is not repaid until its maturity. Future interest rates are assumed to be those in

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effect as of September 30, 2011, including both variable and fixed rates provided for by the relevant debt agreements. The amounts presented above include accrued interest on outstanding indebtedness.

(4) Represents various commitments in our capital markets business in connection with the underwriting of loans, securities and other financial instruments. As of November 4, 2011, none of these commitments have been syndicated to third parties or otherwise fulfilled or terminated.

(5) Represents obligations in our capital markets business to lend under various revolving credit facilities.

Table of Contents

***Off Balance Sheet Arrangements***

Other than contractual commitments and other legal contingencies incurred in the normal course of our business, we do not have any off-balance sheet financings or liabilities.

***Consolidated Statement of Cash Flows***

The accompanying condensed consolidated statements of cash flows include the cash flows of our consolidated entities which, in particular, 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: (i) raising capital from fund investors; (ii) using the capital of fund investors to make investments; (iii) financing certain investments with indebtedness; (iv) generating cash flows through the realization of investments; and (v) distributing cash flows from the realization of investments to fund investors. Because our consolidated funds are treated as investment companies for accounting purposes, these cash flow amounts are included in our cash flows from operations.

***Net Cash Provided by (Used in) Operating Activities***

Our net cash provided by (used in) operating activities was \$0.9 billion and \$1.2 billion during the nine months ended September 30, 2011 and 2010, respectively. These amounts primarily included: (i) proceeds from sales of investments net of purchases of investments by our funds of \$0.3 billion and \$0.6 billion during the nine months ended September 30, 2011 and 2010, respectively; (ii) net realized gains (losses) on investments of \$2.9 billion and \$1.5 billion during the nine months ended September 30, 2011 and 2010, respectively; and (iii) change in unrealized losses on investments of \$(2.4) billion and \$3.3 billion during the nine months ended September 30, 2011 and 2010, respectively. These amounts are reflected as operating activities in accordance with investment company accounting.

***Net Cash Provided by (Used in) Investing Activities***

Our net cash provided by (used in) investing activities was \$(35.8) million and \$15.3 million during the nine months ended September 30, 2011 and 2010, respectively. Our investing activities included the purchases of furniture, equipment and leasehold improvements of \$4.8 million and \$7.4 million, as well as a (decrease) increase in restricted cash and cash equivalents that primarily funds collateral requirements of \$31.0 million and \$(22.8) million during the nine months ended September 30, 2011 and 2010, respectively.

***Net Cash Provided by (Used in) Financing Activities***

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Our net cash (used in) provided by financing activities was \$(0.8) billion and \$(0.7) billion during the nine months ended September 30, 2011 and 2010, respectively. Our financing activities primarily included: (i) distributions to, net of contributions by our noncontrolling interests, of \$(0.7) billion and \$(0.3) billion during the nine months ended September 30, 2011 and 2010, respectively; (ii) net proceeds received net of repayment of debt obligations of \$78.1 million and \$(0.3) billion during the nine months ended September 30, 2011 and 2010, respectively; and (iii) distributions to net of contributions by our equity holders of \$(0.1) billion and \$(60.5) million during the nine months ended September 30, 2011 and 2010, respectively.

### **Critical Accounting Policies**

The preparation of our condensed consolidated financial statements in accordance with GAAP requires our management to make estimates and judgments that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and reported amounts of fees, expenses and investment income. Our management bases these estimates and judgments on available information, historical experience and other assumptions that we believe are reasonable under the circumstances. However, these estimates, judgments and assumptions are often subjective and may be impacted negatively based on changing circumstances or changes in our analyses. If actual amounts are ultimately different from those estimated, judged or assumed, revisions are included in the unaudited condensed consolidated financial statements in the period in which the actual amounts become known. We believe the following critical accounting policies could potentially produce materially different results if we were to change underlying estimates, judgments or assumptions. Please see the notes to the condensed consolidated financial statements included elsewhere in this report for further detail regarding our critical accounting policies.



Table of Contents

***Principles of Consolidation***

Our policy is to consolidate (i) those entities in which we hold a majority voting interest or has majority ownership and control over significant operating, financial and investing decisions of the entity, including those private equity, fixed income, and capital solution oriented funds and their respective consolidated funds in which the general partner is presumed to have control, or (ii) entities determined to be variable interest entities ( VIEs ) for which we are considered the primary beneficiary.

The majority of the entities consolidated by us are comprised of: (i) those entities in which we have majority ownership and have control over significant operating, financial and investing decisions and (ii) the consolidated KKR funds, which are those entities in which we hold substantive, controlling general partner or managing member interests. With respect to the consolidated KKR funds, we generally have operational discretion and control, and limited partners have no substantive rights to impact ongoing governance and operating activities of the fund.

The consolidated KKR funds do not consolidate their majority owned and controlled investments in portfolio companies. Rather, those investments are accounted for as investments and carried at fair value as described below.

The KKR funds are consolidated notwithstanding the fact that we have only a minority economic interest in those funds. The condensed consolidated financial statements reflect the assets, liabilities, revenues, expenses, investment income and cash flows of the consolidated KKR funds on a gross basis, and the majority of the economic interests in those funds, which are held by third party investors, are attributed to noncontrolling interests in the accompanying condensed consolidated financial statements. All of the management fees and certain other amounts earned by us from those funds are eliminated in consolidation. However, because the eliminated amounts are earned from, and funded by, noncontrolling interests, our attributable share of the net income from those funds is increased by the amounts eliminated. Accordingly, the elimination in consolidation of such amounts has no effect on net income (loss) attributable to us or our partners' capital.

Noncontrolling interests represent the ownership interests held by entities or persons other than us.

***Fair Value of Investments***

The KKR Funds are, for GAAP purposes, investment companies and therefore are not required to consolidate their majority owned and controlled investments in portfolio companies. Rather, KKR reflects their investments in Portfolio Companies at fair value with unrealized gains or losses resulting from changes in fair value reflected as a component of Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations.

We measure and report our investments in accordance with fair value accounting guidance, which establishes a hierarchical disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher

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degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

**Level I** Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. The type of investments and other financial instruments included in Level I include publicly-listed equities, publicly-listed derivatives, and equity securities sold, but not yet purchased. KKR does not adjust the quoted price for these investments, even in situations where KKR holds a large position and a sale could reasonably affect the quoted price. We classified 29.5% of total investments measured and reported at fair value as Level I at September 30, 2011.

**Level II** Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is generally determined through the use of models or other valuation methodologies. Investments and other financial instruments which are included in this category generally include fixed income investments, convertible debt securities indexed to publicly-listed securities, fixed income securities sold, but not yet purchased and certain over-the-counter derivatives. We classified 8.4% of total investments measured and reported at fair value as Level II at September 30, 2011.

**Level III** Pricing inputs are unobservable for the asset or liability and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include private Portfolio

Table of Contents

Companies held by the KKR Funds and fixed income investments for which a sufficiently liquid trading market does not exist. We classified 62.1% of total investments measured and reported at fair value as Level III at September 30, 2011.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and we consider factors specific to the investment.

When determining fair values of investments, we use the last reported market price as of the statement of financial condition date for investments that have readily observable market prices. If no sales occurred on such day, we use the bid price at the close of business on that date and, if sold short, the asked price at the close of business on that date day. Forward contracts are valued based on market rates or prices obtained from recognized financial data service providers.

The majority of our private equity investments are valued utilizing unobservable pricing inputs. Management's determination of fair value is based upon the best information available for a given circumstance and may incorporate assumptions that are management's best estimates after consideration of a variety of internal and external factors. We generally employ two valuation methodologies when determining the fair value of a private equity investment. The first methodology is typically a market multiples approach that considers a specified financial measure (such as EBITDA) and recent public and private transactions and other available measures for valuing comparable companies. Other factors such as the applicability of a control premium or illiquidity discount, the presence of significant unconsolidated assets and liabilities and any favorable or unfavorable tax attributes are also considered in arriving at a market multiples valuation. The second methodology utilized is typically a discounted cash flow approach. In this approach, we incorporate significant assumptions and judgments in determining the most likely buyer, or market participant for a hypothetical sale, which might include an initial public offering, private equity investor, strategic buyer or a transaction consummated through a combination of any of the above. Estimates of assumed growth rates, terminal values, discount rates, capital structure and other factors are employed in this approach. The ultimate fair value recorded for a particular investment will generally be within the range suggested by the two methodologies, adjusted for issues related to achieving liquidity including size, registration process, corporate governance structure, timing, an initial public offering discount and other factors, if applicable. As discussed above, we utilize several unobservable pricing inputs and assumptions in determining the fair value of our private equity investments. These unobservable pricing inputs and assumptions may differ by investment and in the application of our valuation methodologies. Our reported fair value estimates could vary materially if we had chosen to incorporate different unobservable pricing inputs and other assumptions.

Approximately 29.5% or \$10.7 billion, and 26.0%, or \$9.5 billion, of the value of our investments were valued using quoted market prices, which have not been adjusted, as of September 30, 2011 and December 31, 2010, respectively.

Approximately 70.5%, or \$25.6 billion, and 74.0%, or \$27.0 billion, of the value of our investments were valued in the absence of readily observable market prices as of September 30, 2011 and December 31, 2010, respectively. The majority of these investments were valued using internal models with significant unobservable market parameters and our determinations of the fair values of these investments may differ materially from the values that would have resulted if readily observable market prices had existed. Additional external factors may cause those values, and the values of investments for which readily observable market prices exist, to increase or decrease over time, which may create volatility in our earnings and the amounts of assets and partners' capital that we report from time to time.

Our calculations of the fair values of private company investments were reviewed by an independent valuation firm, who provided third party valuation assistance to us, which consisted of certain limited procedures that we identified and requested it to perform. Upon completion of such

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limited procedures, they concluded that the fair value, as determined by us, of those investments subjected to their limited procedures was reasonable. The limited procedures did not involve an audit, review, compilation or any other form of examination or attestation under generally accepted auditing standards. The general partners of our funds are responsible for determining the fair value of investments in good faith, and the limited procedures performed by an independent valuation firm are supplementary to the inquiries and procedures that the general partner of each fund is required to undertake to determine the fair value of the investments.

Changes in the fair value of the investments of our consolidated private equity funds may impact the net gains (losses) from investment activities of our private equity funds as described under Key Financial Measures Investment Income (Loss) Net Gains (Losses) from Investment Activities. Based on the investments of our private equity funds as of September 30, 2011, we estimate that an immediate 10% decrease in the fair value of the funds' investments generally would result in a 10% immediate change in net gains (losses) from the funds' investment activities (including carried interest when applicable), regardless of whether the investment was valued using observable market prices or management estimates with significant unobservable pricing inputs. However, we estimate the impact that the consequential decrease in investment income

Table of Contents

would have on net income attributable to KKR would be significantly less than the amount described above, given that a majority of the change in fair value would be attributable to noncontrolling interests.

As of September 30, 2011, private equity investments which represented greater than 5% of the net assets of consolidated private equity funds included: (i) Dollar General Corporation valued at \$3.7 billion; (ii) Alliance Boots GmbH valued at \$2.5 billion; and (iii) HCA, Inc. valued at \$1.7 billion.

The majority of the value of the investments in our consolidated fixed income funds were valued using observable market parameters, which may include quoted market prices, as of September 30, 2011. Quoted market prices, when used, are not adjusted.

***Revenue Recognition***

Fees consist primarily of (i) monitoring, consulting and transaction fees from providing advisory and other services, (ii) management and incentive fees from providing investment management services to unconsolidated funds, a specialty finance company, structured finance vehicles, and separately managed accounts, and (iii) fees from capital markets activities. These fees are based on the contractual terms of the governing agreements and are recognized in the period during which the related services are performed.

KKR's private equity funds require the management company to refund up to 20% of any cash management fees earned from limited partners in the event that the funds recognize a carried interest. At such time as the fund recognizes a carried interest in an amount sufficient to cover 20% of the cash management fees earned or a portion thereof, a liability to the fund's limited partners is recorded and revenue is reduced for the amount of the carried interest recognized, not to exceed 20% of the cash management fees earned. As of September 30, 2011, the amount subject to refund for which no liability has been recorded approximates \$81.2 million as a result of certain funds not yet recognizing sufficient carried interests. The refunds to the limited partners are paid, and the liabilities relieved, at such time that the underlying investments are sold and the associated carried interests are realized. In the event that a fund's carried interest is not sufficient to cover all or a portion of the amount that represents 20% of the cash management fees earned, these fees would not be returned to the fund's limited partners, in accordance with the respective fund agreements.

***Recognition of Investment Income***

Investment income consists primarily of the unrealized and realized gains (losses) on investments (including the impacts of foreign currency on non-dollar denominated investments), dividend and interest income received from investments and interest expense incurred in connection with investment activities. Unrealized gains or losses result from changes in the fair value of our fund's investments during a period as well as the reversal of unrealized gains or losses in connection with realization events. Upon disposition of an investment, previously recognized unrealized gains or losses are reversed and a corresponding realized gain or loss is recognized in the current period. While this reversal generally does not significantly impact the net amounts of gains (losses) that we recognize from investment activities, it affects the manner in which we classify our gains and losses for reporting purposes.

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Due to the consolidation of the majority of our funds, the portion of our funds' investment income that is allocable to our carried interests and capital investments is not shown in the condensed consolidated financial statements. Instead, the investment income that KKR retains in its net income, after allocating amounts to noncontrolling interests, represents the portion of its investment income that is allocable to us. Because the substantial majority of our funds are consolidated and because we hold only a minority economic interest in our funds' investments, our share of the investment income generated by our funds' investment activities is significantly less than the total amount of investment income presented in its condensed consolidated financial statements.

### *Recognition of Carried Interests in Statement of Operations*

Carried interests entitle the general partner of a fund to a greater allocable share of the fund's earnings from investments relative to the capital contributed by the general partner and correspondingly reduce noncontrolling interests' attributable share of those earnings. Amounts earned pursuant to carried interests in the KKR funds are included as investment income in Net Gains (Losses) from Investment Activities and are earned by the general partner of those funds to the extent that cumulative investment returns are positive. If these investment returns decrease or turn negative in subsequent periods, recognized carried interest will be reduced and reflected as investment losses. Carried interest is recognized based on the contractual formula set forth in the instruments governing the fund as if the fund was terminated at the reporting date with the then estimated fair values of the investments realized. Due to the extended durations of our private equity funds, management

Table of Contents

believes that this approach results in income recognition that best reflects our periodic performance in the management of those funds.

The instruments governing our private equity funds generally include a clawback or, in certain instances, a net loss sharing provision that, if triggered, may give rise to a contingent obligation that may require the general partner to return or contribute amounts to the fund for distribution to investors at the end of the life of the fund.

***Clawback Provision***

Under a clawback provision, upon the liquidation of a private equity fund, the general partner is required to return, on an after-tax basis, previously distributed carry to the extent that, due to the diminished performance of later investments, the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled.

Certain KKR principals who received carried interest distributions prior to October 1, 2009 with respect to the private equity funds had personally guaranteed, on a several basis and subject to a cap, the contingent obligations of the general partners of the private equity funds to repay amounts to fund limited partners pursuant to the general partners' clawback obligations. KKR principals are responsible for clawback obligations relating to carry distributions received prior to October 1, 2009 up to a maximum of \$223.6 million.

Carry distributions arising subsequent to October 1, 2009 are allocated generally to carry pool participants and KKR in accordance with the terms of the instruments governing the KKR Group Partnerships.

***Net Loss Sharing Provision***

The instruments governing certain of our private equity funds may also include a net loss sharing provision, that, if triggered, may give rise to a contingent obligation that may require the general partners to contribute capital to the fund, to fund 20% of the net losses on investments. In connection with the net loss sharing provisions, certain of our private equity funds allocate a greater share of their investment losses to us relative to the amounts contributed by us to those vehicles. In these vehicles, such losses would be required to be paid to the limited partners in those vehicles in the event of a liquidation of the fund regardless of whether any carried interest had previously been distributed. Unlike the clawback provisions, we will be responsible for amounts due under net loss sharing arrangements and will indemnify our principals for personal guarantees that they have provided with respect to such amounts.

**Recent Accounting Pronouncements**

During the nine months ended September 30, 2011, there were no issued accounting pronouncements that were applicable and adopted by KKR.

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

There have been no material changes in the information about market risk set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the SEC on March 7, 2011.

**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 the information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and such information is accumulated and communicated to management, including the Co-Chief Executive Officers and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired controls.

As of September 30, 2011, we carried out an evaluation, under the supervision and with the participation of our management, including the Co-Chief Executive Officers and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Co-Chief Executive Officers and Chief Financial Officer have concluded that, as of September 30, 2011, our disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

***Changes in Internal Control Over Financial Reporting:*** There were no changes in our internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



Table of Contents

**PART II. OTHER INFORMATION**

**ITEM 1. *Legal Proceedings.***

The section entitled "Litigation" appearing in Note 13 "Commitments and Contingencies" of our financial statements included elsewhere in this report is incorporated herein by reference.

**ITEM 1A. *Risk Factors***

For a discussion of our potential risks and uncertainties, see the information under the heading "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed with the SEC on March 7, 2011 and our quarterly reports on Form 10-Q for the quarters ended March 31, 2011 and June 30, 2011, filed with the SEC on May 5, 2011 and August 5, 2011, respectively. There have been no material changes to the risk factors disclosed in those reports.

**ITEM 2. *Unregistered Sales of Equity Securities and Use of Proceeds***

Not applicable.

**ITEM 3. *Defaults Upon Senior Securities.***

Not applicable.

**ITEM 4. *(Removed and Reserved)***

**ITEM 5. *Other Information***

Not applicable.

**ITEM 6. Exhibits**

Required exhibits are listed in the Index to Exhibits and are incorporated herein by reference.

Table of Contents

**SIGNATURES**

Pursuant to 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.

KKR & CO. L.P.

By: KKR Management LLC  
Its General Partner

By:

/s/ William J. Janetschek  
William J. Janetschek  
*Chief Financial Officer*  
*(principal financial and accounting officer of KKR  
Management LLC)*

DATE: November 8, 2011

Table of Contents

**INDEX TO EXHIBITS**

The following is a list of all exhibits filed or furnished as part of this report:

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
10.1	Form of Public Company Equity Unit Award Agreement of KKR & Co. L.P. (Directors)
31.1	Certification of Co-Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Co-Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Co-Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Co-Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.3	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Statements of Financial Condition as of September 30, 2011 and December 31, 2010, (ii) the Condensed Consolidated Statements of Operations for the quarter and nine months ended September 30, 2011 and September 30, 2010, (iii) the Condensed Consolidated Statements of Changes in Equity for the nine months ended September 30, 2011, (iv) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and September 30, 2010, and (v) the Notes to the Consolidated Financial Statements.*

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\* This information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.