

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

x 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

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

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

As of 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

		Page No.
	<u>PART I FINANCIAL INFORMATION</u>	
<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
	<u>PART II OTHER INFORMATION</u>	
<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

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.

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.

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
Assets		
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
Total Assets	\$ 38,633,762	\$ 38,391,157
Liabilities and Equity		
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
Total Liabilities	2,719,340	2,391,115
Commitments and Contingencies		
Equity		
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
Total KKR & Co. L.P. Partners' Capital	1,265,239	1,326,493
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
Total Equity	35,914,422	36,000,042
Total Liabilities and Equity	\$ 38,633,762	\$ 38,391,157

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
Revenues				
Fees	\$ 164,808	\$ 96,018	\$ 514,263	\$ 289,119
Expenses				
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
Investment Income (Loss)				
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
Income (Loss) Before Taxes	(3,184,820)	1,370,678	371,412	4,658,780
Income Taxes	11,535	16,263	67,923	60,998
Net Income (Loss)	(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
Net Income (Loss) Attributable to KKR & Co. L.P.	\$ (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
Net Income (Loss) Attributable to KKR & Co. L.P. Per Common Unit				
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
Balance at January 1, 2011	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)
Balance at September 30, 2011	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
Cash Flows from Operating Activities		
Net Income (Loss)	\$ 303,489	\$ 4,597,782
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
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
Cash Flows from Investing Activities		
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
Cash Flows from Financing Activities		
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)
Net Change in Cash and Cash Equivalents	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
Supplemental Disclosures of Cash Flow Information		
Payments for Interest	\$ 42,195	\$ 63,958
Payments for Income Taxes	\$ 59,680	\$ 55,579
Supplemental Disclosures of Non-Cash Activities		
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	\$
Contribution of Net Assets of previously Unconsolidated Entities		
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
Total Fees	\$ 164,808	\$ 96,018	\$ 514,263	\$ 289,119

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
Total Net Gains (Losses) from Investment Activities	\$ 524,896	\$ (3,863,916)	\$ 951,983	\$ 498,141	\$ 2,906,193	\$ (2,438,915)	\$ 1,493,920	\$ 3,274,325

(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.

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
North America				
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%
North America Total	18,645,233	17,113,143	55.3%	49.5%
Europe				
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%
Europe Total	9,573,073	11,063,714	28.2%	31.9%
Asia - Pacific				
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%
Asia - Pacific Total	5,602,577	6,465,309	16.5%	18.6%
Total Private Equity Investments	\$ 33,820,883	\$ 34,642,166	100%	100%

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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			
	Level I	Level II	Level III	Total
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			
	Level I	Level II	Level III	Total
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			
	Private Equity	Fixed Income	Other	Total Level III Investments
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				
	Private Equity	Fixed Income	Other	Total Level III Investments	
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

(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:

	September 30, 2011	December 31, 2010
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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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 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
Total	\$ 123,858	\$ 238,342	\$ 386,533	\$ 717,153

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	
Fees				
Management and incentive fees:				
Management fees	\$ 106,748	\$ 27,301	\$	\$ 134,049
Incentive fees				
Management and incentive fees	106,748	27,301		134,049
Monitoring and transaction fees:				
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
Expenses				
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
Investment income (loss)				
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)
Income (loss) before noncontrolling interests in income of consolidated entities				
	(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.

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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, 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).

(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:

		Three Months Ended September 30, 2011
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	
Fees				
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
Monitoring and transaction fees:				
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
Expenses				
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
Investment income (loss)				
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
Income (loss) before noncontrolling interests in income of consolidated entities				
	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:

As of and for the Three Months Ended September 30, 2010			
	Total Reportable Segments	Adjustments	Consolidated
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:

		Three Months Ended September 30, 2010
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			Total Reportable Segments
	Private Markets	Public Markets	Capital Markets and Principal Activities	
Fees				
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
Expenses				
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
Investment income (loss)				
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
Income (loss) before noncontrolling interests in income of consolidated entities				
	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:

As of and for the Nine Months Ended September 30, 2011				
	Total Reportable Segments	Adjustments	Consolidated	
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.

(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:

		Nine Months Ended September 30, 2011
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	
Fees				
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
Monitoring and transaction fees:				
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
Expenses				
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
Investment income (loss)				
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
Income (loss) before noncontrolling interests				
in income of consolidated entities	523,161	42,735	862,101	1,427,997
Income (loss) attributable to noncontrolling interests (4)	580	380		