

KKR & Co. L.P.
Form 10-Q
August 08, 2013
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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 June 30, 2013

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 57 th 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 August 5, 2013, there were 277,834,343 Common Units of the registrant outstanding.

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KKR & CO. L.P.

FORM 10-Q

For the Quarter Ended June 30, 2013

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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, the negative version of these words, other comparable words or other statements that do not relate strictly to historical or factual matters. 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 those described under the section entitled Risk Factors in this report. These factors 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.

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.

Prior to October 1, 2009, KKR's business was conducted through multiple entities for which there was no single holding entity, but were under common control of senior KKR principals, and in which senior principals and KKR's other principals and individuals held ownership interests (collectively, the Predecessor Owners). On October 1, 2009, we completed the acquisition of all of the assets and liabilities of KKR & Co. (Guernsey) L.P. (f/k/a KKR Private Equity Investors, L.P. or KPE) and, in connection with such acquisition, completed a series of transactions pursuant to which the business of KKR was reorganized into a holding company structure. The reorganization involved a contribution of certain equity interests in KKR's business that were held by KKR's Predecessor Owners to the KKR Group Partnerships in exchange for equity interests in the KKR Group Partnerships held through KKR Holdings. We refer to the acquisition of the assets and liabilities of KPE and to our subsequent reorganization into a holding company structure as the KPE Transaction.

In this report, the term assets under management, or AUM , represents the assets from which KKR is entitled to receive fees or a carried interest and general partner capital. We believe this measure is useful to unitholders as it provides additional insight into KKR's capital raising activities and the overall activity in its investment funds and vehicles. 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 the definitions of AUM that may be set forth in agreements governing the investment funds, vehicles or accounts that it manages and is not calculated pursuant to any regulatory definitions.

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In this report, the term fee paying assets under management, or FPAUM, represents only those assets under management from which KKR receives fees. We believe this measure is useful to unitholders as it provides additional insight into the capital base upon which KKR earns management fees. This relates to KKR's capital raising activities and the overall activity in its investment funds and vehicles, for only those funds and vehicles where KKR receives fees (i.e., excluding vehicles that receive only carried interest or general partner capital). 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 term **fee related earnings**, or **FRE**, is comprised of segment operating revenues less segment operating expenses (other than certain compensation and general and administrative expenses incurred in the generation of net realized principal investment income). This measure is used by management as an alternative measurement of the operating earnings of KKR and its business segments before investment income. We believe this measure is useful to unitholders as it provides additional insight into the operating profitability of our fee generating management companies and capital markets businesses. 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 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 term **economic net income (loss)**, or **ENI**, is a measure of profitability for KKR's reportable segments and is used by management as an alternative measurement of the operating and investment earnings of KKR and its business segments. We believe this measure is useful to unitholders as it provides additional insight into the overall profitability of KKR's businesses inclusive of investment income and carried interest. ENI is comprised of: (i) FRE plus (ii) segment investment income (loss), which is reduced for carry pool allocations, management fee refunds, interest expense and certain compensation and general and administrative expenses incurred in the generation of net realized principal investment income; 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.

In this report, **syndicated capital** is the aggregate amount of debt or equity capital in transactions originated by KKR investment funds and vehicles, which has been distributed to third parties in exchange for a fee. It does not include (i) capital committed to such transactions by carry-yielding co-investment vehicles, which is instead reported in committed dollars invested and (ii) debt capital that is arranged as part of the acquisition financing of transactions originated by KKR investment funds and vehicles. Syndicated capital is used as a measure of investment activity for KKR and its business segments during a given period, and we believe that this measure is useful to unitholders as it provides additional insight into levels of syndication activity in KKR's Capital Markets and Principal Activities segment and across its investment platform.

You should note that our calculations of AUM, FPAUM, FRE, ENI, syndicated capital and other financial measures may differ from the calculations of other investment managers and, as a result, our measurements of AUM, FPAUM, FRE, ENI, syndicated capital and other financial measures may not be comparable to similar measures presented by other investment managers. For important information regarding these and other financial measures, please see **Management's Discussion and Analysis of Financial Condition & Results of Operations Segment Operating and Performance Measures**.

References to **our funds** or **our vehicles** refer to investment funds, vehicles and/or accounts advised, sponsored or managed by one or more subsidiaries of KKR, unless context requires otherwise.

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

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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](#)**KKR & CO. L.P.****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Unaudited)**

(Amounts in Thousands, Except Unit Data)

	June 30, 2013	December 31, 2012
Assets		
Cash and Cash Equivalents	\$ 1,167,413	\$ 1,230,464
Cash and Cash Equivalents Held at Consolidated Entities	465,515	587,174
Restricted Cash and Cash Equivalents	21,515	87,627
Investments	41,142,537	40,697,848
Due from Affiliates	134,725	122,185
Other Assets	1,875,940	1,701,055
Total Assets	\$ 44,807,645	\$ 44,426,353
Liabilities and Equity		
Debt Obligations	\$ 1,706,010	\$ 1,123,414
Due to Affiliates	92,793	72,830
Accounts Payable, Accrued Expenses and Other Liabilities	2,104,264	1,824,655
Total Liabilities	3,903,067	3,020,899
Commitments and Contingencies		
Redeemable Noncontrolling Interests	580,840	462,564
Equity		
KKR & Co. L.P. Partners' Capital (277,834,343 and 253,363,691 common units issued and outstanding as of June 30, 2013 and December 31, 2012, respectively)	2,293,542	2,008,965
Accumulated Other Comprehensive Income (Loss)	(6,153)	(4,606)
Total KKR & Co. L.P. Partners' Capital	2,287,389	2,004,359
Noncontrolling Interests	38,036,349	38,938,531
Total Equity	40,323,738	40,942,890
Total Liabilities and Equity	\$ 44,807,645	\$ 44,426,353

See notes to condensed consolidated financial statements.

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

(Amounts in Thousands, Except Unit Data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues				
Fees	\$ 166,376	\$ 112,360	\$ 317,616	\$ 228,667
Expenses				
Compensation and Benefits	200,602	280,640	531,723	653,050
Occupancy and Related Charges	13,878	14,095	28,399	29,292
General, Administrative and Other	77,542	54,004	171,230	111,655
Total Expenses	292,022	348,739	731,352	793,997
Investment Income (Loss)				
Net Gains (Losses) from Investment Activities	98,537	1,601,688	2,368,354	4,688,553
Dividend Income	209,486	79,919	248,955	252,858
Interest Income	128,020	87,892	237,389	164,091
Interest Expense	(24,614)	(16,884)	(47,637)	(34,889)
Total Investment Income (Loss)	411,429	1,752,615	2,807,061	5,070,613
Income (Loss) Before Taxes	285,783	1,516,236	2,393,325	4,505,283
Income Taxes	8,525	11,093	17,881	28,165
Net Income (Loss)	277,258	1,505,143	2,375,444	4,477,118
Net Income (Loss) Attributable to Redeemable Noncontrolling Interests	(7,800)	3,285	16,823	8,557
Net Income (Loss) Attributable to Noncontrolling Interests	269,924	1,355,597	2,150,048	4,131,864
Net Income (Loss) Attributable to KKR & Co. L.P.	\$ 15,134	\$ 146,261	\$ 208,573	\$ 336,697
Distributions Declared per KKR & Co. L.P. Common Unit	\$ 0.42	\$ 0.13	\$ 0.69	\$ 0.28
Net Income (Loss) Attributable to KKR & Co. L.P. Per Common Unit				
Basic	\$ 0.06	\$ 0.62	\$ 0.79	\$ 1.45
Diluted	\$ 0.05	\$ 0.58	\$ 0.72	\$ 1.37
Weighted Average Common Units Outstanding				
Basic	271,983,811	235,781,983	264,555,267	232,440,659
Diluted	298,078,764	252,507,802	290,104,942	245,169,954

See notes to condensed consolidated financial statements.

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

(Amounts in Thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net Income (Loss)	\$ 277,258	\$ 1,505,143	\$ 2,375,444	\$ 4,477,118
Other Comprehensive Income (Loss), Net of Tax:				
Foreign Currency Translation Adjustments	(4,929)	(9,033)	(6,172)	(5,406)
Comprehensive Income (Loss)	272,329	1,496,110	2,369,272	4,471,712
Less: Comprehensive Income (Loss) Attributable to Redeemable Noncontrolling Interests	(7,800)	3,285	16,823	8,557
Less: Comprehensive Income (Loss) Attributable to Noncontrolling Interests	266,310	1,348,640	2,145,064	4,127,778
Comprehensive Income (Loss) Attributable to KKR & Co. L.P.	\$ 13,819	\$ 144,185	\$ 207,385	\$ 335,377

See notes to condensed consolidated financial statements.

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

(Amounts in Thousands, Except Unit Data)

	KKR & Co. L.P.					
	Common Units	Partners Capital	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interests
Balance at January 1, 2012	227,150,182	\$ 1,330,887	\$ (2,189)	\$ 36,080,445	\$ 37,409,143	\$ 275,507
Net Income (Loss)		336,697		4,131,864	4,468,561	8,557
Other Comprehensive Income (Loss)- Foreign Currency Translation (Net of Tax)			(1,320)	(4,086)	(5,406)	
Exchange of KKR Holdings L.P. Units to KKR & Co. L.P. Common Units	10,367,520	107,029	(113)	(106,916)		
Tax Effects Resulting from Exchange of KKR Holdings L.P. Units and delivery of KKR & Co. L.P. Common Units		1,177	(59)		1,118	
Net Delivery of Common Units- Equity Incentive Plan	637,455					
Equity Based Compensation		30,314		177,566	207,880	
Capital Contributions				1,334,910	1,334,910	173,868
Capital Distributions		(107,603)		(3,870,336)	(3,977,939)	(332)
Balance at June 30, 2012	238,155,157	\$ 1,698,501	\$ (3,681)	\$ 37,743,447	\$ 39,438,267	\$ 457,600

	KKR & Co. L.P.					
	Common Units	Partners Capital	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interests
Balance at January 1, 2013	253,363,691	\$ 2,008,965	\$ (4,606)	\$ 38,938,531	\$ 40,942,890	\$ 462,564
Net Income (Loss)		208,573		2,150,048	2,358,621	16,823
			(1,188)	(4,984)	(6,172)	

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Other Comprehensive Income (Loss)- Foreign Currency Translation (Net of Tax)									
Exchange of KKR Holdings L.P. Units to KKR & Co. L.P. Common Units									
	20,592,345		244,173		(530)		(243,643)		
Tax Effects Resulting from Exchange of KKR Holdings L.P. Units and delivery of KKR & Co. L.P. Common Units									
			9,834		171				10,005
Net Delivery of Common Units- Equity Incentive Plan									
	3,878,307		17,262						17,262
Equity Based Compensation									
			53,354				108,614		161,968
Capital Contributions									
							2,237,168		2,237,168
Capital Distributions									
			(248,619)				(5,149,385)		(5,398,004)
Balance at June 30, 2013	277,834,343	\$	2,293,542	\$	(6,153)	\$	38,036,349	\$	40,323,738
									\$ 580,840

See notes to condensed consolidated financial statements.

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

(Amounts in Thousands)

	Six Months Ended June 30,	
	2013	2012
Operating Activities		
Net Income (Loss)	\$ 2,375,444	\$ 4,477,118
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Equity Based Compensation	161,968	207,880
Net Realized (Gains) Losses on Investments	(1,625,493)	(2,008,160)
Change in Unrealized (Gains) Losses on Investments	(742,861)	(2,680,393)
Other Non-Cash Amounts	(35,253)	(23,020)
Cash Flows Due to Changes in Operating Assets and Liabilities:		
Change in Cash and Cash Equivalents Held at Consolidated Entities	122,181	574,850
Change in Due from / to Affiliates	(13,312)	(11,440)
Change in Other Assets	248,368	60,523
Change in Accounts Payable, Accrued Expenses and Other Liabilities	232,598	222,755
Investments Purchased	(13,850,467)	(5,803,035)
Cash Proceeds from Sale of Investments	15,465,372	7,719,314
Net Cash Provided (Used) by Operating Activities	2,338,545	2,736,392
Investing Activities		
Change in Restricted Cash and Cash Equivalents	66,112	56,488
Purchase of Furniture, Computer Hardware and Leasehold Improvements	(4,535)	(17,439)
Net Cash Provided (Used) by Investing Activities	61,577	39,049
Financing Activities		
Distributions to Partners	(248,619)	(107,603)
Distributions to Redeemable Noncontrolling Interests	(6,922)	(332)
Contributions from Redeemable Noncontrolling Interests	108,375	173,868
Distributions to Noncontrolling Interests	(5,149,385)	(3,831,967)
Contributions from Noncontrolling Interests	2,237,168	1,334,910
Net Delivery of Common Units - Equity Incentive Plan	17,262	
Proceeds from Debt Obligations	814,790	295,348
Repayment of Debt Obligations	(230,882)	(736,192)
Financing Costs Paid	(4,960)	(7,776)
Net Cash Provided (Used) by Financing Activities	(2,463,173)	(2,879,744)
Net Increase/(Decrease) in Cash and Cash Equivalents	(63,051)	(104,303)
Cash and Cash Equivalents, Beginning of Period	1,230,464	843,261
Cash and Cash Equivalents, End of Period	\$ 1,167,413	\$ 738,958

See notes to condensed consolidated financial statements.

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

(Amounts in Thousands)

	Six Months Ended June 30,	
	2013	2012
Supplemental Disclosures of Cash Flow Information		
Payments for Interest	\$ 32,978	\$ 107,235
Payments for Income Taxes	\$ 69,448	\$ 41,582
Supplemental Disclosures of Non-Cash Investing and Financing Activities		
Non-Cash Contributions of Equity Based Compensation	\$ 161,968	\$ 207,880
Non-Cash Distributions to Noncontrolling Interests	\$	\$ 38,369
Foreign Exchange Gains (Losses) on Debt Obligations	\$ 1,497	\$ 3,343
Exchange of KKR Holdings L.P. Units to KKR & Co. L.P. Common Units	\$ 243,643	\$ 106,916
Tax Effects Resulting from Exchange of KKR Holdings L.P. Units and delivery of KKR & Co. L.P. Common Units	\$ 10,005	\$ 1,118

See notes to condensed consolidated financial statements.

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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 fund investors and provides capital markets services for the firm, its portfolio companies and third parties. Led by Henry Kravis and George Roberts, KKR conducts business with offices 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 indirect 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 June 30, 2013, KKR & Co. L.P. held 40.3% of the KKR Group Partnership Units and KKR's principals held 59.7% of the KKR Group Partnership Units through KKR Holdings. The percentage ownership in the KKR Group Partnerships will continue to change as KKR Holdings and/or KKR's principals exchange units in the KKR Group Partnerships for KKR & Co. L.P. common units.

The following table presents the effect of changes in the ownership interest in the KKR Group Partnerships on KKR & Co. L.P.'s equity:

**Three Months Ended
June 30,**

**Six Months Ended
June 30,**

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	2013	2012	2013	2012
Net income (loss) attributable to KKR & Co. L.P.	\$ 15,134	\$ 146,261	\$ 208,573	\$ 336,697
Transfers from noncontrolling interests:				
Exchange of KKR Group Partnership units held by KKR Holdings L.P. (a)	156,569	61,226	249,623	108,034
Change from net income (loss) attributable to KKR & Co. L.P. and transfers from noncontrolling interests held by KKR Holdings	\$ 171,703	\$ 207,487	\$ 458,196	\$ 444,731

(a) Increase in KKR & Co. L.P. partners' capital for exchange of 13,019,034 and 5,819,496 for the three months ended June 30, 2013 and 2012, respectively, and 20,592,345 and 10,367,520 for the six months ended June 30, 2013 and 2012, respectively, KKR Group Partnership units held by KKR Holdings L.P., inclusive of deferred taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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 the condensed consolidated financial statements are reasonable and prudent. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. The December 31, 2012 condensed consolidated balance sheet data was derived from audited consolidated financial statements included in KKR's Annual Report on Form 10-K for the year ended December 31, 2012, which include all disclosures required by GAAP. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in KKR & Co. L.P.'s Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC).

The condensed consolidated financial statements (referred to hereafter as the financial statements) include the accounts of KKR's management and capital markets companies, the general partners of certain unconsolidated funds and vehicles, general partners of consolidated funds and their respective consolidated funds and certain other entities.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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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 in the accompanying financial statements.

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

Use of Estimates

The preparation of the 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 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 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 the KKR funds and vehicles 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.

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With respect to KKR's consolidated funds and vehicles, KKR generally has operational discretion and control, and fund investors have no substantive rights to impact ongoing governance and operating activities of the fund, including the ability to remove the general partner, also known as kick-out rights. As result, a fund should be consolidated unless KKR has a nominal level of equity at risk. To the extent that KKR commits a nominal amount of equity to a given fund and has no obligation to fund any future losses, the equity at risk to KKR is not considered substantive and the fund is typically considered a VIE as described below. In these cases, the fund investors are generally deemed to be the primary beneficiaries and KKR does not consolidate the fund. In cases when KKR's equity at risk is deemed to be substantive, the fund is generally not considered to be a VIE and KKR generally consolidates the fund.

KKR's funds and vehicles are consolidated by KKR notwithstanding the fact that KKR has only a minority economic interest in those funds. KKR's financial statements reflect the assets, liabilities, fees, expenses, investment income (loss) and cash flows of the consolidated KKR funds and vehicles on a gross basis, and the majority of the economic interests in those funds, which are held by third party fund investors, are attributed to noncontrolling interests in the accompanying 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 (loss) 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.

KKR's funds and vehicles are, for GAAP purposes, investment companies and therefore are not required to consolidate their investments, including investments in portfolio companies, even if majority-owned and controlled. Rather, the KKR funds and vehicles reflect their investments at fair value as described in the Fair Value Measurements section. 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 determine (a) 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 determine (a) 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 and redemptions (either

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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 not consolidate accordingly.

As of June 30, 2013 and December 31, 2012, the maximum exposure to loss, before allocations to the carry pool, if any, 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:

	June 30, 2013		December 31, 2012
Investments	\$ 199,081	\$	188,408
Due from Affiliates, net	18,178		2,266
Maximum Exposure to Loss	\$ 217,259	\$	190,674

For those unconsolidated VIEs in which KKR is the sponsor, KKR may have an obligation as general partner to provide commitments to such funds. As of June 30, 2013 and December 31, 2012, 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 by type of VIE would not provide more useful information.

Business Combinations

Acquisitions are accounted for using the acquisition method of accounting. The purchase price of an acquisition is allocated to the assets acquired and liabilities assumed using the estimated fair values at the acquisition date. Transaction costs are expensed as incurred.

Intangible Assets

Intangible assets consist primarily of contractual rights to earn future fee income, including management and incentive fees, and are included in Other Assets within the statements of financial condition. Identifiable finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives and amortization expense is included within General, Administrative and Other in the accompanying condensed consolidated statements of operations. Intangible assets are reviewed for impairment when circumstances indicate an impairment may exist. KKR does not have any indefinite-lived intangible assets.

Goodwill

Goodwill represents the excess of acquisition cost over the fair value of net tangible and intangible assets acquired in connection with an acquisition. Goodwill will be assessed for impairment annually or more frequently if circumstances indicate impairment may have occurred. Goodwill is recorded in Other Assets within the condensed consolidated statements of financial condition.

Redeemable Noncontrolling Interests

Redeemable Noncontrolling Interests represent noncontrolling interests of certain investment vehicles and funds that are subject to periodic redemption by fund investors following the expiration of a specified period of time (typically between one and three years), or may be withdrawn subject to a redemption fee during the period when capital may not be otherwise withdrawn. Limited partner interests subject to redemption as described above are presented as Redeemable Noncontrolling Interests within the condensed consolidated statements of financial condition and presented as Net Income (Loss) attributable to Redeemable Noncontrolling Interests within the condensed consolidated statements of operations. When redeemable amounts become legally payable to fund investors, they are classified as a liability and included in Accounts Payable, Accrued Expenses and Other Liabilities in the condensed consolidated statements of financial condition. For all consolidated investment vehicles and funds in which redemption rights have not been granted, noncontrolling interests are presented within Equity in the condensed consolidated statements of financial condition as Noncontrolling Interests.

Noncontrolling Interests

Noncontrolling interests represent (i) noncontrolling interests in consolidated entities and (ii) noncontrolling interests held by KKR Holdings.

Noncontrolling Interests in Consolidated Entities

Noncontrolling interests in consolidated entities represent the non-redeemable ownership interests in KKR that are held primarily by:

- (i) third party fund investors in KKR's funds;

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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- (ii) a former principal and such person's designees representing an aggregate of 1% of the carried interest received by the general partners of KKR's funds and 1% of KKR's other profits (losses) until a future date;
- (iii) certain of KKR's former principals and their designees representing a portion of the carried interest received by the general partners of KKR's private equity funds that was allocated to them with respect to private equity investments made during such former principals' previous tenure with KKR;
- (iv) certain of KKR's current and former principals representing all of the capital invested by or on behalf of the general partners of KKR's private equity funds prior to October 1, 2009 and any returns thereon; and
- (v) a third party in KKR's capital markets business (representing approximately 2% of the equity in the capital markets business).

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 financial benefits are not paid by KKR and are borne by KKR Holdings.

The following table presents the calculation of noncontrolling interests held by KKR Holdings:

Three Months Ended June 30,		Six Months Ended June 30,	
2013	2012	2013	2012

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Balance at the beginning of the period	\$	4,950,914	\$	4,560,614	\$	4,981,864	\$	4,342,157
Net income (loss) attributable to noncontrolling interests held by KKR Holdings (a)		28,106		292,833		362,218		697,024
Other comprehensive income (loss) (b)		(3,430)		(6,863)		(4,750)		(4,193)
Impact of the exchange of KKR Holdings units to KKR & Co. L.P. units (c)		(152,628)		(60,687)		(243,643)		(106,916)
Equity based compensation		54,382		79,489		108,614		177,566
Capital contributions		328		507		799		1,221
Capital distributions		(178,558)		(70,196)		(505,988)		(311,162)
Balance at the end of the period	\$	4,699,114	\$	4,795,697	\$	4,699,114	\$	4,795,697

(a) Refer to the table below for calculation of Net income (loss) attributable to noncontrolling interests held by KKR Holdings.

(b) Calculated on a pro rata basis based on the weighted average KKR Group Partnership Units held by KKR Holdings during the reporting period.

(c) Calculated based on the proportion of KKR Holdings units exchanged for KKR & Co. L.P. common units pursuant to the exchange agreement during the reporting period. The exchange agreement provides for the exchange of KKR Group Partnership Units held by KKR Holdings for KKR & Co. L.P. common units.

Net income (loss) attributable to KKR & Co. L.P. after allocation to noncontrolling interests held by KKR Holdings, 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, primarily because of the (i) contribution of certain expenses borne entirely by KKR Holdings, (ii) the periodic exchange of KKR Holdings units for KKR & Co. L.P. common units pursuant to the exchange agreement and (iii) the contribution of certain expenses borne entirely by KKR associated with the KKR & Co. L.P. 2010 Equity Plan (Equity Incentive Plan), equity allocations shown in the condensed consolidated statement of changes in equity differ from their respective pro-rata ownership interests in KKR's net assets.

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The following table presents Net income (loss) attributable to noncontrolling interests held by KKR Holdings:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income (loss)	\$ 277,258	\$ 1,505,143	\$ 2,375,444	\$ 4,477,118
Less: Net income (loss) attributable to Redeemable Noncontrolling Interests	(7,800)	3,285	16,823	8,557
Less: Net income (loss) attributable to Noncontrolling Interests in consolidated entities	241,818	1,062,764	1,787,830	3,434,840
Plus: Income taxes attributable to KKR Management Holdings Corp.	3,215	7,773	9,874	21,117
Net income (loss) attributable to KKR & Co. L.P. and KKR Holdings	\$ 46,455	\$ 446,867	\$ 580,665	\$ 1,054,838
Net income (loss) attributable to noncontrolling interests held by KKR Holdings	\$ 28,106	\$ 292,833	\$ 362,218	\$ 697,024

Investments

Investments consist primarily of private equity, real assets, fixed income, equity method and other investments. Investments are carried 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. 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 condensed consolidated statements of operations. Security and loan transactions are recorded on a trade date basis. Further disclosure on investments is presented in Note 4, Investments.

The following describes the types of securities held within each investment class.

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Private Equity Consists primarily of investments in companies with operating businesses.

Real Assets Consists primarily of investments in (i) oil and natural gas properties (natural resources), (ii) infrastructure assets, and (iii) residential and commercial real estate assets and businesses (real estate).

Fixed Income Consists primarily of investments in below investment grade corporate debt securities (primarily high yield bonds and syndicated bank loans), distressed and opportunistic debt and interests in collateralized loan obligations.

Equity Method Consists primarily of investments in unconsolidated investment funds and vehicles that are accounted for using the equity method of accounting. Under the equity method of accounting, KKR's share of earnings (losses) from equity method investments is reflected as a component of Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations. Because the underlying investments of unconsolidated investment funds and vehicles are reported at fair value, the carrying value of KKR's equity method investments approximates fair value.

Other Consists primarily of investments in common stock, preferred stock, warrants and options of companies that are not private equity, real assets or fixed income investments.

Fair Value Measurements

Investments and other financial instruments are measured and carried at fair value. The majority of investments and other financial instruments are held by the consolidated funds and vehicles. KKR's funds and vehicles are, for GAAP purposes, investment companies and reflect their investments and other financial instruments at fair value. KKR has retained the specialized accounting for the consolidated funds and vehicles in consolidation. Accordingly, the unrealized gains and losses resulting from changes in fair value of the investments held by KKR's funds and vehicles are reflected as a component of Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations.

For investments and other financial instruments that are not held in a consolidated fund or vehicle, KKR has elected the fair value option since these investments and other financial instruments are similar to those in the consolidated funds and vehicles. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. Unrealized gains and losses resulting from changes in fair value are reflected as a component of Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations. The methodology for measuring the fair value of such investments and other financial instruments is consistent with the methodologies applied to investments and other financial instruments that are held in consolidated funds and vehicles.

The carrying amounts of Other Assets, Accounts Payable, Accrued Expenses and Other Liabilities recognized on the statements of financial condition (excluding Fixed Assets, Goodwill, Intangible Assets, contingent consideration and certain debt obligations) approximate fair value due to their short term maturities. Further information on Fixed Assets is presented in Note 7, Other Assets and Accounts Payable,

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Accrued Expenses and Other Liabilities . Further information on Goodwill and Intangible Assets is presented in Note 14 . Goodwill and Intangible Assets. Further information on contingent consideration is presented in Note 13 . Acquisitions. KKR 's debt obligations, except for KKR 's 2020 and 2043 Senior Notes, bear interest at floating rates and therefore fair value approximates carrying value. Further information on KKR 's 2020 and 2043 Senior Notes are presented in Note 8, . Debt Obligations. The fair value for KKR 's 2020 and 2043 Senior Notes were derived using Level II inputs similar to those utilized in valuing fixed income investments.

Fair value is the price 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. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation techniques are applied. These valuation techniques involve varying levels of management estimation and judgment, the degree of which is dependent on a variety of factors. See Note 5, . Fair Value Measurements . for further information on KKR 's valuation techniques that involve unobservable inputs. Assets and liabilities recorded at fair value in the statements of financial condition are categorized based upon the level of judgment associated with the inputs used to measure their value. Hierarchical levels, as defined under GAAP, are directly related to the amount of subjectivity associated with the inputs to the valuation of these assets and liabilities. The hierarchical levels defined under GAAP are as follows:

Level I

Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. The type of investments and other financial instruments included in this category are publicly-listed equities and debt and securities sold short.

Level II

Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level II inputs include quoted prices for similar instruments in active markets, and inputs other than quoted prices that are observable for the asset or liability. The type of investments and other financial instruments included in this category are fixed income investments, convertible debt securities indexed to publicly-listed securities, and certain over-the-counter derivatives.

Level III

Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The types of assets and liabilities generally included in this category are private portfolio companies, real assets investments and fixed income investments for which a sufficiently liquid trading market does not exist.

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

A significant decrease in the volume and level of activity for the asset or liability is an indication that transactions or quoted prices may not be representative of fair value because in such market conditions there may be increased instances of transactions that are not orderly. In those circumstances, further analysis of transactions or quoted prices is needed, and a significant adjustment to the transactions or quoted prices may be necessary to estimate fair value.

The availability of observable inputs can vary depending on the financial asset or liability and is affected by a wide variety of factors, including, for example, the type of instrument, whether the instrument has recently been issued, whether the instrument is traded on an active exchange or in the secondary market, and current market conditions. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by KKR in determining fair value is greatest for instruments categorized in Level III. The variability and availability of the observable inputs affected by the factors described above may cause transfers between Levels I, II, and III, which KKR recognizes at the beginning of the reporting period.

Investments and other financial instruments 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. 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 Valuation Methodologies

Financial assets and liabilities categorized as Level II consist primarily of securities indexed to publicly-listed securities and fixed income and other investments. Fixed income investments generally have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that KKR and others are willing to pay for an asset. Ask prices represent the lowest price that KKR and others are willing to accept for an asset. For financial assets and liabilities whose inputs are based on bid-ask prices obtained from third party pricing services, fair value may not always be a predetermined point in the bid-ask range. KKR's policy is generally to allow for mid-market pricing and adjusting

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to the point within the bid-ask range that meets KKR's best estimate of fair value. For securities indexed to publicly listed securities, such as convertible debt, the securities are typically valued using standard convertible security pricing models. The key inputs into these models that require some amount of judgment are the credit spreads utilized and the volatility assumed. To the extent the company being valued has other outstanding debt securities that are publicly-traded, the implied credit spread on the company's other outstanding debt securities would be utilized in the valuation. To the extent the company being valued does not have other outstanding debt securities that are publicly-traded, the credit spread will be estimated based on the implied credit spreads observed in comparable publicly-traded debt securities. In certain cases, an additional spread will be added to reflect an illiquidity discount due to the fact that the security being valued is not publicly-traded. The volatility assumption is based upon the historically observed volatility of the underlying equity security into which the convertible debt security is convertible and/or the volatility implied by the prices of options on the underlying equity security.

Level III Valuation Methodologies

Financial assets and liabilities categorized as Level III consist primarily of the following:

Private Equity Investments: KKR generally employs two valuation methodologies when determining the fair value of a private equity investment. The first methodology is typically a market comparables analysis that considers key financial inputs and recent public and private transactions and other available measures. The second methodology utilized is typically a discounted cash flow analysis, which incorporates significant assumptions and judgments. Estimates of key inputs used in this methodology include the weighted average cost of capital for the investment and assumed inputs used to calculate terminal values, such as exit EBITDA multiples. Other inputs are also used.

Upon completion of the valuations conducted using these methodologies, a weighting is ascribed to each method, and an illiquidity discount is typically applied where appropriate. The ultimate fair value recorded for a particular investment will generally be within a range suggested by the two methodologies.

When determining the weighting ascribed to each valuation methodology, KKR considers, among other factors, the availability of direct market comparables, the applicability of a discounted cash flow analysis and the expected hold period and manner of realization for the investment. These factors can result in different weightings among investments in the portfolio and in certain instances may result in up to a 100% weighting to a single methodology. Across the Level III private equity investment portfolio, approximately 90% of the fair value is derived from investments that are valued based exactly 50% on market comparables and 50% on a discounted cash flow analysis. Less than 5% of the fair value of the Level III private equity investment portfolio is derived from investments that are valued either based 100% on market comparables or 100% on a discounted cash flow analysis.

When determining the illiquidity discount to be applied, KKR takes a uniform approach across its portfolio and generally applies a minimum 5% discount to all private equity investments. KKR then evaluates such private equity investments to determine if factors exist that could make it more challenging to monetize the investment and, therefore, justify applying a higher illiquidity discount. These factors generally include (i) whether KKR is unable to sell the portfolio company or conduct an initial public offering of the portfolio company due to the consent rights of a third party or similar factors, (ii) whether the portfolio company is undergoing significant restructuring activity or similar factors and (iii) characteristics about the portfolio company regarding its size and/or whether the portfolio company is experiencing, or expected to experience, a significant decline in earnings. These factors generally make it less likely that a portfolio company would be sold or publicly offered in the near term at a price indicated by using just a market multiples and/or discounted cash flow analysis, and these factors tend to reduce the number of opportunities to sell an investment and/or increase the time horizon over which an investment may be monetized. Depending on the applicability of these factors, KKR determines the amount of any incremental illiquidity discount to be applied above the 5% minimum, and during the time we hold the investment, the illiquidity discount may be increased or decreased, from time to time, based on changes to these factors. The amount of illiquidity discount applied at any time requires considerable judgment about what a market participant would consider and is based on the facts and circumstances of each individual investment. Accordingly, the illiquidity discount ultimately considered by a market participant upon the realization of any investment may be higher or lower than that estimated by KKR in its valuations.

Real Assets Investments: For natural resources and infrastructure investments, KKR generally utilizes a discounted cash flow analysis, which incorporates significant assumptions and judgments. Estimates of key inputs used in this methodology include the weighted average cost of capital for the investment and assumed inputs used to calculate terminal values, such as exit EBITDA multiples. For real estate investments, KKR generally utilizes a combination of direct income capitalization and discounted cash flow analysis, which incorporates significant assumptions and judgments. Estimates of key inputs used in these methodologies include an unlevered discount rate and terminal capitalization rate. The valuations of real assets investments also use other inputs. Certain investments in real estate and natural resources generally do not include a minimum illiquidity discount.

Fixed Income Investments: Fixed income investments are valued using values obtained from dealers or market makers, and where these values are not available, fixed income investments are valued by KKR using internally developed valuation models. Valuation models are based on discounted cash flow analyses, for which the key inputs are determined based on market comparables, which incorporate similar instruments from similar issuers.

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Other Investments: KKR generally employs the same valuation methodologies as described above for private equity investments when valuing these other investments.

Key unobservable inputs that have a significant impact on KKR's Level III investment valuations as described above are included in Note 5 Fair Value Measurements. KKR utilizes several unobservable pricing inputs and assumptions in determining the fair value of its Level III investments. These unobservable pricing inputs and assumptions may differ by investment and in the application of KKR's valuation methodologies. KKR's reported fair value estimates could vary materially if KKR had chosen to incorporate different unobservable pricing inputs and other assumptions or, for applicable investments, if KKR only used either the discounted cash flow methodology or the market comparables methodology instead of assigning a weighting to both methodologies.

Level III Valuation Process

The valuation process involved for Level III measurements for private equity, real assets, fixed income, and other investments is completed on a quarterly basis and is designed to subject the valuation of Level III investments to an appropriate level of consistency, oversight, and review. KKR has a Private Markets valuation committee for private equity and real assets investments and a valuation committee for fixed income and other investments. The Private Markets valuation committee may be assisted by subcommittees for example in the valuation of real estate investments. Each of the Private Markets valuation committee and the fixed income valuation committee is assisted by a valuation team, which, except as noted below, is comprised only of employees who are not investment professionals responsible for preparing preliminary valuations or for oversight of any of the investments being valued. The valuation teams for natural resources, infrastructure and real estate investments contain investment professionals who participate in the preparation of preliminary valuations and oversight for those investments. The valuation committees and teams are responsible for coordinating and consistently implementing KKR's quarterly valuation policies, guidelines and processes. For investments classified as Level III, investment professionals prepare preliminary valuations based on their evaluation of financial and operating data, company specific developments, market valuations of comparable companies and other factors. These preliminary valuations are reviewed with the investment professionals by the applicable valuation team and are also reviewed by an independent valuation firm engaged by KKR to perform certain procedures in order to assess the reasonableness of KKR's valuations for all Level III investments, except for certain investments other than KKR private equity investments. All preliminary valuations are then reviewed by the applicable valuation committee, and after reflecting any input by their respective valuation committees, the preliminary valuations are presented to a single committee consisting of Senior Principals involved in various aspects of the KKR business. When these valuations are approved by this single committee after reflecting any input from it, the valuations of Level III investments, as well as the valuations of Level I and Level II investments, are presented to the audit committee of KKR's board of directors and are then reported on to the board of directors.

Derivatives

Derivative contracts include forward, swap and option contracts related to foreign currencies and credit standing of reference entities to manage foreign exchange risk and credit risk arising from certain assets and liabilities. All derivatives are recognized in Other Assets or Accounts Payable, Accrued Expenses and Other Liabilities and are presented gross 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 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.

Fees

Fees consist primarily of (i) monitoring and consulting 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 and other vehicles, and separately managed accounts, and (iii) transaction fees earned in connection with successful investment transactions and from capital markets activities. These fees are based on the contractual terms of the governing agreements and are recognized when earned, which coincides with the period during which the related services are performed.

For the three and six months ended June 30, 2013 and 2012, fees consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Transaction Fees	\$ 58,295	\$ 43,460	\$ 96,720	\$ 87,122
Monitoring & Consulting Fees	49,067	44,277	102,028	87,047
Management Fees	43,591	20,566	84,615	40,771
Incentive Fees	15,423	4,057	34,253	13,727
Total Fees	\$ 166,376	\$ 112,360	\$ 317,616	\$ 228,667

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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Substantially all fees presented in the table above are earned from affiliates.

Recently Issued Accounting Pronouncements

Disclosures About Offsetting Assets and Liabilities

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2011-11, Disclosures about Offsetting Assets and Liabilities (ASU 2011-11), which requires entities to disclose information about offsetting and related arrangements of financial instruments and derivative instruments. In February 2013, the FASB issued ASU 2013-01, which clarifies which instruments and transactions are subject to the offsetting disclosure requirements established by ASU 2011-11. ASU 2011-11 was effective for KKR 's fiscal year beginning January 1, 2013 and was applied retrospectively. The adoption of this guidance did not have a material impact on KKR 's financial statements.

Disclosures About Reclassification Adjustments Out of Accumulated Other Comprehensive Income

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (AOCI), which requires entities to disclose additional information about reclassification adjustments, including: (i) changes in AOCI balances by component and (ii) significant items reclassified out of AOCI. ASU 2013-02 was effective for KKR 's fiscal year beginning January 1, 2013. The adoption of this guidance, which is related to disclosure only, did not have a material impact on KKR 's financial statements. With respect to KKR, AOCI is comprised of only one component, foreign currency translation adjustments and for the three and six months ended June 30, 2013 and 2012, there were no items reclassified out of AOCI. See KKR 's condensed consolidated statements of comprehensive income and changes in equity.

Foreign Currency Matters

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In March 2013, the FASB issued ASU 2013-05, Foreign Currency Matters, which indicates that the entire amount of a cumulative translation adjustment (CTA) related to an entity's investment in a foreign entity should be released when there has been a (i) sale of a subsidiary or group of net assets within a foreign entity and the sale represents the substantially complete liquidation of the investment in the foreign entity, (ii) loss of a controlling financial interest in an investment in a foreign entity, or (iii) step acquisition for a foreign entity. This guidance is effective for KKR's fiscal year beginning January 1, 2014, and is to be applied prospectively. The adoption of this guidance is not expected to have a material impact on KKR's financial statements.

Amendments to Investment Company Scope, Measurement, and Disclosures

In June 2013, the FASB issued ASU 2013-08, Financial Services—Investment Companies Topic 946 (ASU 2013-08) which amends the scope, measurement, and disclosure requirements for investment companies. ASU 2013-08 (i) amends the criteria for an entity to qualify as an investment company, (ii) requires an investment company to measure noncontrolling ownership interests in other investment companies at fair value rather than using the equity method of accounting, and (iii) introduces new disclosures. This guidance is effective for KKR's fiscal year beginning January 1, 2014. Earlier application is prohibited. The adoption of this guidance is not expected to have a material impact on KKR's financial results and consolidated financial statements.

Table of Contents**KKR & CO. L.P.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

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

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, including those for which the fair value option has been elected. 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 or financial instrument, 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 for the three and six months ended June 30, 2013 and 2012, respectively:

	Three Months Ended June 30, 2013		Three Months Ended June 30, 2012		Six Months Ended June 30, 2013		Six Months Ended June 30, 2012	
	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)	\$ 595,200	\$ (502,234)	\$ 1,333,443	\$ 165,854	\$ 1,487,127	\$ 513,566	\$ 1,861,419	\$ 2,720,523
Fixed Income and Other (a)	46,959	(71,307)	6,473	(88,031)	139,591	(52,263)	57,086	45,543
Real Assets (a)	14,855	50,822	54,419	(46,983)	14,855	86,557	54,419	(145,257)
Equity Method (a)	20,597	(7,870)	34,411	42,503	25,516	14,740	34,411	67,248
Foreign Exchange Forward Contracts (b)	9,193	(48,122)	1,325	111,060	24,936	158,749	16,155	44,620
Foreign Currency Options (b)		6,228		(1,294)		11,834	(10,740)	6,536
Securities Sold Short (b)	(18,535)	12,897	21,385	8,771	(41,807)	2,126	(5,444)	(3,610)
Other Derivatives	(4,881)	(388)	4,102	(2,015)	(18,398)	3,678	1,039	(2,216)
Contingent Carried Interest Repayment Guarantee (c)				(47,250)				(55,937)
Foreign Exchange Gains (Losses) on Debt Obligations	(900)	(1,290)		3,983	(900)	2,397	233	3,110
Foreign Exchange Gains (Losses) on Cash and Cash Equivalents held at Consolidated Entities	273	53	(418)	(50)	273	249	(418)	(167)

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Foreign Exchange
Gains (Losses) on
Cash and Cash
Equivalents

(3,514)

501

(5,700)

1,228

**Total Net Gains
(Losses) from**

Investment Activities	\$	659,247	\$	(560,710)	\$	1,455,140	\$	146,548	\$	1,625,493	\$	742,861	\$	2,008,160	\$	2,680,393
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(a) See Note 4 Investments.

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

(c) See Note 15 Commitments and Contingencies.

4. INVESTMENTS

Investments consist of the following:

	Fair Value		Cost	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Private Equity	\$ 33,032,610	\$ 34,114,623	\$ 26,746,434	\$ 28,336,315
Fixed Income	4,397,697	3,396,067	4,320,529	3,266,846
Real Assets	2,198,427	1,775,683	4,199,709	3,861,792
Equity Method	424,652	200,831	229,897	20,847
Other	1,089,151	1,210,644	1,035,208	1,161,569
Total Investments	\$ 41,142,537	\$ 40,697,848	\$ 36,531,777	\$ 36,647,369

As of June 30, 2013, investments which represented greater than 5% of total investments consisted of Alliance Boots GmbH of \$3.8 billion. As of December 31, 2012, investments which represented greater than 5% of the total investments consisted of Alliance Boots GmbH of \$3.5 billion and HCA, Inc. of \$2.1 billion. In addition, as of June 30, 2013 and December 31, 2012, investments totaling \$2.2 billion and \$2.1 billion, respectively, were pledged as direct collateral against various financing arrangements. See Note 8 Debt Obligations.

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The following table represents private equity investments by industry as of June 30, 2013 and December 31, 2012, respectively:

		Fair Value	
		June 30, 2013	December 31, 2012
Health Care	\$	7,525,389	\$ 7,708,080
Retail		4,506,621	4,970,092
Technology		4,485,462	4,566,236
Manufacturing		3,681,576	3,240,474
Other		12,833,562	13,629,741
Total	\$	33,032,610	\$ 34,114,623

In the table above, other investments represents private equity investments in the following industries: Education, Financial Services, Forestry, Consumer Products, Media, Services, Telecommunications, Transportation and Recycling. None of these industries represents more than 10% of total private equity investments as of June 30, 2013.

The majority of the securities underlying private equity investments represent equity securities. As of June 30, 2013 and December 31, 2012, the fair value of investments that were other than equity securities amounted to \$537.3 million and \$364.5 million, respectively.

Equity Method

Equity method investments include certain investments in private equity and real assets funds, funds of hedge funds, and alternative credit funds, which are not consolidated, but in which KKR is deemed to exert significant influence for accounting purposes. See Note 3 Net Gains (Losses) from Investment Activities for the net changes in fair value associated with these investments.

KKR evaluates each of its equity method investments to determine if any were significant as defined by guidance from the United States SEC. As of and for the three and six months ended June 30, 2013 and 2012, KKR's equity method investments did not meet the significance criteria

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either on an individual or group basis. As such, presentation of separate financial statements for any of its equity method investments or summarized financial information on an individual or group basis is not required.

Table of Contents**KKR & CO. L.P.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

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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 June 30, 2013 and December 31, 2012 including those investments and other financial instruments for which the fair value option has been elected. Equity Method Investments have been excluded from the tables below.

Assets, at fair value:

June 30, 2013				
	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Total
Private Equity	\$ 6,502,686	\$ 537,302	\$ 25,992,622	\$ 33,032,610
Fixed Income		2,981,681	1,416,016	4,397,697
Real Assets			2,198,427	2,198,427
Other	674,946	229,992	184,213	1,089,151
Total	7,177,632	3,748,975	29,791,278	40,717,885
Foreign Exchange Forward Contracts		153,831		153,831
Foreign Currency Options		15,965		15,965
Other Derivatives	35	2,645		2,680
Total Assets	\$ 7,177,667	\$ 3,921,416	\$ 29,791,278	\$ 40,890,361

December 31, 2012				
	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Total
Private Equity	\$ 8,015,680	\$ 364,543	\$ 25,734,400	\$ 34,114,623
Fixed Income		1,809,021	1,587,046	3,396,067
Real Assets			1,775,683	1,775,683

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Other	648,108	323,306	239,230	1,210,644
Total	8,663,788	2,496,870	29,336,359	40,497,017
Foreign Exchange				
Forward Contracts		137,786		137,786
Foreign Currency				
Options		4,992		4,992
Other Derivatives		882		882
Total Assets	\$ 8,663,788	\$ 2,640,530	\$ 29,336,359	\$ 40,640,677

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Liabilities, at fair value:

	June 30, 2013			
	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Total
Securities Sold Short	\$ 481,232	\$ 40,523	\$	\$ 521,755
Foreign Currency Options		2,501		2,501
Foreign Exchange Forward Contracts		86,610		86,610
Unfunded Revolver Commitments		2,657		2,657
Other Derivatives		2,041		2,041
Total Liabilities	\$ 481,232	\$ 134,332	\$	\$ 615,564

	December 31, 2012			
	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Total
Securities Sold Short	\$ 321,977	\$ 28,376	\$	\$ 350,353
Foreign Currency Options		3,362		3,362
Foreign Exchange Forward Contracts		229,314		229,314
Unfunded Revolver Commitments		2,568		2,568
Other Derivatives		3,751		3,751
Total Liabilities	\$ 321,977	\$ 267,371	\$	\$ 589,348

The following tables summarize changes in private equity, fixed income, real assets 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 six months ended June 30, 2013 and 2012, respectively:

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

	Three Months Ended June 30, 2013					
	Private Equity	Fixed Income	Real Assets	Other	Total Level III Investments	
Balance, Beginning of Period	\$ 26,673,255	\$ 1,443,494	\$ 1,995,970	\$ 228,632	\$ 30,341,351	
Transfers In (1)						
Transfers Out (2)	(915,612)	(156,502)			(1,072,114)	
Purchases	939,207	319,504	192,980	3,825	1,455,516	
Sales	(1,026,753)	(214,017)	(56,275)	(37,615)	(1,334,660)	
Settlements		15,096			15,096	
Net Realized Gains (Losses)	633,589	(10,292)	14,930	(4,590)	633,637	
Net Unrealized Gains (Losses)	(311,064)	18,733	50,822	(6,039)	(247,548)	
Balance, End of Period	\$ 25,992,622	\$ 1,416,016	\$ 2,198,427	\$ 184,213	\$ 29,791,278	

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	\$ 246,829	\$ 18,094	\$ 86,188	\$ (6,039)	\$ 345,072	
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	Three Months Ended June 30, 2012					
	Private Equity	Fixed Income	Real Assets	Other	Total Level III Investments	
Balance, Beginning of Period	\$ 22,325,516	\$ 1,156,349	\$ 1,433,209	\$ 122,461	\$ 25,037,535	
Transfers In (1)						
Transfers Out (2)				(613)	(613)	
Purchases	208,605	52,393	175,435	10,227	446,660	
Sales	(225,037)	(48,131)	(54,419)	(2,661)	(330,248)	
Settlements		12,060			12,060	
Net Realized Gains (Losses)	91,860	1,009	54,419	1,179	148,467	
Net Unrealized Gains (Losses)	1,282,137	(37,221)	(46,983)	9,426	1,207,359	
Balance, End of Period	\$ 23,683,081	\$ 1,136,459	\$ 1,561,661	\$ 140,019	\$ 26,521,220	

Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities (including foreign exchange gains and losses attributable to foreign-denominated	\$ 1,376,598	\$ (36,456)	\$ (5,867)	\$ 9,642	\$ 1,343,917	
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investments) related to Investments still
held at Reporting Date

(1) There were no Transfers In for the three months ended June 30, 2013 and 2012.

(2) The Transfers Out noted in the tables above for private equity investments are attributable to a portfolio company that completed an initial public offering during the period. The Transfers Out noted above for fixed income and other investments are principally attributable to certain investments that experienced a higher level of market activity during the period and thus were valued using observable inputs.

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

	Six Months Ended June 30, 2013				
	Private Equity	Fixed Income	Real Assets	Other	Total Level III Investments
Balance, Beginning of Period	\$ 25,734,400	\$ 1,587,046	\$ 1,775,683	\$ 239,230	\$ 29,336,359
Transfers In (1)		8,936			8,936
Transfers Out (2)	(915,612)	(234,729)		(19,264)	(1,169,605)
Purchases	1,274,318	451,322	377,457	10,652	2,113,749
Sales	(1,026,753)	(417,749)	(56,275)	(54,666)	(1,555,443)
Settlements		43,041			43,041
Net Realized Gains (Losses)	633,589	(4,923)	14,930	2,354	645,950
Net Unrealized Gains (Losses)	292,680	(16,928)	86,632	5,907	368,291
Balance, End of Period	\$ 25,992,622	\$ 1,416,016	\$ 2,198,427	\$ 184,213	\$ 29,791,278
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	\$ 850,573	\$ (8,567)	\$ 121,998	\$ 5,907	\$ 969,911

	Six Months Ended June 30, 2012				
	Private Equity	Fixed Income	Real Assets	Other	Total Level III Investments
Balance, Beginning of Period	\$ 20,384,253	\$ 1,016,759	\$ 1,526,732	\$ 96,179	\$ 23,023,923
Transfers In (1)		311		1,061	1,372
Transfers Out (2)		(12,627)		(613)	(13,240)
Purchases	615,209	218,863	180,187	16,226	1,030,485
Sales	(247,502)	(82,491)	(54,419)	(2,661)	(387,073)
Settlements		1,408			1,408
Net Realized Gains (Losses)	114,325	8,251	54,419	1,179	178,174
Net Unrealized Gains (Losses)	2,816,796	(14,015)	(145,258)	28,648	2,686,171
Balance, End of Period	\$ 23,683,081	\$ 1,136,459	\$ 1,561,661	\$ 140,019	\$ 26,521,220
Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities (including foreign exchange gains and losses attributable to foreign-denominated	\$ 2,933,722	\$ (10,083)	\$ (104,142)	\$ 28,864	\$ 2,848,361

investments) related to Investments still
held at Reporting Date

(1) The Transfers In noted in the tables above for fixed income and other investments 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.

(2) The Transfers Out noted in the tables above for private equity investments are attributable to a portfolio company that completed an initial public offering during the period. The Transfers Out noted above for fixed income and other investments are principally attributable to certain investments that experienced a higher level of market activity during the period and thus were valued using observable inputs.

Total realized and unrealized gains and losses recorded for Level III investments are reported in Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations.

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The following table presents additional information about valuation methodologies and inputs used for investments that are measured at fair value and categorized within Level III as of June 30, 2013:

	Fair Value June 30, 2013	Valuation Methodologies	Unobservable Input(s) (1)	Weighted Average (2)	Range	Impact to Valuation from an Increase in Input (3)
Private Equity Investments	\$ 25,992,622					
Health Care						
	\$ 5,480,621	Inputs to both market comparable and discounted cash flow	Illiquidity Discount	7%	5% - 15%	Decrease
			Weight Ascribed to Market Comparables	50%	50% - 50%	(4)
			Weight Ascribed to Discounted Cash Flow	50%	50% - 50%	(5)
		Market comparables	Enterprise Value/LTM EBITDA Multiple	10x	8x - 11x	Increase
			Enterprise Value/Forward EBITDA Multiple	10x	8x - 11x	Increase
		Discounted cash flow	Weighted Average Cost of Capital	9%	8% - 12%	Decrease
			Enterprise Value/LTM EBITDA Exit Multiple	11x	9x - 12x	Increase
Retail						
	\$ 4,012,124	Inputs to both market comparable and discounted cash flow	Illiquidity Discount	8%	5% - 20%	Decrease
			Weight Ascribed to Market Comparables	50%	0% - 50%	(4)
			Weight Ascribed to Discounted Cash Flow	50%	50% - 100%	(5)
		Market comparables	Enterprise Value/LTM EBITDA Multiple	10x	7x - 12x (6)	Increase
			Enterprise Value/Forward EBITDA Multiple	9x	7x - 10x (6)	Increase
		Discounted cash flow	Weighted Average Cost of Capital	11%	8% - 25%	Decrease
			Enterprise Value/LTM EBITDA Exit Multiple	7x	6x - 8x	Increase

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Technology	\$	3,324,567	Inputs to both market comparable and discounted cash flow	Illiquidity Discount	10%	5% - 15%	Decrease
				Weight Ascribed to Market Comparables	50%	50% - 50%	(4)
				Weight Ascribed to Discounted Cash Flow	50%	50% - 50%	(5)
			Market comparables	Enterprise Value/LTM EBITDA Multiple	10x	7x - 12x	Increase
				Enterprise Value/Forward EBITDA Multiple	9x	4x - 12x	Increase
			Discounted cash flow	Weighted Average Cost of Capital	11%	7% - 14%	Decrease
				Enterprise Value/LTM EBITDA Exit Multiple	9x	6x - 10x	Increase
Consumer Products	\$	3,210,159	Inputs to both market comparable and discounted cash flow	Illiquidity Discount	11%	10% - 15%	Decrease
				Weight Ascribed to Market Comparables	50%	50% - 50%	(4)
				Weight Ascribed to Discounted Cash Flow	50%	50% - 50%	(5)
			Market comparables	Enterprise Value/LTM EBITDA Multiple	11x	8x - 17x	Increase
				Enterprise Value/Forward EBITDA Multiple	10x	7x - 14x	Increase
			Discounted cash flow	Weighted Average Cost of Capital	10%	8% - 20%	Decrease
				Enterprise Value/LTM EBITDA Exit Multiple	10x	6x - 11x	Increase
Manufacturing	\$	2,777,040	Inputs to both market comparable and discounted cash flow	Illiquidity Discount	10%	10% - 15%	Decrease
				Weight Ascribed to Market Comparables	45%	33% - 67%	(4)
				Weight Ascribed to Discounted Cash Flow	55%	33% - 67%	(5)
			Market comparables	Enterprise Value/LTM EBITDA Multiple	11x	8x - 13x	Increase
				Enterprise Value/Forward EBITDA Multiple	10x	7x - 12x	Increase
			Discounted cash flow	Weighted Average Cost of Capital	13%	10% - 19%	Decrease
				Enterprise Value/LTM EBITDA Exit Multiple	9x	6x - 11x	Increase
Other	\$	7,188,111	Inputs to both market comparable and discounted cash flow	Illiquidity Discount	10%	5% - 20%	Decrease
				Weight Ascribed to Market Comparables	50%	0% - 100%	(4)
				Weight Ascribed to Discounted Cash Flow	50%	0% - 100%	(5)
			Market comparables	Enterprise Value/LTM EBITDA Multiple	11x	6x - 16x	Increase
				Enterprise Value/Forward EBITDA Multiple	10x	6x - 14x	Increase
				Control Premium	2%	0% - 20% (7)	Increase
			Discounted cash flow	Weighted Average Cost of Capital	11%	9% - 20%	Decrease
				Enterprise Value/LTM EBITDA Exit Multiple	10x	5x - 12x	Increase

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Real Assets	\$	2,198,427				
<i>Natural Resources/Infrastructure</i>	\$	1,819,640	Discounted cash flow	Weighted Average Cost of Capital	11%	6% - 21%
				Enterprise Value/LTM EBITDA Exit Multiple	8x	7x - 11x
<i>Real Estate</i>	\$	378,787	Inputs to direct income capitalization and discounted cash flow	Weight Ascribed to Direct Income Capitalization	17%	0% - 50%
				Weight Ascribed to Discounted Cash Flow	83%	50% - 100%
			Direct Income Capitalization	Current Capitalization Rate	7%	7% - 8%
			Discounted cash flow	Unlevered Discount Rate	13%	9% - 23%
Fixed Income Investments	\$	1,416,016(8)	Yield Analysis	Discount Margin	1082 bps	500 - 2000 bps
				Yield	12%	4% - 20%
				Net Leverage	5x	1x - 11x
				Illiquidity Discount	3%	1% - 15%

In the table above, other investments, within private equity investments, represents the following industries: Education, Financial Services, Forestry, Media, Services, Telecommunications, Transportation and Recycling. None of these industries represents more than 10% of total Level III private equity investments as of June 30, 2013.

(1) In determining certain of these inputs, management evaluates a variety of factors including economic conditions, industry and market developments, market valuations of comparable companies and company specific developments including exit strategies and realization opportunities. Management has determined that market participants would take these inputs into account when valuing the investments. LTM means Last Twelve Months and EBITDA means Earnings Before Interest Taxes Depreciation and Amortization.

(2) Inputs were weighted based on the fair value of the investments included in the range.

(3) Unless otherwise noted, this column represents the directional change in the fair value of the Level III investments that would result from an increase to the corresponding unobservable input. A decrease to the unobservable input would

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have the opposite effect. Significant increases and decreases in these inputs in isolation could result in significantly higher or lower fair value measurements.

(4) The directional change from an increase in the weight ascribed to the market comparables approach would increase the fair value of the Level III investments if the market comparables approach results in a higher valuation than the discounted cash flow approach. The opposite would be true if the market comparables approach results in a lower valuation than the discounted cash flow approach.

(5) The directional change from an increase in the weight ascribed to the discounted cash flow approach would increase the fair value of the Level III investments if the discounted cash flow approach results in a higher valuation than the market comparables approach. The opposite would be true if the discounted cash flow approach results in a lower valuation than the market comparables approach.

(6) Ranges shown exclude inputs relating to a single portfolio company that was determined to lack comparability with other investments in KKR's private equity portfolio. This portfolio company had a fair value representing less than 0.5% of the total fair value of Private Equity Investments and had an Enterprise Value/LTM EBITDA Multiple and Enterprise Value/Forward EBITDA Multiple of 24x and 19x, respectively. The exclusion of this investment does not impact the weighted average.

(7) Level III private equity investments whose valuations include a control premium represent less than 3% of total Level III private equity investments. The valuations for the remaining investments do not include a control premium.

(8) Amounts include \$130.7 million of investments that were valued using dealer quotes or third party valuation firms.

(9) The directional change from an increase in the weight ascribed to the direct income capitalization approach would increase the fair value of the Level III investments if the direct income capitalization approach results in a higher valuation than the discounted cash flow approach. The opposite would be true if the direct income capitalization approach results in a lower valuation than the discounted cash flow approach.

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The table above excludes Other Investments in the amount of \$184.2 million comprised primarily of privately-held equity and equity-like securities (e.g. warrants) in companies that are neither private equity, real assets nor fixed income investments. These investments were valued using Level III valuation methodologies that are generally the same as those shown for private equity investments.

The various unobservable inputs used to determine the Level III valuations may have similar or diverging impacts on valuation. Significant increases and decreases in these inputs in isolation and interrelationships between those inputs could result in significantly higher or lower fair value measurements as noted in the table above.

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

6. NET INCOME (LOSS) ATTRIBUTABLE TO KKR & CO. L.P. PER COMMON UNIT

For the three and six months ended June 30, 2013 and 2012, basic and diluted Net Income (Loss) attributable to KKR & Co. L.P. per common unit were calculated as follows:

	Three Months Ended June 30, 2013		Three Months Ended June 30, 2012		Six Months Ended June 30, 2013		Six Months Ended June 30, 2012	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net Income (Loss) Attributable to KKR & Co. L.P.	\$ 15,134	\$ 15,134	\$ 146,261	\$ 146,261	\$ 208,573	\$ 208,573	\$ 336,697	\$ 336,697
Net Income (Loss) Attributable to KKR & Co. L.P. Per Common Unit	\$ 0.06	\$ 0.05	\$ 0.62	\$ 0.58	\$ 0.79	\$ 0.72	\$ 1.45	\$ 1.37
Weighted-Average Common Units Outstanding	271,983,811	298,078,764	235,781,983	252,507,802	264,555,267	290,104,942	232,440,659	245,169,954

For the three and six months ended June 30, 2013 and 2012, KKR Holdings units have been excluded from the calculation of diluted Net Income (Loss) attributable to KKR & Co. L.P. per common unit since 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.

Diluted Net Income (Loss) attributable to KKR & Co. L.P. per common unit includes unvested equity awards that have been granted under the Equity Incentive Plan since these equity awards dilute KKR and KKR Holdings pro rata in accordance with their respective ownership interests in the KKR Group Partnerships.

Table of Contents**KKR & CO. L.P.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

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

7. OTHER ASSETS AND ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

Other assets consist of the following:

	June 30, 2013	December 31, 2012
Due from Broker (a)	\$ 428,726	\$ 189,202
Interest and Notes Receivable (b)	407,824	469,456
Unsettled Investment Sales (c)	215,733	90,666
Intangible Assets, net (d)	187,514	197,484
Deferred Tax Assets, net	163,395	105,654
Foreign Exchange Forward Contracts (e)	153,831	137,786
Goodwill (f)	89,000	89,000
Fixed Assets, net (g)	78,027	79,570
Receivables	31,924	267,126
Deferred Financing Costs	24,263	20,918
Prepaid Taxes	20,915	706
Deferred Transaction Costs	16,865	14,633
Foreign Currency Options (h)	15,965	4,992
Prepaid Expenses	13,171	11,373
Refundable Security Deposits	7,022	7,428
Other	21,765	15,061
	\$ 1,875,940	\$ 1,701,055

(a) Represents amounts held at clearing brokers resulting from securities transactions.

(b) Represents interest receivable and promissory notes due from third parties. The promissory notes bear interest at rates ranging from 1.5% - 3.0% per annum and mature between 2015 and 2016.

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

(d) Net of accumulated amortization of \$31,372 and \$21,402 as of June 30, 2013 and December 31, 2012, respectively. Amortization expense totaled \$4,985 and \$947 for the three months ended June 30, 2013 and 2012, respectively, and \$9,970 and \$1,894 for the six months ended June 30, 2013 and 2012, respectively.

(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.

(f) See Note 14 Goodwill and Intangible Assets.

(g) Net of accumulated depreciation and amortization of \$99,380 and \$92,467 as of June 30, 2013 and December 31, 2012, respectively. Depreciation and amortization expense totaled \$3,726 and \$3,258 for the three months ended June 30, 2013 and 2012, respectively, and \$7,423 and \$5,830 for the six months ended June 30, 2013 and 2012, respectively.

(h) 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 bases for these instruments at June 30, 2013 and December 31, 2012 was \$2,332.

Table of Contents**KKR & CO. L.P.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

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

7. OTHER ASSETS AND ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES (Continued)

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

	June 30, 2013	December 31, 2012
Amounts Payable to Carry Pool (a)	\$ 814,669	\$ 776,750
Securities Sold Short (b)	521,755	350,353
Unsettled Investment Purchases (c)	289,272	172,583
Accounts Payable and Accrued Expenses	122,595	97,389
Accrued Compensation and Benefits	94,385	17,265
Contingent Consideration Obligation (d)	86,900	71,300
Foreign Exchange Forward Contracts (e)	86,610	229,314
Due to Broker (f)	27,937	49,204
Deferred Rent and Income	25,237	19,228
Interest Payable	22,511	11,746
Taxes Payable	2,984	9,250
Foreign Currency Options (g)	2,501	3,362
Other Liabilities	6,908	16,911
	\$ 2,104,264	\$ 1,824,655

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

(b) Represents the 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 bases for these instruments at June 30, 2013 and December 31, 2012 were \$516,968 and \$343,440, respectively.

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

(d) See Note 13 Acquisitions.

(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.

(f) Represents amounts owed for securities transactions initiated at clearing brokers.

(g) 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 bases for these instruments at June 30, 2013 and December 31, 2012 was \$0.

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8. DEBT OBLIGATIONS

Debt obligations as of June 30, 2013 and December 31, 2012 were \$1,706,010 and \$1,123,414, respectively, which consist of the following:

	June 30, 2013		December 31, 2012	
	Carrying Value	Fair Value (a)	Carrying Value	Fair Value (a)
Senior Notes				
2020 Senior Notes - KKR Issued 6.375%, \$500 Million Par, Notes Due 9/29/2020	\$ 498,492	\$ 556,525	\$ 498,388	\$ 579,200
2043 Senior Notes - KKR Issued 5.500%, \$500 Million Par, Notes Due 2/1/2043	494,360	434,825		
	\$ 992,852	\$ 991,350	\$ 498,388	\$ 579,200

(a) Fair value is determined by third party broker quote and these notes are classified as Level II within the fair value hierarchy.

	June 30, 2013		December 31, 2012	
	Outstanding	Available	Outstanding	Available
Investing Financing Arrangements (a)				
Investing Financing Arrangements (b) (c)	\$ 713,158	\$ 533,476	\$ 625,026	\$ 377,055

(a) 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.

(b) Weighted average interest rate is 3.02% and 3.09% as of June 30, 2013 and December 31, 2012.

(c) Weighted average years to maturity is 2.4 years and 3.2 years as of June 30, 2013 and December 31, 2012.

	June 30, 2013		December 31, 2012	
	Outstanding	Available	Outstanding	Available

Revolving Credit Arrangements

Revolving Credit Arrangements (a)	\$	\$	1,250,000	\$	\$	1,250,000
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(a) As of June 30, 2013 and December 31, 2012, no borrowings were outstanding under the revolving credit arrangements.

2043 Senior Notes

On February 1, 2013, KKR Group Finance Co. II LLC, a subsidiary of KKR Management Holdings Corp., issued \$500 million aggregate principal amount of 5.50% Senior Notes (the "2043 Senior Notes"), which were issued at a price of 98.856%. The 2043 Senior Notes are unsecured and unsubordinated obligations of KKR Group Finance Co. II LLC and will mature on February 1, 2043, unless earlier redeemed or repurchased. The 2043 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 2043 Senior Notes bear interest at a rate of 5.50% per annum, accruing from February 1, 2013. Interest is payable semi-annually in arrears on February 1 and August 1 of each year, commencing on August 1, 2013. Interest expense on the 2043 Senior Notes totaled \$6.9 million for the three months ended June 30, 2013.

The indenture, as supplemented by a first supplemental indenture, relating to the 2043 Senior Notes includes covenants, including limitations on KKR Group Finance Co. II LLC 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 2043 Senior Notes may declare the 2043 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 2043 Senior Notes and any accrued and unpaid interest on the 2043 Senior Notes automatically becomes due and payable. All or a portion of the 2043 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 2043 Senior Notes. If a change of control repurchase event occurs, the 2043 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 2043 Senior Notes repurchased plus any accrued and unpaid interest on the 2043 Senior Notes repurchased to, but not including, the date of repurchase.

Investment Financing Arrangements

In March 2013, a KKR investment vehicle entered into a \$75.0 million multi-currency three-year revolving credit agreement that bears interest at LIBOR plus 1.60% (the "Special Situations Investment Credit Agreement"). As of June 30, 2013, there were no borrowings outstanding under the Special Situations Investment Credit Agreement. This financing arrangement is non-recourse to KKR beyond the specific capital commitments pledged as collateral.

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The consolidated entities of KKR are generally treated as partnerships or disregarded entities for U.S. and non-U.S. tax purposes. However, certain consolidated subsidiaries are treated as corporations for U.S. and non-U.S. tax purposes and are therefore subject to U.S. federal, state and/or local income taxes and/or non- U.S. taxes at the entity-level. In addition, certain consolidated entities which are treated as partnerships for U.S. tax purposes are subject to the New York City Unincorporated Business Tax or other local taxes.

The effective tax rate was 2.98% and 0.73% for the three months ended June 30, 2013 and 2012, respectively and 0.75% and 0.63% for the six months ended June 30, 2013 and 2012. The effective tax rate differs from the statutory rate for the three and six months ended June 30, 2013 and 2012, primarily due to the following: (a) a substantial portion of the reported net income (loss) before taxes is attributable to noncontrolling interests held in consolidated entities or KKR Holdings, (b) a significant portion of the amount of the reported net income (loss) before taxes attributable to KKR is from certain subsidiaries that are not subject to U.S. federal, state or local income taxes and/or non- U.S. taxes, and (c) certain compensation charges attributable to KKR are not deductible for tax purposes.

During the three and six month period ending June 30, 2013, there were no material changes to KKR's uncertain tax positions and KKR believes there will be no significant increase or decrease to the uncertain tax positions within 12 months of the reporting date.

10. EQUITY BASED COMPENSATION

The following table summarizes the expense associated with equity based compensation for the three and six months ended June 30, 2013 and 2012, respectively.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
KKR Holdings Principal Awards	\$ 18,732	\$ 60,780	\$ 51,569	\$ 134,669
KKR Holdings Restricted Equity Units	945	174	2,408	4,303
Equity Incentive Plan Units	25,936	14,050	53,354	30,313

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Discretionary Compensation		34,705		18,535		54,637		38,595
Total	\$	80,318	\$	93,539	\$	161,968	\$	207,880

KKR Holdings Equity Awards Principal Awards

KKR principals and certain non-employee consultants and service providers received grants of KKR Holdings units (*Principal Awards*) which are exchangeable for KKR Group Partnership Units. These units are generally 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 June 30, 2013, KKR Holdings owned approximately 59.7%, or 411,960,931, of the outstanding KKR Group Partnership Units.

Except for any Principal Awards that vested on the date of grant, Principal Awards are subject to service based vesting, generally over a three to five year period from the date of grant. The transfer restriction period will generally 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 may also be subject to minimum retained ownership rules requiring them to continuously hold 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 411,960,931 KKR Holdings units have been legally allocated, but the allocation of 30,418,417 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 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

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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 Principal Awards 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 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.

Principal Awards 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 currently ranges from 7% to 52%, multiplied by the number of unvested units on the grant date. The grant date fair value of a KKR & Co. L.P. common unit reflects a discount for lack of distribution participation rights because equity awards are not entitled to receive distributions while unvested. The discount range was based on management's estimates of future distributions that unvested equity awards will not be entitled to receive between the grant date and the vesting date. Therefore, units that vest in earlier periods have a lower discount as compared to units that vest in later periods, which have a higher discount. The discount range will generally increase when the level of expected annual distributions increases relative to the grant date fair value of a KKR & Co. L.P. common unit. A decrease in expected annual distributions relative to the grant date fair value of a KKR & Co. L.P. common unit would generally have the opposite effect.

Principal Awards granted to certain non-employee consultants and service providers give rise to general, administrative and other charges in the condensed consolidated statements of operations. 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. General, administrative and other expense recognized on unvested units is calculated based on the fair value of a KKR & Co. L.P. common unit on each reporting date and subsequently adjusted for the actual fair value of the award at each vesting date. Accordingly, the measured value of these units will not be finalized until each vesting date.

The calculation of equity-based payment expense and general administrative and other expense on unvested Principal Awards assumes forfeiture rates of up to 4% annually based upon expected turnover by class of principal, consultant, or service provider.

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As of June 30, 2013, there was approximately \$98.0 million of estimated unrecognized equity-based payment and general administrative and other expense related to unvested Principal Awards. That cost is expected to be recognized over a weighted-average period of 0.7 years, using the graded attribution method, which treats each vesting portion as a separate award.

A summary of the status of unvested Principal Awards from January 1, 2013 through June 30, 2013 is presented below:

	Units	Weighted Average Grant Date Fair Value
Balance, January 1, 2013	64,569,667	\$ 7.42
Granted		