

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

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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		108,375
Capital Distributions									
			(248,619)			(5,149,385)	(5,398,004)		(6,922)
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 a 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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(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

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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

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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

(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

	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

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

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.

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- (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.

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)

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.

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)****9. INCOME TAXES**

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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KKR & CO. L.P.

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

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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	1,761,382	12.07
Vested	(1,302,727)	11.50
Forfeited	(2,674,984)	7.18
Balance, June 30, 2013	62,353,338	\$ 7.48

The weighted average remaining vesting period over which unvested units are expected to vest is 0.9 years.

The following table summarizes the remaining vesting tranches of Principal Awards:

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

Vesting Date	Units
October 1, 2013	27,984,430
April 1, 2014	1,271,539
October 1, 2014	27,984,489
April 1, 2015	1,271,592
October 1, 2015	2,281,657
April 1, 2016	82,429
October 1, 2016	1,320,909
April 1, 2017	30,000
October 1, 2017	111,293
April 1, 2018	15,000
	62,353,338

KKR Holdings Equity Awards Restricted Equity Units

Grants of restricted equity units based on KKR Group Partnership Units held by KKR Holdings were made to professionals, support staff, and other personnel (Holdings REU Awards). These grants will be funded by KKR Holdings and will not dilute KKR 's interests in the KKR Group Partnerships. The vesting of these Holdings REU Awards occur in installments, generally over a three to five year period from the date of grant. Holdings REU Awards are measured and recognized on a basis similar to Principal Awards except that the fair value of a KKR & Co. L.P. common unit at the time of grant is not discounted for the lack of distribution participation rights since unvested units are entitled to distributions. The calculation assumes a forfeiture rate of up to 4% annually based upon expected turnover by class of professionals, support staff, and other personnel.

As of June 30, 2013, there was approximately \$2.4 million of estimated unrecognized expense related to unvested 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 Holdings REU Awards from January 1, 2013 through June 30, 2013 is presented below:

Units	Weighted Average Grant Date Fair Value
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Balance, January 1, 2013	1,064,712	\$	12.03
Granted			
Vested	(200,341)		13.72
Forfeited	(20,123)		14.20
Balance, June 30, 2013	844,248	\$	11.58

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

A summary of the remaining vesting tranches of Holdings REU Awards is presented below:

Vesting Date	Units
October 1, 2013	259,411
April 1, 2014	166,305
October 1, 2014	252,751
April 1, 2015	140,250
October 1, 2015	25,531
	844,248

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KKR & CO. L.P.

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

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

Under the Equity Incentive Plan, KKR is permitted to grant equity awards representing ownership interests in KKR & Co. L.P. common units. Vested awards under the Equity Incentive Plan dilute KKR & Co. L.P. common unitholders and KKR Holdings pro rata in accordance with their respective percentage interests in the KKR Group Partnerships.

The total number of common units that may be issued under the Equity Incentive Plan is equivalent to 15% of the number of fully diluted common units outstanding, subject to annual adjustment. As of June 30, 2013, equity awards relating to 33,063,255 KKR & Co. L.P. common units have been granted under the Equity Incentive Plan and are subject to service based vesting, which vest generally over a three to five year period from the date of grant. In certain cases, these awards are subject to transfer restrictions and minimum retained ownership requirements. The transfer restriction period, if applicable, lasts for (i) one year with respect to one-half of the interests vesting on any vesting date and (ii) two years with respect to the other one-half of the interests vesting on such vesting date. While providing services to KKR, if applicable, certain of these recipients are also subject to minimum retained ownership rules requiring them to continuously hold common unit equivalents equal to at least 15% of their cumulatively vested interests.

Expense associated with the vesting of these awards is based on the closing price of the KKR & Co. L.P. common units on the date 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. Expense is recognized on a straight line basis over the life of the award and assumes a forfeiture rate of up to 4% annually based upon expected turnover by class of recipient.

As of June 30, 2013, there was approximately \$204.6 million of estimated unrecognized expense related to unvested awards. That cost is expected to be recognized over a weighted average period of 1.4 years, using the straight line method.

A summary of the status of awards granted under the Equity Incentive Plan from January 1, 2013 through June 30, 2013 is presented below:

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	Units		Weighted Average Grant Date Fair Value
Balance, January 1, 2013	17,920,926	\$	9.11
Granted	11,085,150		11.86
Vested	(2,953,853)		11.32
Forfeited	(568,859)		9.62
Balance, June 30, 2013	25,483,364	\$	10.04

The weighted average remaining vesting period over which unvested awards are expected to vest is 1.7 years.

A summary of the remaining vesting tranches of awards granted under the Equity Incentive Plan is presented below:

Vesting Date	Units
October 1, 2013	3,619,387
April 1, 2014	4,563,715
October 1, 2014	4,121,369
April 1, 2015	4,390,105
October 1, 2015	3,193,329
April 1, 2016	2,156,917
October 1, 2016	2,127,204
April 1, 2017	83,051
October 1, 2017	480,987
April 1, 2018	6,917
October 1, 2018	740,383
	25,483,364

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)

Discretionary Compensation

All KKR principals and other employees of certain consolidated entities are eligible to receive discretionary cash bonuses. While cash bonuses paid to most employees are borne by KKR and certain consolidated entities and result in customary compensation and benefits expense, cash bonuses that are paid to certain of KKR's principals are currently borne by KKR Holdings. These bonuses are funded with distributions that KKR Holdings receives on KKR Group Partnership Units held by KKR Holdings but are not then passed on to holders of unvested units of KKR Holdings. Because KKR principals are not entitled to receive distributions on units that are unvested, any amounts allocated to principals in excess of a principal's vested equity interests are reflected as employee compensation and benefits expense. These compensation charges are recorded based on the unvested portion of quarterly earnings distributions received by KKR Holdings at the time of the distribution.

11. RELATED PARTY TRANSACTIONS

Due from and to Affiliates consists of:

	June 30, 2013	December 31, 2012
Due from Related Entities	\$ 78,500	\$ 73,357
Due from Portfolio Companies	56,225	48,828
Due from Affiliates	\$ 134,725	\$ 122,185

	June 30, 2013	December 31, 2012
Due to KKR Holdings in Connection with the Tax Receivable Agreement (a)	\$ 90,329	\$ 70,375
Due to Related Entities	2,464	2,455
Due to Affiliates	\$ 92,793	\$ 72,830

(a) Represents amounts owed to KKR Holdings and/or its principals under the Tax Receivable Agreement.

KFN is a publicly traded specialty finance company whose limited liability company interests are listed on the NYSE under the symbol KFN. KFN is managed by KKR but is not consolidated by KKR. KFN was organized in August 2004 and completed its initial public offering on June 24, 2005. As of June 30, 2013 and December 31, 2012, KFN had consolidated assets of \$8.7 billion and \$8.4 billion, respectively, and shareholders' equity of \$2.5 billion and \$1.8 billion, respectively. There were no shares of KFN held by KKR as of June 30, 2013. Shares of KFN held by KKR represented less than 0.1% of KFN's outstanding shares as of December 31, 2012. If KKR were to exercise all of its outstanding vested options, KKR's ownership interest in KFN would be 0.30% and 0.35% of KFN's outstanding shares as of June 30, 2013 and December 31, 2012, respectively.

Discretionary Investments

Certain of KKR's investment professionals, including its principals and other qualifying employees, are permitted to invest, and have invested, their own capital in side-by-side investments with KKR's investment vehicles. Side-by-side investments are made on the same terms and conditions as those acquired by the applicable investment vehicle, except that the side-by-side investments are not subject to management fees, incentive fees or a carried interest. The cash invested by these individuals aggregated \$68.7 million and \$18.7 million for the three months ended June 30, 2013 and 2012, respectively and \$130.4 million and \$54.6 million for the six months ended June 30, 2013 and 2012, respectively.

Aircraft and Other Services

Certain of the Senior Principals own aircraft that KKR uses for business purposes in the ordinary course of its operations. These Senior Principals paid for the purchase of these aircraft with personal funds and bear all operating, personnel and maintenance costs associated with their operation. The hourly rates that KKR pays for the use of these aircraft are based on current market rates for chartering private aircraft of the same type. KKR incurred \$0.5 million and \$1.1 million for the use of these aircraft for the three months ended June 30, 2013 and 2012, respectively and \$1.4 million and \$2.5 million for the six months ended June 30, 2013 and 2012, respectively.

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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)

Facilities

Certain trusts, whose beneficiaries include children of Mr. Kravis and Mr. Roberts, and certain other Senior Principals who are not executive officers of KKR, are partners in a real-estate based partnership that maintains an ownership interest in KKR's Menlo Park location. Payments made to this partnership were \$1.8 million and \$1.7 million for the three months ended June 30, 2013 and 2012, respectively and \$3.6 million and \$3.4 million for the six months ended June 30, 2013 and 2012, respectively.

12. SEGMENT REPORTING

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

Private Markets

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

Public Markets

Through the Public Markets segment, KKR manages KKR Financial Holdings LLC, or KFN, which is a specialty finance company, as well as a number of investment funds, structured finance vehicles and separately managed accounts that invest capital in (i) leveraged credit strategies, such as leveraged loans and high yield bonds, (ii) liquid long/short equity strategies, (iii) alternative credit strategies such as mezzanine investments, special situations investments and direct senior lending and (iv) hedge funds solutions. These funds, vehicles and accounts, including three investment management companies registered under the 1940 Act, are managed by KKR Asset Management LLC, or KAM, and

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Prisma Capital Partners LP, or Prisma. Both KAM and Prisma are SEC registered investment advisers.

Capital Markets and Principal Activities

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

Key Performance Measures

The segment key performance measures that follow are used by management in making operating and resource deployment decisions as well as assessing the overall performance of each of KKR's reportable business segments. The reportable segments for KKR's business are presented prior to giving effect to the allocation of income (loss) between KKR & Co. L.P. and KKR Holdings and as such represents the business in total. In addition, KKR's reportable segments are presented without giving effect to the consolidation of the funds that KKR manages.

FRE

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. 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.

ENI

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. 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

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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)

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.

Book Value

Book Value is a measure of the net assets of KKR's reportable segments and is used by management primarily in assessing the unrealized value of KKR's investment portfolio, including carried interest, as well as KKR's overall liquidity position. Book value differs from KKR & Co. L.P. Partners' Capital on a GAAP basis primarily as a result of the exclusion of ownership interests attributable to KKR Holdings.

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)

The following table presents the financial data for KKR's reportable segments as of and for the three months ended June 30, 2013:

	As of and for the Three Months Ended June 30, 2013			Total Reportable Segments
	Private Markets	Public Markets	Capital Markets and Principal Activities	
Fees				
Management and incentive fees:				
Management fees	\$ 114,700	\$ 49,476	\$	\$ 164,176
Incentive fees		15,590		15,590
Management and incentive fees	114,700	65,066		179,766
Monitoring and transaction fees:				
Monitoring fees	28,907			28,907
Transaction fees	25,231	7,243	30,311	62,785
Fee credits (1)	(29,547)	(5,204)		(34,751)
Net monitoring and transaction fees	24,591	2,039	30,311	56,941
Total fees	139,291	67,105	30,311	236,707
Expenses				
Compensation and benefits	51,516	21,990	6,930	80,436
Occupancy and related charges	11,143	1,615	309	13,067
Other operating expenses	33,988	9,147	1,892	45,027
Total expenses	96,647	32,752	9,131	138,530
Fee related earnings	42,644	34,353	21,180	98,177
Investment income (loss)				
Realized carried interest	269,828			269,828
Unrealized carried interest	(212,809)	10,791		(202,018)
Gross carried interest	57,019	10,791		67,810
Less: Allocation to KKR carry pool (2)	(22,220)	(4,316)		(26,536)
Less: Management fee refunds (3)	(4,735)			(4,735)
Net carried interest	30,064	6,475		36,539
Other investment income (loss)	(249)	22	11,277	11,050
Total investment income (loss)	29,815	6,497	11,277	47,589
Income (loss) before noncontrolling interests				
in income of consolidated entities	72,459	40,850	32,457	145,766
Income (loss) attributable to noncontrolling interests (4)	411	378	534	1,323

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Economic net income (loss)	\$	72,048	\$	40,472	\$	31,923	\$	144,443
Total Assets	\$	1,409,201	\$	387,719	\$	6,312,201	\$	8,109,121
Book Value	\$	1,296,194	\$	348,713	\$	5,254,150	\$	6,899,057

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

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expenses are recovered, although the actual percentage may vary from fund to fund as well as among different classes of investors within a fund.

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

(3) Certain of KKR's private equity funds require the management company to refund up to 20% of any cash management fees earned from fund investors in the event that the funds recognize a carried interest. At such time as the fund recognizes a carried interest in an amount sufficient to cover 20% of the cash management fees earned or a portion thereof, a liability to the fund investors is recorded and revenue is reduced for the amount of the carried interest recognized, not to exceed 20% of the cash management fees earned. As of June 30, 2013, there is no carried interest subject to management fee refunds, which may reduce carried interest in future periods. The refunds to the fund investors are paid, and the liabilities relieved, at such time that the underlying investments are sold and the associated carried interests are realized. In the event that a fund's carried interest is not sufficient to cover any of the amount that represents 20% of the cash management fees earned, these fees would not be returned to the fund investors, in accordance with the respective fund agreements.

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

The following table reconciles KKR's total reportable segments to the financial statements as of and for the three months ended June 30, 2013:

	As of and for the Three Months Ended June 30, 2013		
	Total Reportable Segments	Adjustments	Consolidated
Fees(a)	\$ 236,707	\$ (70,331)	\$ 166,376
Expenses(b)	\$ 138,530	\$ 153,492	\$ 292,022
Investment income (loss)(c)	\$ 47,589	\$ 363,840	\$ 411,429
Income (loss) before taxes	\$ 145,766	\$ 140,017	\$ 285,783

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Income (loss) attributable to redeemable noncontrolling interests	\$		\$	(7,800)	\$	(7,800)
Income (loss) attributable to noncontrolling interests	\$	1,323	\$	268,601	\$	269,924
Total Assets(d)	\$	8,109,121	\$	36,698,524	\$	44,807,645
Book Value (e)	\$	6,899,057	\$	(4,611,668)	\$	2,287,389

(a) The fees adjustment primarily represents (i) the elimination of management fees of \$117,453 upon consolidation of KKR's funds and vehicles, (ii) the elimination of Fee Credits of \$32,168 upon consolidation of the KKR funds and vehicles, (iii) inclusion of reimbursable expenses of \$8,861 and (iv) other adjustments of \$6,093.

(b) The expenses adjustment primarily represents (i) the inclusion of non-cash equity based charges borne by KKR Holdings or granted under the Equity Incentive Plan, which amounted to \$80,318, (ii) allocations to the carry pool of \$26,536, (iii) a gross up of reimbursable expenses of \$11,040, (iv) operating expenses of \$18,363 primarily associated with the inclusion of operating expenses upon consolidation of KKR's funds and vehicles and other entities, (v) inclusion of certain compensation and general and administrative expenses incurred in the generation of net realized principal investment income of \$2,705 and (vi) other adjustments of \$14,530.

(c) The investment income (loss) adjustment primarily represents (i) the inclusion of net investment income of \$329,864 attributable to noncontrolling interests upon consolidation of KKR's funds and vehicles, (ii) exclusion of allocations to the carry pool of \$26,536, (iii) exclusion of management fee refunds of \$4,735 and (iv) exclusion of certain compensation and general and administrative expenses incurred in the generation of net realized principal investment income of \$2,705.

(d) Substantially all of the total assets adjustment represents the inclusion of investments that are attributable to noncontrolling interests upon consolidation of KKR's funds and vehicles.

(e) The book value adjustment represents the exclusion of noncontrolling interests held by KKR Holdings of \$4,699,114 and the equity impact of KKR Management Holdings Corp. equity and other of \$87,446.

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The reconciliation of net income (loss) attributable to KKR & Co. L.P. as reported in the condensed consolidated statements of operations to economic net income (loss) and fee related earnings consists of the following:

	Three Months Ended June 30, 2013	
Net income (loss) attributable to KKR & Co. L.P.	\$	15,134
Plus: Net income (loss) attributable to noncontrolling interests held by KKR Holdings		28,106
Plus: Equity based compensation		80,318
Plus: Amortization of intangibles and other, net		12,360
Plus: Income taxes		8,525
Economic net income (loss)		144,443
Plus: Income attributable to segment noncontrolling interests		1,323
Less: Investment income (loss)		47,589
Fee related earnings	\$	98,177

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

The following table presents the financial data for KKR's reportable segments as of and for the three months ended June 30, 2012:

	As of and for the Three Months Ended June 30, 2012			Total Reportable Segments
	Private Markets	Public Markets	Capital Markets and Principal Activities	
Fees				
Management and incentive fees:				
Management fees	\$ 107,170	\$ 22,456	\$	\$ 129,626
Incentive fees		4,057		4,057
Management and incentive fees	107,170	26,513		133,683
Monitoring and transaction fees:				
Monitoring fees	27,786			27,786
Transaction fees	10,768	1,319	31,619	43,706
Fee credits (1)	(15,642)	(1,047)		(16,689)
Net monitoring and transaction fees	22,912	272	31,619	54,803
Total fees	130,082	26,785	31,619	188,486
Expenses				
Compensation and benefits	45,991	9,229	7,526	62,746
Occupancy and related charges	11,633	1,366	240	13,239
Other operating expenses	36,230	3,880	2,619	42,729
Total expenses	93,854	14,475	10,385	118,714
Fee related earnings	36,228	12,310	21,234	69,772
Investment income (loss)				
Realized carried interest	65,600			65,600
Unrealized carried interest	226,186	(8,912)		217,274
Gross carried interest	291,786	(8,912)		282,874
Less: Allocation to KKR carry pool (2)	(116,118)	3,565		(112,553)
Less: Management fee refunds (3)	(32,804)			(32,804)
Net carried interest	142,864	(5,347)		137,517
Other investment income (loss)	(3,990)	(12)	344,105	340,103
Total investment income (loss)	138,874	(5,359)	344,105	477,620
Income (loss) before noncontrolling interests				
in income of consolidated entities	175,102	6,951	365,339	547,392
Income (loss) attributable to noncontrolling interests (4)	358	123	796	1,277

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Economic net income (loss)	\$	174,744	\$	6,828	\$	364,543	\$	546,115
Total Assets	\$	1,054,751	\$	80,042	\$	6,054,132	\$	7,188,925
Book Value	\$	927,497	\$	61,399	\$	5,513,908	\$	6,502,804

(1) KKR's agreements with the fund investors of certain of its investment funds require KKR to share with these fund investors an agreed upon percentage of monitoring and transaction fees received from portfolio companies. Fund investors receive Fee Credits only with respect to monitoring and transaction fees that are allocable to the fund's investment in the portfolio company and not, for example, any fees allocable to capital invested through co-investment vehicles. Fee Credits are calculated after deducting certain fund-related expenses and generally amount to 80% of allocable monitoring and transaction fees after fund-related expenses are recovered, although the actual percentage may vary from fund to fund as well as among different classes of investors within a fund.

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

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

(3) Certain of KKR's private equity funds require the management company to refund up to 20% of any cash management fees earned from fund investors in the event that the funds recognize a carried interest. At such time as the fund recognizes a carried interest in an amount sufficient to cover 20% of the cash management fees earned or a portion thereof, a liability to the fund's fund investors is recorded and revenue is reduced for the amount of the carried interest recognized, not to exceed 20% of the cash management fees earned. As of June 30, 2012, the amount subject to refund for which no liability was recorded was approximately \$49.0 million as a result of certain funds not yet recognizing sufficient carried interests. The refunds to the fund investors are paid, and the liabilities relieved, at such time that the underlying investments are sold and the associated carried interests are realized. In the event that a fund's carried interest is not sufficient to cover any of the amount that represents 20% of the cash management fees earned, these fees would not be returned to the fund investors, in accordance with the respective fund agreements.

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

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The following table reconciles KKR's total reportable segments to the financial statements as of and for the three months ended June 30, 2012:

	As of and for the Three Months Ended June 30, 2012		
	Total Reportable Segments	Adjustments	Consolidated
Fees(a)	\$ 188,486	\$ (76,126)	\$ 112,360
Expenses(b)	\$ 118,714	\$ 230,025	\$ 348,739
Investment income (loss)(c)	\$ 477,620	\$ 1,274,995	\$ 1,752,615
Income (loss) before taxes	\$ 547,392	\$ 968,844	\$ 1,516,236
Income (loss) attributable to redeemable noncontrolling interests	\$	\$ 3,285	\$ 3,285
Income (loss) attributable to noncontrolling interests	\$ 1,277	\$ 1,354,320	\$ 1,355,597
Total Assets(d)	\$ 7,188,925	\$ 35,421,350	\$ 42,610,275
Book Value (e)	\$ 6,502,804	\$ (4,807,984)	\$ 1,694,820

(a) The fees adjustment primarily represents (i) the elimination of management fees of \$109,060 upon consolidation of KKR's funds and vehicles, (ii) the elimination of Fee Credits of \$16,443 upon consolidation of KKR's funds and vehicles, (iii) inclusion of reimbursable expenses of \$4,926 and (iv) other adjustments of \$11,565.

(b) The expenses adjustment primarily represents (i) the inclusion of non-cash equity based charges borne by KKR Holdings or granted under the Equity Incentive Plan, which amounted to \$93,539, (ii) allocations to the carry pool of \$112,553, (iii) a gross up of reimbursable expenses of \$7,686, (iv) operating expenses of \$9,797 primarily associated with the inclusion of operating expenses upon consolidation of KKR's funds and vehicles and other entities and (v) other adjustments of \$6,450.

(c) The investment income (loss) adjustment primarily represents (i) the inclusion of a net investment income of \$1,129,638 attributable to noncontrolling interests upon consolidation of KKR's funds and vehicles, (ii) exclusion of allocations to the carry pool of \$112,553, and (iii) exclusion of management fee refunds of \$32,804.

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- (d) Substantially all of the total assets adjustment represents the inclusion of investments that are attributable to noncontrolling interests upon consolidation of KKR's funds and vehicles.
- (e) The book value adjustment represents the exclusion of noncontrolling interests held by KKR Holdings of \$4,795,697 and the equity impact of KKR Management Holdings Corp. equity and other of \$12,287.

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The reconciliation of net income (loss) attributable to KKR & Co. L.P. as reported in the condensed consolidated statements of operations to economic net income (loss) and fee related earnings consists of the following:

	Three Months Ended	
	June 30, 2012	
Net income (loss) attributable to KKR & Co. L.P.	\$	146,261
Plus: Net income (loss) attributable to noncontrolling interests held by KKR Holdings		292,833
Plus: Equity based compensation		93,539
Plus: Amortization of intangibles and other, net		2,389
Plus: Income taxes		11,093
Economic net income (loss)		546,115
Plus: Income attributable to segment noncontrolling interests		1,277
Less: Investment income (loss)		477,620
Fee related earnings		69,772

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

The following table presents the financial data for KKR's reportable segments as of and for the six months ended June 30, 2013:

	As of and for the Six Months Ended June 30, 2013			
	Private Markets	Public Markets	Capital Markets and Principal Activities	Total Reportable Segments
Fees				
Management and incentive fees:				
Management fees	\$ 221,305	\$ 95,834	\$	\$ 317,139
Incentive fees		34,439		34,439
Management and incentive fees	221,305	130,273		351,578
Monitoring and transaction fees:				
Monitoring fees	60,975			60,975
Transaction fees	41,643	10,349	51,092	103,084
Fee credits (1)	(50,556)	(7,260)		(57,816)
Net monitoring and transaction fees	52,062	3,089	51,092	106,243
Total fees	273,367	133,362	51,092	457,821
Expenses				
Compensation and benefits	99,517	41,690	14,391	155,598
Occupancy and related charges	22,568	3,157	664	26,389
Other operating expenses	67,930	16,973	4,754	89,657
Total expenses	190,015	61,820	19,809	271,644
Fee related earnings	83,352	71,542	31,283	186,177
Investment income (loss)				
Realized carried interest	357,995			357,995
Unrealized carried interest	97,990	31,190		129,180
Gross carried interest	455,985	31,190		487,175
Less: Allocation to KKR carry pool (2)	(183,564)	(12,476)		(196,040)
Less: Management fee refunds (3)	(13,951)			(13,951)
Net carried interest	258,470	18,714		277,184
Other investment income (loss)	(2,284)	84	333,448	331,248
Total investment income (loss)	256,186	18,798	333,448	608,432
Income (loss) before noncontrolling interests				
in income of consolidated entities	339,538	90,340	364,731	794,609
Income (loss) attributable to noncontrolling interests (4)	809	733	882	2,424

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Economic net income (loss)	\$	338,729	\$	89,607	\$	363,849	\$	792,185
Total Assets	\$	1,409,201	\$	387,719	\$	6,312,201	\$	8,109,121
Book Value	\$	1,296,194	\$	348,713	\$	5,254,150	\$	6,899,057

(1) KKR's agreements with the fund investors of certain of its investment funds require KKR to share with these fund investors an agreed upon percentage of monitoring and transaction fees received from portfolio companies. Fund investors receive Fee Credits only with respect to monitoring and transaction fees that are allocable to the fund's investment in the portfolio company and not, for example, any fees allocable to capital invested through co-investment vehicles. Fee Credits are calculated after deducting certain fund-related expenses and generally amount to 80% of allocable monitoring and transaction fees after fund-related expenses are recovered, although the actual percentage may vary from fund to fund as well as among different classes of investors within a fund.

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)**

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

(3) Certain of KKR's private equity funds require the management company to refund up to 20% of any cash management fees earned from fund investors in the event that the funds recognize a carried interest. At such time as the fund recognizes a carried interest in an amount sufficient to cover 20% of the cash management fees earned or a portion thereof, a liability to the fund's fund investors is recorded and revenue is reduced for the amount of the carried interest recognized, not to exceed 20% of the cash management fees earned. As of June 30, 2013, there is no carried interest subject to management fee refunds, which may reduce carried interest in future periods. The refunds to the fund investors are paid, and the liabilities relieved, at such time that the underlying investments are sold and the associated carried interests are realized. In the event that a fund's carried interest is not sufficient to cover any of the amount that represents 20% of the cash management fees earned, these fees would not be returned to the fund investors, in accordance with the respective fund agreements.

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

The following table reconciles KKR's total reportable segments to the financial statements as of and for the six months ended June 30, 2013:

	As of and for the Six Months Ended June 30, 2013		
	Total Reportable Segments	Adjustments	Consolidated
Fees(a)	\$ 457,821	\$ (140,205)	\$ 317,616
Expenses(b)	\$ 271,644	\$ 459,708	\$ 731,352
Investment income (loss)(c)	\$ 608,432	\$ 2,198,629	\$ 2,807,061
Income (loss) before taxes	\$ 794,609	\$ 1,598,716	\$ 2,393,325
Income (loss) attributable to redeemable noncontrolling interests	\$	\$ 16,823	\$ 16,823
Income (loss) attributable to noncontrolling interests	\$ 2,424	\$ 2,147,624	\$ 2,150,048
Total Assets(d)	\$ 8,109,121	\$ 36,698,524	\$ 44,807,645
Book Value (e)	\$ 6,899,057	\$ (4,611,668)	\$ 2,287,389

(a) The fees adjustment primarily represents (i) the elimination of management fees of \$230,149 upon consolidation of KKR's funds and vehicles, (ii) the elimination of Fee Credits of \$54,429 upon consolidation of KKR's funds and vehicles, (iii) inclusion of reimbursable expenses of \$15,441 and (iv) other adjustments of \$20,074.

(b) The expenses adjustment primarily represents (i) the inclusion of non-cash equity based charges borne by KKR Holdings or granted under the Equity Incentive Plan, which amounted to \$161,968, (ii) allocations to the carry pool of \$196,040, (iii) a gross up of reimbursable expenses of \$19,513 (iv) operating expenses of \$35,291 primarily associated with the inclusion of operating expenses upon consolidation of KKR's funds and vehicles and other entities, (v) inclusion of certain compensation and general and administrative expenses incurred in the generation of net realized principal investment income of \$2,705 and (vi) other adjustments of \$44,191.

(c) The investment income (loss) adjustment primarily represents (i) the inclusion of a net investment income of \$1,985,933 attributable to noncontrolling interests upon consolidation of KKR's funds and vehicles, (ii) exclusion of allocations to the carry pool of \$196,040, (iii) exclusion of management fee refunds of \$13,951 and (iv) exclusion of certain compensation and general and administrative expenses incurred in the generation of net realized principal investment income of \$2,705.

(d) Substantially all of the total assets adjustment represents the inclusion of investments that are attributable to noncontrolling interests upon consolidation of KKR's funds and vehicles.

(e) The book value adjustment represents the exclusion of noncontrolling interests held by KKR Holdings of \$4,699,114 and the equity impact of KKR Management Holdings Corp. equity and other of \$87,446.

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)**

The reconciliation of net income (loss) attributable to KKR & Co. L.P. as reported in the condensed consolidated statements of operations to economic net income (loss) and fee related earnings consists of the following:

	Six Months Ended	
	June 30, 2013	
Net income (loss) attributable to KKR & Co. L.P.	\$	208,573
Plus: Net income (loss) attributable to noncontrolling interests held by KKR Holdings		362,218
Plus: Equity based compensation		161,968
Plus: Amortization of intangibles and other, net		41,545
Plus: Income taxes		17,881
Economic net income (loss)		792,185
Plus: Income attributable to segment noncontrolling interests		2,424
Less: Investment income (loss)		608,432
Fee related earnings	\$	186,177

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

The following table presents the financial data for KKR's reportable segments as of and for the six months ended June 30, 2012:

	As of and for the Six Months Ended June 30, 2012			Total Reportable Segments
	Private Markets	Public Markets	Capital Markets and Principal Activities	
Fees				
Management and incentive fees:				
Management fees	\$ 214,082	\$ 44,187	\$	\$ 258,269
Incentive fees		13,727		13,727
Management and incentive fees	214,082	57,914		271,996
Monitoring and transaction fees:				
Monitoring fees	53,608			53,608
Transaction fees	22,435	3,741	61,828	88,004
Fee credits (1)	(33,348)	(2,684)		(36,032)
Net monitoring and transaction fees	42,695	1,057	61,828	105,580
Total fees	256,777	58,971	61,828	377,576
Expenses				
Compensation and benefits	90,477	20,611	14,382	125,470
Occupancy and related charges	24,438	2,784	478	27,700
Other operating expenses	67,905	7,857	5,516	81,278
Total expenses	182,820	31,252	20,376	234,448
Fee related earnings	73,957	27,719	41,452	143,128
Investment income (loss)				
Realized carried interest	140,478			140,478
Unrealized carried interest	605,813	5,947		611,760
Gross carried interest	746,291	5,947		752,238
Less: Allocation to KKR carry pool (2)	(301,680)	(2,379)		(304,059)
Less: Management fee refunds (3)	(73,512)			(73,512)
Net carried interest	371,099	3,568		374,667
Other investment income (loss)	(2,338)	(35)	762,383	760,010
Total investment income (loss)	368,761	3,533	762,383	1,134,677
Income (loss) before noncontrolling interests				
in income of consolidated entities	442,718	31,252	803,835	1,277,805
Income (loss) attributable to noncontrolling interests (4)	2,654	554	1,280	4,488

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Economic net income (loss)	\$	440,064	\$	30,698	\$	802,555	\$	1,273,317
Total Assets	\$	1,054,751	\$	80,042	\$	6,054,132	\$	7,188,925
Book Value	\$	927,497	\$	61,399	\$	5,513,908	\$	6,502,804

(1) KKR's agreements with the fund investors of certain of its investment funds require KKR to share with these fund investors an agreed upon percentage of monitoring and transaction fees received from portfolio companies. Fund investors receive Fee Credits only with respect to monitoring and transaction fees that are allocable to the fund's investment in the portfolio company and not, for example, any fees allocable to capital invested through co-investment vehicles. Fee Credits are calculated after deducting certain fund-related expenses and generally amount to 80% of allocable monitoring and transaction fees after fund-related expenses are recovered, although the actual percentage may vary from fund to fund as well as among different classes of investors within a fund.

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

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

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

(3) Certain of KKR's private equity funds require the management company to refund up to 20% of any cash management fees earned from fund investors in the event that the funds recognize a carried interest. At such time as the fund recognizes a carried interest in an amount sufficient to cover 20% of the cash management fees earned or a portion thereof, a liability to the fund's fund investors is recorded and revenue is reduced for the amount of the carried interest recognized, not to exceed 20% of the cash management fees earned. As of June 30, 2012, the amount subject to refund for which no liability was recorded was approximately \$49.0 million as a result of certain funds not yet recognizing sufficient carried interests. The refunds to the fund investors are paid, and the liabilities relieved, at such time that the underlying investments are sold and the associated carried interests are realized. In the event that a fund's carried interest is not sufficient to cover any of the amount that represents 20% of the cash management fees earned, these fees would not be returned to the fund investors, in accordance with the respective fund agreements.

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

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)**

The following table reconciles KKR's total reportable segments to the financial statements as of and for the six months ended June 30, 2012:

	As of and for the Six Months Ended June 30, 2012		
	Total Reportable Segments	Adjustments	Consolidated
Fees(a)	\$ 377,576	\$ (148,909)	\$ 228,667
Expenses(b)	\$ 234,448	\$ 559,549	\$ 793,997
Investment income (loss)(c)	\$ 1,134,677	\$ 3,935,936	\$ 5,070,613
Income (loss) before taxes	\$ 1,277,805	\$ 3,227,478	\$ 4,505,283
Income (loss) attributable to redeemable noncontrolling interests	\$	\$ 8,557	\$ 8,557
Income (loss) attributable to noncontrolling interests	\$ 4,488	\$ 4,127,376	\$ 4,131,864
Total Assets(d)	\$ 7,188,925	\$ 35,421,350	\$ 42,610,275
Book Value (e)	\$ 6,502,804	\$ (4,807,984)	\$ 1,694,820

(a) The fees adjustment primarily represents (i) the elimination of management fees of \$217,498 upon consolidation of KKR's funds and vehicles, (ii) the elimination of Fee Credits of \$35,150 upon consolidation of KKR's funds and vehicles, (iii) inclusion of reimbursable expenses of \$8,586 and (iv) other adjustments of \$24,853.

(b) The expenses adjustment primarily represents (i) the inclusion of non-cash equity based charges borne by KKR Holdings or granted under the Equity Incentive Plan, which amounted to \$207,880, (ii) allocations to the carry pool of \$304,059, (iii) a gross up of reimbursable expenses of \$13,875, (iv) operating expenses of \$25,610 primarily associated with the inclusion of operating expenses upon consolidation of KKR's funds and vehicles and other entities and (v) other adjustments of \$8,125.

(c) The investment income (loss) adjustment primarily represents (i) the inclusion of a net investment income of \$3,558,365 attributable to noncontrolling interests upon consolidation of KKR's funds and vehicles, (ii) exclusion of allocations to the carry pool of \$304,059, and (iii) exclusion of management fee refunds of \$73,512.

(d) Substantially all of the total assets adjustment represents the inclusion of investments that are attributable to noncontrolling interests upon consolidation of KKR's funds and vehicles.

(e) The book value adjustment represents the exclusion of noncontrolling interests held by KKR Holdings of \$4,795,697 and the equity impact of KKR Management Holdings Corp. equity and other of \$12,287.

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The reconciliation of net income (loss) attributable to KKR & Co. L.P. as reported in the condensed consolidated statements of operations to economic net income (loss) and fee related earnings consists of the following:

	Six Months Ended	
	June 30, 2012	
Net income (loss) attributable to KKR & Co. L.P.	\$	336,697
Plus: Net income (loss) attributable to noncontrolling interests held by KKR Holdings		697,024
Plus: Equity based compensation		207,880
Plus: Amortization of intangibles and other, net		3,551
Plus: Income taxes		28,165
Economic net income (loss)		1,273,317
Plus: Income attributable to segment noncontrolling interests		4,488
Less: Investment income (loss)		1,134,677
Fee related earnings	\$	143,128

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

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13. ACQUISITIONS

Prisma Capital Partners

On October 1, 2012, KKR acquired all of the equity interests of Prisma Capital Partners LP (Prisma). Prisma is a provider of customized hedge fund solutions mainly through the management of funds of hedge fund portfolios. The addition of Prisma provides KKR with a funds of hedge fund strategy and a greater presence in the hedge funds space, from which KKR can create and offer more liquid products for KKR's fund investors.

Initial consideration transferred was \$200.0 million in cash, and KKR may become obligated to make future additional payments (referred to hereafter as contingent consideration) to the sellers (certain of whom became employees of KKR) in years 2014 and 2017 based on the Prisma business achieving certain performance metrics when measured in such years. KKR has the right in its sole discretion to pay a portion of the contingent consideration, if any, in KKR & Co. L.P. common units rather than in cash. Changes in the fair value of the contingent consideration subsequent to the acquisition date are recognized within General, Administrative and Other in the condensed consolidated statements of operations.

As of June 30, 2013, the fair value of the contingent consideration was estimated to be \$86.9 million and is recorded as a liability within Accounts Payable, Accrued Expenses and Other Liabilities on the condensed consolidated statements of financial condition. The fair value of the contingent consideration was derived using Level III inputs. This amount was determined based on the present value of a range of undiscounted cash flows of \$0 to \$155.0 million in each of 2014 and 2017, using a discount rate ranging from 2.1% to 3.1%, after applying probability, risk-weighting, and other adjustments that KKR has determined to be applicable.

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14. GOODWILL AND INTANGIBLE ASSETS*Goodwill*

Goodwill from the acquisition of Prisma represents the excess of acquisition cost over the fair value of net tangible and intangible assets acquired and is primarily attributed to synergies expected to arise after the acquisition. The carrying value of goodwill was \$89.0 million as of June 30, 2013 and December 31, 2012 and is recorded within Other Assets on the condensed consolidated statements of financial condition. This goodwill has been allocated entirely to the Public Markets segment. As of June 30, 2013, the fair value of KKR's reporting units substantially exceeded their respective carrying values. All of the goodwill is currently expected to be deductible for tax purposes. See Note 7 Other Assets and Accounts Payable, Accrued Expenses and Other Liabilities.

Intangible Assets

Intangible Assets, Net consists of the following:

	June 30, 2013		December 31, 2012	
Finite Lived Intangible Assets	\$	218,886	\$	218,886
Accumulated Amortization		(31,372)		(21,402)
Intangible Assets, Net	\$	187,514	\$	197,484

Changes in Intangible Assets, Net consists of the following:

	June 30, 2013		December 31, 2012	
Balance, Beginning of Year	\$	197,484	\$	24,310
Acquisitions				181,000
Amortization Expense		(9,970)		(7,826)
Intangible Assets, Net	\$	187,514	\$	197,484

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15. COMMITMENTS AND CONTINGENCIES

Debt Covenants

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

Investment Commitments

As of June 30, 2013, KKR had unfunded commitments consisting of (i) \$786.6 million to its active private equity and other investment vehicles, and (ii) \$407.6 million in connection with commitments by KKR's capital markets business. Whether these amounts are actually funded, in whole or in part depends on the terms of such commitments, including the satisfaction or waiver of any conditions to funding.

Contingent Repayment Guarantees

The partnership documents governing KKR's carry - paying funds, including funds and vehicles relating to private equity, mezzanine, infrastructure, natural resources, direct lending and special situations investments, generally include a clawback provision that, if triggered, may give rise to a contingent obligation requiring the general partner to return amounts to the fund for distribution to the fund investors at the end of the life of the fund. Under a clawback obligation, upon the liquidation of a fund, the general partner is required to return, typically on an after-tax basis, previously distributed carry to the extent that, due to the diminished performance of later investments, the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled, including the effects of any performance thresholds. Excluding carried interest received by the general partners of funds that were not contributed to KKR in the acquisition of the assets and liabilities of KKR & Co. (Guernsey) L.P. (formerly known as KKR Private Equity Investors, L.P.) on October 1, 2009 (the KPE Transaction), as of June 30, 2013, no carried interest was subject to this clawback obligation, assuming that all applicable carry paying funds were liquidated at their June 30, 2013 fair values. Had the investments in such funds been liquidated at zero value, the clawback obligation would have been \$1,200.3 million. Carried interest is recognized in the statement of operations based on the contractual conditions set forth in the agreements governing the fund as if the fund were terminated and liquidated at the reporting date and the fund's investments were realized at the then estimated fair values. Amounts earned pursuant to carried interest are earned by the

general partner of those funds to the extent that cumulative investment returns are positive and where applicable, preferred return thresholds have been met. If these investment amounts earned decrease or turn negative in subsequent periods, recognized carried interest will be reversed and to the extent that the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled, a clawback obligation would be recorded. For funds that are consolidated, this clawback obligation, if any, is reflected as an increase in noncontrolling interests in the consolidated statements of financial condition. For funds that are not consolidated, this clawback obligation, if any, is reflected as a reduction of KKR's investment balance as this is where carried interest is initially recorded.

Certain private equity funds that were contributed to KKR in the KPE Transaction also include a net loss sharing provision. Upon the liquidation of an investment vehicle to which a net loss sharing obligation applies, the general partner is required to contribute capital to the vehicle, to fund 20% of the net losses on investments. In these vehicles, such losses would be required to be paid by KKR to the fund investors in those vehicles in the event of a liquidation of the fund regardless of whether any carried interest had previously been distributed, and a greater share of investment losses would be allocable to us relative to the capital that we contributed to it as general partner. Based on the fair market values as of June 30, 2013, there would have been no net loss sharing obligation. If the vehicles were liquidated at zero value, the net loss sharing obligation would have been approximately \$578.3 million as of June 30, 2013.

Prior to the KPE Transaction, certain KKR principals who received carried interest distributions with respect to certain private equity funds contributed to KKR had personally guaranteed, on a several basis and subject to a cap, the contingent obligations of the general partners of such private equity funds to repay amounts to fund investors pursuant to the general partners' clawback obligations. The terms of the KPE Transaction require that KKR principals remain responsible for any clawback obligations relating to carry distributions received prior to the KPE Transaction, up to a maximum of \$223.6 million. As of June 30, 2013, no amounts are due with respect to the clawback obligation required to be funded by KKR principals who do not hold direct controlling economic interests in the KKR Group Partnerships. Carry distributions arising subsequent to the KPE Transaction may give rise to clawback obligations that may be allocated generally to KKR and KKR's principals who participate in the carry pool. Unlike the clawback obligation, KKR will be responsible for amounts due under a net loss sharing obligation and will indemnify KKR's principals for any personal guarantees that they have provided with respect to such amounts. In addition, guarantees of or similar arrangements relating to clawback or net loss sharing obligations in favor of third party investors in an individual investment partnership by entities KKR owns may limit distributions of carried interest more generally.

Indemnifications

In the normal course of business, KKR enters into contracts that contain a variety of representations and warranties that provide general indemnifications. In addition, certain of KKR's consolidated funds have provided certain indemnities relating to environmental and other matters and has provided nonrecourse carve-out guarantees for fraud, willful misconduct and other customary wrongful acts, each in

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connection with the financing of certain real estate investments that KKR has made. KKR's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against KKR that have not yet occurred. However, based on experience, KKR expects the risk of material loss to be low.

Litigation

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

In August 1999, KKR and certain of its current and former personnel as well as the investment partnerships which made an investment were named as defendants in an action brought in the Circuit Court of Jefferson County, Alabama, or the Alabama State Court, alleging breach of fiduciary duty and conspiracy in connection with the acquisition of Bruno's, Inc. (Bruno's), one of KKR's former portfolio companies, in 1995. The action was removed to the U.S. Bankruptcy Court for the Northern District of Alabama. In April 2000, the complaint in this action was amended to further allege that KKR and others violated state law by fraudulently misrepresenting the financial condition of Bruno's in an August 1995 subordinated notes offering relating to the acquisition and in Bruno's subsequent periodic financial disclosures. In January 2001, the action was transferred to the U.S. District Court for the Northern District of Alabama. In 2009, the action was remanded to the Alabama State Court and subsequently consolidated for pretrial purposes with a similar action brought against the underwriters of the August 1995 subordinated notes offering, which was pending before the Alabama State Court. The plaintiffs are seeking compensatory and punitive damages, in an unspecified amount to be proven at trial, for losses they allegedly suffered in connection with their purchase of the subordinated notes. In September 2009, KKR and the other named defendants moved to dismiss the action. In April 2010, the Alabama State Court granted in part and denied in part the motion to dismiss. In August 2011, the Alabama Supreme Court denied KKR's petition seeking permission to appeal certain rulings made by the Alabama State Court when denying in part the motion to dismiss. In October 2011, the plaintiffs' investment adviser filed an amended motion to dismiss a third-party complaint filed by KKR and other defendants asserting a contribution claim against the plaintiffs' investment adviser, which was granted, without prejudice, in October 2012. In December 2011, KKR filed a petition for a writ of certiorari in the United States Supreme Court seeking permission to appeal the Alabama Supreme Court's denial of KKR's petition. In January 2012, the Alabama State Court granted a motion to sever the action from the related action against the underwriters of the subordinated notes. In May 2012, the United States Supreme Court denied KKR's petition for a writ of certiorari. On April 22, 2013, the parties entered into a definitive agreement to settle all claims without the admission of wrongdoing. The amount paid by KKR pursuant to the settlement did not have a material effect on KKR's financial results. The action was dismissed with prejudice on May 8, 2013.

On May 23, 2011, KKR, certain KKR affiliates and the board of directors of Primedia Inc. (a former KKR portfolio company whose directors at that time included certain KKR personnel) were named as defendants, along with others, in two shareholder class action complaints filed in the Court of Chancery of the State of Delaware challenging the sale of Primedia in a merger transaction that was completed on July 13, 2011. These

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actions allege, among other things, that Primedia board members, KKR, and certain KKR affiliates, breached their fiduciary duties by entering into the merger agreement at an unfair price and failing to disclose all material information about the merger. Plaintiffs also allege that the merger price was unfair in light of the value of certain shareholder derivative claims, which were dismissed on August 8, 2011, based on a stipulation by the parties that the derivative plaintiffs and any other former Primedia shareholders lost standing to prosecute the derivative claims on behalf of Primedia when the Primedia merger was completed. The dismissed shareholder derivative claims included allegations concerning open market purchases of certain shares of Primedia's preferred stock by KKR affiliates in 2002 and allegations concerning Primedia's redemption of certain shares of Primedia's preferred stock in 2004 and 2005, some of which were owned by KKR affiliates. With respect to the pending shareholder class actions challenging the Primedia merger, on June 7, 2011, the Court of Chancery denied a motion to preliminarily enjoin the merger. On July 18, 2011, the Court of Chancery consolidated the two pending shareholder class actions and appointed lead counsel for plaintiffs. On October 7, 2011, defendants moved to dismiss the operative complaint in the consolidated shareholder class action. The operative complaint seeks, in relevant part, unspecified monetary damages and rescission of the merger. On December 2, 2011, plaintiffs filed a consolidated amended complaint, which similarly alleges that the Primedia board members, KKR, and certain KKR affiliates breached their respective fiduciary duties by entering into the merger agreement at an unfair price in light of the value of the dismissed shareholder derivative claims. That amended complaint seeks an unspecified amount of monetary damages. On January 31, 2012, defendants moved to dismiss the amended complaint. On May 10, 2013, the Court of Chancery denied the motion to dismiss the complaint as it relates to the Primedia board members, KKR and certain KKR affiliates. On July 1, 2013, KKR and other defendants filed a motion for judgment on the pleadings.

Additionally, in May 2011, two shareholder class actions challenging the Primedia merger were filed in Georgia state courts, asserting similar allegations and seeking similar relief as initially sought by the Delaware shareholder class actions above. Both Georgia actions have been stayed in favor of the Delaware action.

In December 2007, KKR, along with 15 other private equity firms and investment banks, were named as defendants in a purported class action complaint filed in the United States District Court for the District of Massachusetts by shareholders in certain public companies acquired by private equity firms since 2003. In August 2008, KKR, along with 16 other private equity firms and investment banks, were named as defendants in a purported consolidated amended class action complaint. The suit alleges that from mid-2003 defendants have violated antitrust laws by allegedly conspiring to rig bids, restrict the supply of private equity financing, fix the prices for target companies at artificially low levels, and divide up an alleged market for private equity services for leveraged buyouts. The amended complaint seeks injunctive relief on behalf of all persons who sold securities to any of the defendants in leveraged buyout transactions and specifically

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

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challenges nine transactions. The first stage of discovery concluded on or about April 15, 2010. On August 18, 2010, the court granted plaintiffs motion to proceed to a second stage of discovery in part and denied it in part. Specifically, the court granted a second stage of discovery as to eight additional transactions but denied a second stage of discovery as to any transactions beyond the additional eight specified transactions. On October 7, 2010, the plaintiffs filed under seal a fourth amended complaint that includes new factual allegations concerning the additional eight transactions and the original nine transactions. The fourth amended complaint also includes eight purported sub-classes of plaintiffs seeking unspecified monetary damages and/or restitution with respect to eight of the original nine challenged transactions and new separate claims against two of the original nine challenged transactions. On January 13, 2011, the court granted a motion filed by KKR and certain other defendants to dismiss all claims alleged by a putative damages sub-class in connection with the acquisition of PanAmSat Corp. and separate claims for relief related to the PanAmSat transaction. The second phase of discovery permitted by the court is completed. On July 11, 2011, plaintiffs filed a motion seeking leave to file a proposed fifth amended complaint that seeks to challenge ten additional transactions in addition to the transactions identified in the previous complaints. Defendants opposed plaintiffs' motion. On September 7, 2011, the court granted plaintiffs motion in part and denied it in part. Specifically, the court granted a third stage of limited discovery as to the ten additional transactions identified in plaintiffs' proposed fifth amended complaint but denied plaintiffs' motion seeking leave to file a proposed fifth amended complaint. On June 14, 2012, following the completion of the third phase of discovery, plaintiffs filed a fifth amended complaint which, like their proposed fifth amended complaint, seeks to challenge ten additional transactions in addition to the transactions identified in the previous complaints. On June 22, 2012, defendants filed a motion to dismiss certain claims asserted in the fifth amended complaint. On July 18, 2012, the court granted in part and denied in part defendants' motion to dismiss, dismissing certain previously released claims against certain defendants. On March 13, 2013, the United States District Court denied defendants' motion for summary judgment on the count involving KKR. However, the court narrowed plaintiffs' claim to an alleged overarching agreement to refrain from jumping other defendants' announced proprietary transactions, thereby limiting the case to a smaller number of transactions subject to plaintiffs' claim. Pursuant to the court's grant of permission to re-file, KKR filed a renewed motion for summary judgment on April 16, 2013, which the court denied on July 18, 2013.

On March 4, 2011, KKR received a request from the SEC for information relating to the acquisition of Del Monte Foods Company by private equity funds affiliated with KKR and two other private equity firms, which was announced on November 25, 2010 and completed on March 8, 2011. On May 20, 2011 the SEC issued a subpoena to KKR seeking substantially the same documents and information as the March 4, 2011 request for information. On December 16, 2011, the SEC issued another subpoena to KKR seeking documents and information regarding the period prior to the announcement of the acquisition of Del Monte Foods Company. KKR is cooperating with the SEC's investigations.

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

In January 2011, KKR received a request from the SEC for information regarding KKR's investors and clients that the SEC defines as sovereign wealth funds and certain services provided by KKR. On December 19, 2011, the SEC issued a subpoena to KKR seeking additional documents and information involving certain sovereign wealth funds specified by the SEC, and on December 6, 2012 and February 15, 2013, the SEC requested additional documents and information pursuant to such subpoena. KKR is cooperating with the SEC's investigation.

In July 2012, KKR received a subpoena from the New York State Attorney General's Office seeking information and documents concerning the waiver or deferral of management fees with respect to funds where KKR or its affiliate serves or served as such a fund's general partner. KKR is cooperating with the New York State Attorney General in its investigation.

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

KKR establishes an accrued liability for litigation, regulatory and other matters only when those matters present loss contingencies that are both probable and reasonably estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. No loss contingency is recorded for matters where such losses are either not probable or reasonably estimable (or both) at the time of determination. Such matters are subject to many uncertainties, including among others (i) the proceedings are in early stages; (ii) damages sought are unspecified, unsupported, unexplained or uncertain; (iii) discovery has not been started or is incomplete; (iv) there is uncertainty as to the outcome of pending appeals or motions; (v) there are significant factual issues to be resolved; or (vi) there are novel legal issues or unsettled legal theories to be presented or a large number of parties. Consequently, management is unable to estimate a range of potential loss, if any, related to these matters. For one or more of the matters described above for which a loss is both probable and reasonably estimable, we have estimated the aggregate amount of losses attributable to KKR to be approximately \$32.5 million. We believe such losses may be, in part, subject to insurance and/or indemnity, which we believe may reduce any ultimate loss. This estimate is subject to significant judgment and a variety of assumptions and uncertainties. Actual outcomes may vary significantly from this estimate.

It is not possible to predict the ultimate outcome of all pending investigations and legal proceedings, and some of the matters discussed above seek potentially large and/or indeterminate amounts. As of such date, based on information known by management, management has

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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)

not concluded that the final resolutions of the matters above will have a material effect upon the consolidated financial statements. However, given the potentially large and/or indeterminate amounts sought in certain of these matters and the inherent unpredictability of investigations and litigations, it is possible that an adverse outcome in certain matters could, from time to time, have a material effect on KKR's financial results in any particular period

16. REGULATORY CAPITAL REQUIREMENTS

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

The regulatory capital requirements referred to above may restrict KKR's ability to withdraw capital from its registered broker-dealer entities. At June 30, 2013, approximately \$47.6 million of cash at KKR's registered broker-dealer entities may be restricted as to the payment of cash dividends and advances to KKR.

17. SUBSEQUENT EVENTS

Distribution

A distribution of \$0.42 per KKR & Co. L.P. common unit was announced on July 26, 2013 and will be paid on August 20, 2013 to unitholders of record as of the close of business on August 5, 2013. KKR Holdings will receive its pro rata share of the distribution from the KKR Group Partnerships.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements of KKR & Co. L.P., together with its consolidated subsidiaries, and the related notes included elsewhere in this report and our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, filed with the Securities and Exchange Commission on February 22, 2013, including the audited consolidated financial statements and the related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained therein. The historical condensed consolidated financial data discussed below reflects the historical results and financial position of KKR. In addition, this discussion and analysis contains forward looking statements and involves numerous risks and uncertainties, including those described under Cautionary Note Regarding Forward-looking Statements and Risk Factors. Actual results may differ materially from those contained in any forward looking statements.

Overview

Led by Henry Kravis and George Roberts, we are a leading global investment firm with \$83.5 billion in AUM as of June 30, 2013 and a 37-year history of leadership, innovation and investment excellence. When our founders started our firm in 1976, they established the principles that guide our business approach today, including a patient and disciplined investment process; the alignment of our interests with those of our fund investors, portfolio companies and other stakeholders; and a focus on attracting world class talent.

Our business offers a broad range of investment management services to our fund investors and provides capital markets services to our firm, our portfolio companies and other third parties. Throughout our history, we have consistently been a leader in the private equity industry, having completed more than 200 private equity investments in portfolio companies with a total transaction value in excess of \$475 billion. In recent years, we have grown our firm by expanding our geographical presence and building businesses in new areas, such as fixed income, equity strategies, hedge fund solutions, capital markets, infrastructure, natural resources and real estate. Our new efforts build on our core principles and industry expertise, allowing us to leverage the intellectual capital and synergies in our businesses, and to capitalize on a broader range of the opportunities we source. Additionally, we have increased our focus on servicing our existing fund investors and have increased our investment in developing relationships with new investors in our funds.

We conduct our business with offices throughout the world, providing us with a pre-eminent global platform for sourcing transactions, raising capital and carrying out capital markets activities. Our growth has been driven by value that we have created through our operationally focused investment approach, the expansion of our existing businesses, our entry into new lines of business, innovation in the products that we offer investors in our funds, an increased focus on providing tailored solutions to our clients and the integration of capital markets distribution activities.

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

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

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Business Segments

Private Markets

Through our Private Markets segment, we manage and sponsor a group of private equity funds and co-investment vehicles that invest capital for long-term appreciation, either through controlling ownership of a company or strategic minority positions. We also manage and source investments in real assets, like infrastructure, natural resources and real estate. These funds, vehicles and accounts are managed by Kohlberg Kravis Roberts & Co. L.P., an SEC registered investment adviser. As of June 30, 2013, the segment had \$54.5 billion of AUM and our actively investing funds included geographically differentiated investment funds and vehicles. As of June 30, 2013, FPAUM in the Private Markets segment was \$45.9 billion, consisting of \$42.2 billion in private equity funds and \$3.7 billion of FPAUM in real asset funds (including infrastructure, natural resources and real estate). Prior to 2010, FPAUM in the Private Markets segment consisted entirely of private equity funds.

The table below presents information as of June 30, 2013 relating to our active private equity funds and other Private Markets investment vehicles for which we have the ability to earn carried interest. This data does not reflect acquisitions or disposals of investments, changes in investment values or distributions occurring after June 30, 2013.

	Investment Period (1)		Amount							
	Commencement Date	End Date	Commitment (2)	Uncalled Commitments	Percentage Committed by General Partner	Invested	Realized	Remaining Cost (3)	Remaining Fair Value	
Private Markets										
Private Equity Funds										
Asian Fund II	4/2013	4/2019	\$ 5,825.0	\$ 5,825.0	1.3%	\$	\$	\$	\$	
North America Fund XI	9/2012	9/2018	7,230.7	6,740.2	3.5%	490.5	3.9	490.5	524.5	
China Growth Fund	11/2010	11/2016	1,010.0	692.4	1.0%	317.6	28.5	300.1	305.4	
E2 Investors (Annex Fund)	8/2009	11/2013	345.9	191.6	4.3%	154.3		154.2	325.2	
European Fund III	3/2008	3/2014	6,077.2	1,729.2	4.6%	4,348.0	549.5	3,990.6	4,697.2	
Asian Fund	7/2007	4/2013	3,983.2	273.9	2.5%	3,709.3	1,623.7	2,864.8	4,737.9	
2006 Fund	9/2006	9/2012	17,642.2	1,269.1	2.1%	16,373.1	10,509.6	10,021.7	14,378.1	
European Fund II	11/2005	10/2008	5,750.8		2.1%	5,750.8	2,442.6	3,922.9	4,926.6	
Millennium Fund	12/2002	12/2008	6,000.0		2.5%	6,000.0	9,320.5	2,218.9	3,335.2	
European Fund	12/1999	12/2005	3,085.4		3.2%	3,085.4	8,720.0		51.7	
Total Private Equity Funds			56,950.4	16,721.4		40,229.0	33,198.3	23,963.7	33,281.8	
Co-Investment Vehicles	Various	Various	2,434.1	504.1	Various	1,930.0	2,318.9	1,309.7	1,752.0	
Total Private Equity			59,384.5	17,225.5		42,159.0	35,517.2	25,273.4	35,033.8	
Real Assets										
Natural Resources Fund	Various	Various	1,232.0	658.9	Various	573.1	46.9	547.0	370.1	

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Global Energy Opportunities	Various	Various	1,011.0	884.4	Various	126.6		126.6	113.4
Infrastructure Fund	Various	Various	1,041.5	614.2	4.8%	427.3	9.0	427.3	437.9
Infrastructure Co-Investments	Various	Various	1,356.7	252.2	Various	1,104.5	190.5	1,104.5	1,355.8
Real Estate Partners America	5/2013	(4)	500.0	337.6	40%	162.4		162.4	203.8
Real Assets			5,141.2	2,747.3		2,393.9	246.4	2,367.8	2,481.0
Private Markets									
Total			\$ 64,525.7	\$ 19,972.8		\$ 44,552.9	\$ 35,763.6	\$ 27,641.2	\$ 37,514.8

(1) The commencement date represents the date on which the general partner of the applicable fund commenced investment of the fund's capital for our private equity funds and the date of the first closing for our other Private Markets funds and investment vehicles. The end date represents the earlier of (i) the date on which the general partner of the applicable fund was or will be required by the fund's governing agreement to cease making investments on behalf of the fund, unless extended by a vote of the fund investors, or (ii) the date on which the last investment was made.

(2) The commitment represents the aggregate capital commitments to the fund, including capital commitments by third-party fund investors and the general partner. Foreign currency commitments have been converted into U.S. dollars based on (i) the foreign exchange rate at the date of purchase for each investment and (ii) the exchange rate that prevailed on June 30, 2013, in the case of unfunded commitments.

(3) The remaining cost represents fund investors' initial investment reduced for any return of capital and realized gains from which the general partner did not receive a carried interest.

(4) Third anniversary of final close.

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The tables below present information as of June 30, 2013 relating to the historical performance of certain of our Private Markets investment vehicles since inception, which we believe illustrates the benefits of our investment approach. The information presented under Total Investments includes all of the investments made by the specified investment vehicle, while the information presented under Realized/Partially Realized Investments includes only those investments for which realized proceeds, excluding current income like dividends and interest, are a material portion of invested capital. This data does not reflect additional capital raised since June 30, 2013 or acquisitions or disposals of investments, changes in investment values or distributions occurring after that date. Past performance is not a guarantee of future results.

Private Markets Investment Funds	Amount		Fair Value of Investments			Gross IRR*	Net IRR*	Multiple of Invested Capital**
	Commitment	Invested	Realized	Unrealized	Total Value			
Total Investments								
<i>Legacy Funds (1)</i>								
1976	\$ 31.4	\$ 31.4	\$ 537.2	\$	\$ 537.2	39.5%	35.5%	17.1
1980	356.8	356.8	1,827.8		1,827.8	29.0%	25.8%	5.1
1982	327.6	327.6	1,290.7		1,290.7	48.1%	39.2%	3.9
1984	1,000.0	1,000.0	5,963.5		5,963.5	34.5%	28.9%	6.0
1986	671.8	671.8	9,080.7		9,080.7	34.4%	28.9%	13.5
1987	6,129.6	6,129.6	14,949.2		14,949.2	12.1%	8.9%	2.4
1993	1,945.7	1,945.7	4,143.3		4,143.3	23.6%	16.8%	2.1
1996	6,011.6	6,011.6	12,476.9		12,476.9	18.0%	13.3%	2.1
Subtotal - Legacy Funds	16,474.5	16,474.5	50,269.3		50,269.3	26.1%	19.9%	3.1
<i>Included Funds</i>								
European Fund (1999) (2)	3,085.4	3,085.4	8,720.0	51.7	8,771.7	27.0%	20.3%	2.8
Millennium Fund (2002)	6,000.0	6,000.0	9,320.5	3,335.2	12,655.7	22.1%	16.0%	2.1