KKR & Co. L.P.
Form 10-Q
May 04, 2012

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 March 31, 2012

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.

(Exact name of Registrant as specified in its charter)

Delaware	**26-0426107**
(State or other Jurisdiction of Incorporation or Organization)	(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 x No o

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 x No o

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

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

As of May 2, 2012, there were 232,335,661 Common Units of the registrant outstanding.

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KKR & CO. L.P.

FORM 10-Q

For the Quarter Ended March 31, 2012

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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, shoul approximately, predict, intend, will, plan, estimate, anticipate or the negative version of these words or other comparable words. Forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled Risk Factors in this report. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. We do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by applicable law.

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

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

In this report, the 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 investors 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.

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 investors 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 and 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 investors 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 investors 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 and management fee refunds; less (iii) certain economic interests in KKR s segments held by third parties. ENI differs from net income (loss) on a GAAP basis as a result of: (i) the exclusion of the items referred to in FRE above; (ii) the exclusion of investment income (loss) relating to noncontrolling interests; and (iii) the exclusion of income taxes.

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 capital committed to such transactions by carry-yielding co-investment vehicles, which is instead reported in committed dollars invested. 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 investors as it provides additional insight into levels of syndication activity in KKR s Capital Markets and Principal Activities segment and across its investment platform.

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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.

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 awards actually issued under the KKR & Co. L.P. 2010 Equity Incentive Plan, which we refer to as our Equity Incentive Plan, but do not reflect common units available for issuance pursuant to our Equity Incentive Plan for which grants have not yet been made.

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KKR & CO. L.P.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Unaudited)

(Amounts in Thousands, Except Unit Data)

	March 31, 2012	December 31, 2011
Assets		
Cash and Cash Equivalents	$ 611,213	$ 843,261
Cash and Cash Equivalents Held at Consolidated Entities	468,364	930,886
Restricted Cash and Cash Equivalents	109,768	89,828
Investments	41,263,384	37,495,360
Due from Affiliates	150,336	149,605
Other Assets	917,347	868,705
Total Assets	$ 43,520,412	$ 40,377,645
Liabilities and Equity		
Debt Obligations	$ 1,721,439	$ 1,564,716
Due to Affiliates	49,754	43,062
Accounts Payable, Accrued Expenses and Other Liabilities	1,733,826	1,085,217
Total Liabilities	3,505,019	2,692,995
Commitments and Contingencies		
Redeemable Noncontrolling Interests	415,709	275,507
Equity		
KKR & Co. L.P. Partners Capital (231,698,206 and 227,150,182 common units issued and outstanding as of March 31, 2012 and December 31, 2011, respectively)	1,511,754	1,330,887
Accumulated Other Comprehensive Income (Loss)	(1,481)	(2,189)
Total KKR & Co. L.P. Partners Capital	1,510,273	1,328,698
Noncontrolling Interests	38,089,411	36,080,445
Total Equity	39,599,684	37,409,143
Total Liabilities and Equity	$ 43,520,412	$ 40,377,645

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(Amounts in Thousands, Except Unit Data)

	Three Months Ended March 31,			
		2012		2011
Revenues				
Fees	$	116,307	$	231,843
Expenses				
Compensation and Benefits		372,410		356,554
Occupancy and Related Charges		15,197		12,554
General, Administrative and Other		57,651		54,644
Total Expenses		445,258		423,752
Investment Income (Loss)				
Net Gains (Losses) from Investment Activities		3,086,865		2,487,209
Dividend Income		172,939		4,808
Interest Income		76,199		65,368
Interest Expense		(18,005)		(17,252)
Total Investment Income (Loss)		3,317,998		2,540,133
Income (Loss) Before Taxes		2,989,047		2,348,224
Income Taxes		17,072		30,783
Net Income (Loss)		2,971,975		2,317,441
Net Income (Loss) Attributable to Redeemable Noncontrolling Interests		5,272		
Net Income (Loss) Attributable to Noncontrolling Interests		2,776,267		2,157,876
Net Income (Loss) Attributable to KKR & Co. L.P.	$	190,436	$	159,565
Distributions Declared per KKR & Co. L.P. Common Unit	$	0.15	$	0.21
Net Income (Loss) Attributable to KKR & Co. L.P. Per Common Unit				
Basic	$	0.83	$	0.75
Diluted	$	0.80	$	0.75
Weighted Average Common Units Outstanding				
Basic		229,099,335		213,479,630
Diluted		237,832,106		213,509,630

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Amounts in Thousands)

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
Net Income (Loss)	$	2,971,975	$	2,317,441
Other Comprehensive Income, Net of Tax:				
Foreign Currency Translation Adjustments		3,627		1,872
Comprehensive Income		2,975,602		2,319,313
Less: Comprehensive Income Attributable to Redeemable Noncontrolling Interests		5,272		
Less: Comprehensive Income Attributable to Noncontrolling Interests		2,779,138		2,159,089
Comprehensive Income Attributable to KKR & Co. L.P.	$	191,192	$	160,224

See notes to condensed consolidated financial statements.

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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**	**Noncontrolling Interests**	**Total Equity**	**Redeemable Noncontrolling Interests**
Balance at January 1, 2011	212,770,091	1,324,530	1,963	34,673,549	36,000,042	
Net Income (Loss)		159,565		2,157,876	2,317,441	
Other Comprehensive Income-Foreign Currency Translation Adjustments			659	1,213	1,872	
Contribution of Net Assets of previously Unconsolidated Entities				69,600	69,600	
Exchange of KKR Holdings L.P. Units to KKR & Co. L.P. Common Units	3,547,696	36,097	30	(36,127)		
Deferred Tax Effects Resulting from Exchange of KKR Holdings L.P. Units to KKR & Co. L.P. Common Units		203			203	
Equity Based Compensation				141,982	141,982	
Capital Contributions				1,240,669	1,240,669	
Capital Distributions		(62,003)		(2,411,410)	(2,473,413)	
Balance at March 31, 2011	216,317,787	$ 1,458,392	$ 2,652	$ 35,837,352	$ 37,298,396	$

	KKR & Co. L.P.					
	Common Units	**Partners Capital**	**Accumulated Other Comprehensive Income**	**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)		190,436		2,776,267	2,966,703	5,272
Other Comprehensive Income-Foreign Currency Translation Adjustments			756	2,871	3,627	
Exchange of KKR Holdings L.P. Units to KKR & Co. L.P. Common Units	4,548,024	46,269	(40)	(46,229)		
Deferred Tax Effects Resulting from Exchange of KKR Holdings L.P. Units to KKR & Co. L.P. Common Units		587	(8)		579	
Equity Based Compensation		16,263		98,078	114,341	
Capital Contributions				742,315	742,315	135,110
Capital Distributions		(72,688)		(1,564,336)	(1,637,024)	(180)
Balance at March 31, 2012	231,698,206	$ 1,511,754	$ (1,481)	$ 38,089,411	$ 39,599,684	$ 415,709

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Amounts in Thousands)

	For the Three Months Ended March 31, 2012	For the Three Months Ended March 31, 2011
Operating Activities		
Net Income (Loss)	$ 2,971,975	$ 2,317,441
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Equity Based Compensation	114,341	141,982
Net Realized (Gains) Losses on Investments	(553,020)	(1,514,858)
Change in Unrealized (Gains) Losses on Investments	(2,533,845)	(972,351)
Other Non-Cash Amounts	(2,324)	(9,962)
Cash Flows Due to Changes in Operating Assets and Liabilities:		
Change in Cash and Cash Equivalents Held at Consolidated Entities	462,405	476,607
Change in Due from / to Affiliates	(9,666)	(6,068)
Change in Other Assets	(32,954)	(248)
Change in Accounts Payable, Accrued Expenses and Other Liabilities	273,511	111,876
Investments Purchased	(2,834,649)	(1,988,018)
Cash Proceeds from Sale of Investments	2,508,720	3,023,861
Net Cash Provided (Used) by Operating Activities	364,494	1,580,262
Investing Activities		
Change in Restricted Cash and Cash Equivalents	(19,940)	(29,761)
Purchase of Furniture, Computer Hardware and Leasehold Improvements	(6,485)	(348)
Net Cash Provided (Used) by Investing Activities	(26,425)	(30,109)
Financing Activities		
Distributions to Partners	(72,688)	(62,003)
Distributions to Redeemable Noncontrolling Interests	(180)	
Contributions from Redeemable Noncontrolling Interests	135,110	
Distributions to Noncontrolling Interests	(1,525,967)	(2,411,410)
Contributions from Noncontrolling Interests	742,315	1,240,669
Proceeds from Debt Obligations	245,206	
Repayment of Debt Obligations	(89,174)	
Deferred Financing Costs	(4,739)	(8,554)
Net Cash Provided (Used) by Financing Activities	(570,117)	(1,241,298)
Net Increase/(Decrease) in Cash and Cash Equivalents	(232,048)	308,855
Cash and Cash Equivalents, Beginning of Period	843,261	738,693
Cash and Cash Equivalents, End of Period	$ 611,213	$ 1,047,548

See notes to condensed consolidated financial statements.

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KKR & CO. L.P.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (Continued)

(Amounts in Thousands)

	For the Three Months Ended March 31,			
	2012		2011	
Supplemental Disclosures of Cash Flow Information				
Payments for Interest	$	17,791	$	14,777
Payments for Income Taxes	$	34,521	$	23,553
Supplemental Disclosures of Non-Cash Investing and Financing Activities				
Non-Cash Contributions of Equity Based Compensation	$	114,341	$	141,982
Non-Cash Distributions to Noncontrolling Interests	$	38,369	$	
Exchange of KKR Holdings L.P. Units to KKR & Co. L.P. Common Units	$	46,229	$	36,127
Net Deferred Tax Effects Resulting from Exchange of KKR Holdings L.P. Units to KKR & Co. L.P. Common Units Including the Effect of the Tax Receivable Agreement	$	579	$	203
Foreign Exchange Gains (Losses) on Debt Obligations	$	640	$	
Contribution of Net Assets of Previously Unconsolidated Entities				
Investments	$		$	57,722
Cash and Cash Equivalents Held at Consolidated Entities	$		$	11,504
Due from Affiliates	$		$	4,244
Other Assets	$		$	4,164
Accounts Payable, Accrued Expenses and Other Liabilities	$		$	8,034

See 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 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 March 31, 2012, KKR & Co. L.P. held 33.91% of the KKR Group Partnership Units and KKR s principals held 66.09% 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 effects of changes in the ownership interest in the KKR Group Partnerships on KKR & Co. L.P. s equity:

	Three Months Ended March 31,

		2012		2011
Net income (loss) attributable to KKR & Co. L.P.	$	190,436	$	159,565
Transfers from noncontrolling interests:				
Increase in KKR & Co. L.P. partners capital for exchange of 4,548,024 and 3,547,696 KKR Group Partnership units held by KKR Holdings L.P. for the three months ended March 31, 2012 and 2011, respectively, net of deferred taxes		46,808		36,330
Change from net income (loss) attributable to KKR & Co. L.P. and transfers from noncontrolling interests held by KKR Holdings L.P.	$	237,244	$	195,895

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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 its condensed consolidated financial statements are reasonable and prudent. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated and combined financial statements included in KKR & Co. L.P. s Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC).

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 vehicles, general partners of its consolidated vehicles and their respective consolidated funds (the KKR Funds) and certain other entities.

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 our Managing Partner entitling them to vote for the election of its 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 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 the consolidated KKR Funds, KKR generally has operational discretion and control, and limited partners have no substantive rights to impact ongoing governance and operating activities of the fund. The KKR Funds are consolidated by KKR notwithstanding the fact that KKR has only a minority economic interest in those funds. KKR s financial statements reflect the assets, liabilities, fees, expenses, investment income (loss) and cash flows of the consolidated KKR Funds on a gross basis, and the majority of the economic interests in those funds, which are held by third party investors, are attributed to noncontrolling interests in 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.

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

All intercompany transactions and balances have been eliminated.

Variable Interest Entities

KKR consolidates all VIEs in which it is considered the primary beneficiary. An enterprise is determined to be the primary beneficiary if it has a controlling financial interest under GAAP. A controlling financial interest is defined as (a) the power to direct the activities of a variable interest entity that most significantly impact the entity s business and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. The consolidation rules which were revised effective January 1, 2010 require an analysis to (a) determine whether an entity in which KKR has a variable interest is a VIE and (b) whether KKR s involvement, through the holding of equity interests directly or indirectly in the entity or contractually through other variable interests unrelated to the holding of equity interests, would give it a controlling financial interest under GAAP. Performance of that analysis requires the exercise of judgment. Where KKR has an interest in an entity that has qualified for the deferral of the consolidation rules, the analysis is based on consolidation rules prior to January 1, 2010. These rules require an analysis to (a) determine whether an entity in which KKR has a variable interest is a VIE and (b) whether KKR s involvement, through the holding of equity interests directly or indirectly in the entity or contractually through other variable interests would be expected to absorb a majority of the variability of the entity. Under both guidelines, KKR determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a VIE and reconsiders that conclusion at each reporting date. In evaluating whether KKR is the primary beneficiary, KKR evaluates its economic interests in the entity held either directly by KKR or indirectly through related parties. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that KKR is not the primary beneficiary, a quantitative analysis may also be performed. Investments and redemptions (either by KKR, affiliates of KKR or third parties) or amendments to the governing documents of the respective entities could affect an entity s status as a VIE or the determination of the primary beneficiary. At each reporting date, KKR assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly. KKR s accounting conclusion under the existing consolidation rules determined that effective January 1, 2011, KKR became the primary beneficiary of certain entities and consolidated such entities that were unconsolidated prior to that date.

As of March 31, 2012 and December 31, 2011, the maximum exposure to loss for those VIEs in which KKR is determined not to be the primary beneficiary but in which it has a variable interest is as follows:

	March 31, 2012	December 31, 2011
Investments	$ 68,366	$ 61,053
Due from Affiliates, net	4,392	2,095
Maximum Exposure to Loss	$ 72,758	$ 63,148

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 March 31, 2012 and December 31, 2011, KKR did not provide any support other than its obligated amount.

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

Redeemable Noncontrolling Interests

Redeemable Noncontrolling Interests represent noncontrolling interests of certain investment vehicles and funds that are subject to periodic redemption by 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 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 Partners Capital 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 by:

(i) third party investors in the KKR Funds;

(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 an aggregate of 2% of the capital markets business equity).

Noncontrolling Interests held by KKR Holdings

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

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Balance at the beginning of the period	$ 4,342,157	$ 4,346,388
Net income (loss) attributable to noncontrolling interests held by KKR Holdings (a)	404,191	408,904
Other comprehensive income (b)	2,670	1,180
Exchange of KKR Holdings units to KKR & Co. L.P. units (c)	(46,229)	(36,127)
Equity Based Compensation	98,077	141,982
Capital contributions	714	2,680
Capital distributions	(240,966)	(177,439)
Balance at the end of the period	$ 4,560,614	$ 4,687,568

(a) Refer to 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.

Income (loss) attributable to KKR after allocation to noncontrolling interests, 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 contribution of certain expenses borne entirely by KKR Holdings as well as the periodic exchange of KKR Holdings units for KKR & Co. L.P. common units pursuant to the exchange agreement, the 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.

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net income (loss)	$ 2,971,975	$ 2,317,441
Less: Net income (loss) attributable to Redeemable Noncontrolling Interests	5,272	
Less: Net income (loss) attributable to Noncontrolling Interests in consolidated entities	2,372,076	1,748,972

Plus: Income taxes attributable to KKR Management Holdings Corp.		13,344		26,351
Net income (loss) attributable to KKR & Co. L.P. and KKR Holdings	$	607,971	$	594,820
Net income (loss) attributable to noncontrolling interests held by KKR Holdings (a)	$	404,191	$	408,904

(a) Net income (loss) attributable to KKR Holdings is based on the weighted average KKR Group Partnership Units held by KKR Holdings during the reporting period.

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Investments

Investments consist primarily of private equity, fixed income, 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 accompanying 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.

Private Equity **-** Consists primarily of investments in Portfolio Companies of KKR Funds and investments in infrastructure, natural resources and 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.

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

Securities Sold Short

Whether part of a hedging transaction or a transaction in its own right, securities sold short, represent obligations of KKR to deliver the specified security at the contracted price at a future point in time, and thereby create a liability to repurchase the security in the market at the prevailing prices. The liability for such securities sold short is marked to market based on the current fair value of the underlying security at the reporting date with changes in fair value recorded as unrealized gains or losses in Net Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations. These transactions may involve a market risk in excess of the amount currently reflected in the accompanying statements of financial condition.

Derivatives

Derivative contracts include forward, swap and option contracts related to foreign currencies and credit standing of reference entities to manage foreign exchange risk and credit risk arising from certain assets and liabilities. All derivatives are recognized as either assets or liabilities in the condensed consolidated statements of financial condition and measured at fair value with changes in fair value recorded in Net Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations. KKR s derivate 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.

Fair Value Measurements

Investments and other financial instruments are measured and carried at fair value. The majority of the investments and other financial instruments are held by the consolidated KKR Funds. The KKR Funds 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 KKR Funds in consolidation. Accordingly, the unrealized gains and losses resulting from changes in fair value of the investments held by the KKR Funds are reflected as a component of Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations.

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For investments and certain other financial instruments that are not held in a consolidated KKR Fund, KKR has elected the fair value option since these investments and other financial instruments are similar to those in the consolidated KKR Funds. 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 methodology applied to investments and other financial instruments that are held in consolidated KKR Funds.

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

Level I

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

Level II

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

Level III

Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The types of assets and liabilities generally included in this category are private Portfolio Companies 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

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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 debt 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 to allow for mid-market pricing and adjusting to the point within the bid-ask range that meets KKR s best estimate of fair value. For debt 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

The valuation methodologies used for the assets that are valued using Level III of the fair value hierarchy are described below.

Private Equity Investments: KKR generally employs two valuation methodologies when determining the fair value of a private equity investment (including infrastructure and natural resources investments). 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.

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.

Other Investments: Other investments primarily represent privately-held equity and equity-like securities (e.g. warrants) in companies that are not private equity or fixed income 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 our valuation methodologies. KKR s reported fair value estimates could vary materially if we had chosen to incorporate different unobservable pricing inputs and other assumptions or, for applicable investments, if we only used either the discounted cash flow methodology or the market comparables methodology instead of assigning a weighting to both methodologies.

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Level III Valuation Process

The valuation process involved for Level III measurements for private equity, 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 valuation committee for private equity investments and a valuation committee for fixed income and other investments. Each committee is assisted by a valuation team, which 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 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 are presented to the audit committee of KKR s board of directors and are then reported on to the board of directors.

As of March 31, 2012, upon completion by the independent valuation firm of certain limited procedures requested to be performed by them, the independent valuation firm concluded that the fair values, as determined by KKR, of the investments reviewed by them were reasonable.

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 private equity and other 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 months ended March 31, 2012 and 2011, fees consisted of the following:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Transaction Fees	$ 43,662	$ 86,665
Monitoring & Consulting Fees	42,770	113,744
Management Fees	20,205	19,421
Incentive Fees	9,670	12,013
Total Fee Income	$ 116,307	$ 231,843

Transaction Fees

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

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

Monitoring and Consulting Fees

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

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

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

Management Fees

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

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

Incentive Fees

KKR s management agreement with a specialty finance company entitles KKR to quarterly incentive fees. The incentive fees are calculated and paid quarterly in arrears and are not subject to any hurdle or clawback provisions. The management agreement with the specialty finance company was renewed on January 1, 2012 and will automatically be renewed for successive one-year terms following December 31, 2012 unless the agreement is terminated in accordance with its terms.

Compensation and Benefits

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

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

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

Carried Interest

Carried interest entitles the general partner of a fund to a greater allocable share of the fund s earnings from investments relative to the capital contributed by the general partner and correspondingly reduce noncontrolling interests attributable share of those earnings. Amounts earned pursuant to carried interest are included as investment income (loss) in Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations and are earned by the general partner of those funds to the extent that cumulative investment returns are positive and where applicable, preferred return thresholds have been met. If these investment returns decrease or turn negative in subsequent periods, recognized carried interest will be reversed and reflected as investment losses in Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations. Carried interest is recognized based on the contractual formula set forth in the agreements governing the fund as if

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the fund was terminated at the reporting date with the then estimated fair values of the investments realized. Due to the extended durations of KKR s private equity funds and other investment vehicles, KKR believes that this approach results in income recognition that best reflects the periodic performance of KKR in the management of those funds. See Note 12 Segment Reporting for the amount of carried interest income earned or reversed for the three months ended March 31, 2012 and 2011.

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

Carry Pool Allocation

With respect to KKR s active and future funds and co-investment vehicles that provide for carried interest, KKR will allocate to its principals and other professionals a portion of the carried interest earned in relation to these funds as part of its carry pool. KKR currently allocates approximately 40% of the carry it earns from these funds and vehicles to its carry pool. These amounts are accounted for as compensatory profit-sharing arrangements in conjunction with the related carried interest income and recorded as compensation expense for KKR employees and general, administrative and other expense for certain non-employee consultants and service providers in the consolidated statements of operations. For the three months ended March 31, 2012 and 2011, KKR recorded expense related to the carry pool allocation of $191.5 million and $139.5 million respectively.

Tax Receivable Agreement

Certain exchanges of KKR Group Partnership Units from KKR Holdings or transferees of its KKR Group Partnership Units for KKR & Co. L.P. common units may occur pursuant to KKR s exchange agreement. These exchanges are expected to result in an increase in KKR Management Holdings Corp. s and its corporate subsidiary s share of the tax basis of the tangible and intangible assets of KKR Management Holdings, a portion of which is attributable to the goodwill inherent in our business, that would not otherwise have been available. This increase in tax basis may increase depreciation and amortization for U.S. federal income tax purposes and therefore reduce the amount of income tax that our intermediate holding companies would otherwise be required to pay in the future. KKR & Co. L.P. entered into a tax receivable agreement with KKR Holdings pursuant to which our intermediate holding companies will be required to pay to KKR Holdings or transferees of its KKR Group Partnership Units 85% of the amount of cash savings, if any, in U.S. federal, state and local income taxes that the intermediate holding companies actually realize as a result of this increase in tax basis, as well as 85% of the amount of any such savings the intermediate holding companies actually realize as a result of increases in tax basis that arise due to payments under the tax receivable agreement. Although KKR is not aware of any issue that would cause the IRS to challenge a tax basis increase, neither KKR Holdings nor its transferees will reimburse KKR for any payments previously made under the tax receivable agreement if such tax basis increase, or the benefits of such increases, were successfully challenged. Payments made under the tax receivable agreement are required to be made within 90 days of the filing of the tax return of KKR Management Holdings Corp. As of March 31, 2012, approximately $0.2 million of cumulative cash payments have been made under the tax receivable agreement. No amounts were paid for the three months ended March 31, 2012.

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

Recently Adopted Accounting Pronouncements

On January 1, 2012, KKR adopted ASU 2011-4, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and International Financial Reporting

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Standards. The ASU specifies that the concepts of highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets and are not relevant when measuring the fair value of financial assets or of liabilities. The amendments include requirements specific to measuring the fair value of those instruments, such as equity interests used as consideration in a business combination. An entity should measure the fair value of its own equity instrument from the perspective of a market participant that holds the instrument as an asset. With respect to financial instruments that are managed as part of a portfolio, an exception to fair value requirements is provided. That exception permits a reporting entity to measure the fair value of such financial assets and financial liabilities at the price that would be received to sell a net asset position for a particular risk or to transfer a net liability position for a particular risk in an orderly transaction between market participants at the measurement date. The amendments also clarify that premiums and discounts should only be applied if market participants would do so when pricing the asset or liability. Premiums and discounts related to the size of an entity s holding (e.g., a blockage factor) rather than as a characteristic of the asset or liability (e.g., a control premium) is not permitted in a fair value measurement.

The guidance also requires enhanced disclosures about fair value measurements, including, among other things, (a) for fair value measurements categorized within Level III of the fair value hierarchy, (1) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, (2) the valuation process used by the reporting entity, and (3) a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, if any, and (b) the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position but for which the fair value is required to be disclosed (for example, a financial instrument that is measured at amortized cost in the statement of financial position but for which fair value is disclosed). The guidance also amends disclosure requirements for significant transfers between Level I and Level II and now requires disclosure of all transfers between Levels I and II in the fair value hierarchy. As a result of adopting ASU 2011-04, KKR expanded its fair value disclosures. See Note 5 Fair Value Measurements.

On January 1, 2012, KKR adopted ASU 2011-05, Comprehensive Income. The ASU provides an entity with an option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The guidance is effective for fiscal years, and interim periods within those years beginning after December 15, 2011 and should be applied on a retrospective basis. KKR has adopted the presentation of total comprehensive income in two consecutive statements. See the Statements of Operations and Statements of Comprehensive Income (Loss).

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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 months ended March 31, 2012 and 2011, respectively.

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
	Net Realized Gains (Losses)	**Net Unrealized Gains (Losses)**	**Net Realized Gains (Losses)**	**Net Unrealized Gains (Losses)**
Private Equity Investments (a)	$ 527,976	$ 2,481,140	$ 1,477,472	$ 1,035,588
Fixed Income and Other (a)	50,613	133,574	35,437	35,755
Foreign Exchange Forward Contracts (b)	14,830	(66,440)	7,887	(93,986)
Foreign Currency Options (b)	(10,740)	7,830		(8,259)
Securities Sold Short (b)	(26,829)	(12,381)	(7,247)	3,752
Other Derivative Liabilities	(3,063)	(201)	(112)	(499)
Contingent Carried Interest Repayment Guarantee (c)		(8,687)		
Foreign Exchange Gains (Losses) on Debt Obligations	233	(873)		
Foreign Exchange Gains (Losses) on Cash and Cash Equivalents held at Consolidated Entities		(117)	1,421	
Total Net Gains (Losses) from Investment Activities	**$ 553,020**	**$ 2,533,845**	**$ 1,514,858**	**$ 972,351**

(a) See Note 4 Investments.

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

(c) See Note 13 Commitments and Contingencies.

4. INVESTMENTS

Investments consist of the following:

	Fair Value		Cost	
	March 31, 2012	**December 31, 2011**	**March 31, 2012**	**December 31, 2011**
Private Equity	$ 37,388,553	$ 34,637,901	$ 33,818,142	$ 33,545,298
Fixed Income	2,752,605	2,228,210	2,632,979	2,199,390
Other	1,122,226	629,249	1,091,141	650,802
	$ 41,263,384	$ 37,495,360	$ 37,542,262	$ 36,395,490

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As of March 31, 2012 and December 31, 2011, Investments totaling $3,381,545 and $2,150,319, respectively, were pledged as direct collateral against various financing arrangements. See Note 8 Debt Obligations.

As of March 31, 2012 and December 31, 2011, private equity investments which represented greater than 5% of the total private equity investments included:

	Fair Value	
	March 31, 2012	December 31, 2011
Dollar General Corporation	$ 3,783,586	$ 3,399,221
Alliance Boots GmbH	2,710,147	2,459,263
HCA, Inc.	2,083,071	1,854,248
	$ 8,576,804	$ 7,712,732

The majority of the securities underlying private equity investments represent equity securities. As of March 31, 2012 and December 31, 2011, the fair value of investments that were other than equity securities amounted to $1,939,460 and $1,897,362, respectively.

5. FAIR VALUE MEASUREMENTS

The following tables summarize the valuation of KKR s investments and other financial instruments, which includes those for which the fair value option has been elected, measured and reported at fair value by the fair value hierarchy levels described in Note 2 Summary of Significant Accounting Policies as of March 31, 2012 and December 31, 2011.

Assets, at fair value:

	March 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	$ 11,621,114	$ 1,939,460	$ 23,827,979	$ 37,388,553
Fixed Income	17,218	1,579,038	1,156,349	2,752,605
Other	681,833	317,932	122,461	1,122,226
Total Investments	12,320,165	3,836,430	25,106,789	41,263,384
Foreign Exchange Forward Contracts		47,784		47,784
Other Derivatives		2,347		2,347
Total Assets	$ 12,320,165	$ 3,886,561	$ 25,106,789	$ 41,313,515

	December 31, 2011			
				Total

	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	
Private Equity	$ 10,772,277	$ 1,897,363	$ 21,968,261	$ 34,637,901
Fixed Income	16,847	1,194,604	1,016,759	2,228,210
Other	284,997	248,073	96,179	629,249
Total Investments	11,074,121	3,340,040	23,081,199	37,495,360
Foreign Exchange Forward Contracts		114,224		114,224
Other Derivatives		490		490
Total Assets	$ 11,074,121	$ 3,454,754	$ 23,081,199	$ 37,610,074

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Liabilities, at fair value:

	March 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	$ 477,357	$	$	$ 477,357
Foreign Currency Options		3,951		3,951
Other Derivatives		1,969		1,969
Total Liabilities	$ 477,357	$ 5,920	$	$ 483,277

	December 31, 2011			
	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	$ 202,908	$	$	$ 202,908
Foreign Currency Options		11,736		11,736
Total Liabilities	$ 202,908	$ 11,736	$	$ 214,644

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The following tables summarize changes in private equity, fixed income, and other investments measured and reported at fair value for which Level III inputs have been used to determine fair value for the three months ended March 31, 2012 and 2011, respectively.

	Three Months Ended March 31, 2012			
	Private Equity	Fixed Income	Other	Total Level III Investments
Balance, Beginning of Period	$ 21,968,261	$ 1,016,759	$ 96,179	$ 23,081,199
Transfers In (1)		311	1,061	1,372
Transfers Out (2)		(12,627)		(12,627)
Purchases	438,009	166,470	5,999	610,478
Sales	(48,537)	(34,360)		(82,897)
Settlements		(10,652)		(10,652)
Net Realized Gains (Losses)	22,465	7,242		29,707
Net Unrealized Gains (Losses)	1,447,781	23,206	19,222	1,490,209
Balance, End of Period	$ 23,827,979	$ 1,156,349	$ 122,461	$ 25,106,789
Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities (including foreign exchange gains and losses attributable to foreign- denominated investments) related to Investments still held at Reporting Date	$ 1,470,246	$ 26,373	$ 19,222	$ 1,515,841

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

	Three Months Ended March 31, 2011			
	Private Equity	Fixed Income	Other	Total Level III Investments
Balance, Beginning of Period	$ 23,172,797	$ 666,014	$ 45,188	$ 23,883,999
Transfers In (1)		89,449		89,449
Transfers Out (2)	(4,333,220)		(3,830)	(4,337,050)
Purchases	790,489	158,334	42,904	991,727
Sales	(818,362)	(15,338)		(833,700)
Net Realized Gains (Losses)	574,985	741		575,726
Net Unrealized Gains (Losses)	1,307,005	25,275	3,513	1,335,793
Balance, End of Period	$ 20,693,694	$ 924,475	$ 87,775	$ 21,705,944
Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities (including foreign exchange gains and losses attributable to	$ 696,542	$ 25,470	$ 3,366	$ 725,378

foreign- denominated investments) related to
Investments still held at Reporting Date

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(1) The Transfers In noted in the table above for fixed income investments are principally attributable to certain corporate credit 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 table above for private equity investments are attributable to certain Portfolio Companies that completed an initial public offering during the period. The Transfers Out noted above for other investments are

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principally attributable to certain investments that experienced a significant 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 accompanying condensed consolidated statements of operations. There were no transfers between Level I and Level II during the three months ended March 31, 2012 and 2011, respectively.

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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 March 31, 2012:

Private equity investments	$	23,827,979	Inputs to both market comparables and discounted cash flow	Illiquidity Discount	10%	0% - 20%	(6)	Decrease
				Weight Ascribed to Market Comparables	48%	0% - 100%		(4)
				Weight Ascribed to Discounted Cash Flow	52%	0% - 100%		(5)
			Market comparables	Enterprise Value/LTM EBITDA Multiple	9x	4x - 15x	(7)	Increase
				Enterprise Value/Forward EBITDA Multiple	9x	4x - 14x	(7)	Increase
				Control Premium	1%	0% - 25%	(8)	Increase
			Discounted cash flow	Weighted Average Cost of Capital	10%	7% - 30%		Decrease
				Enterprise Value/LTM EBITDA Exit Multiple	9x	5x - 13x		Increase
Fixed income investments	$	950,342(9)	Market comparables	Discount Margin	1327 bps	504 bps - 6750 bps		Decrease
				Yield to Maturity	17%	6% - 69%		Decrease
				Total Leverage	5x	1x - 7x		Decrease
				Illiquidity Discount	3%	0% - 20%		Decrease

(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 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) All private equity investments are assigned a minimum 5% illiquidity discount, with the exception of investments in KKR s natural resources strategy.

(7) 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 27x and 21x, respectively. The exclusion of this investment does not impact the weighted average.

(8) Level III private equity investments whose valuations include a control premium represent less than 5% of total Level III private equity investments. The valuations for the remaining investments do not include a control premium.

(9) Amounts exclude $206.0 million of investments that were valued using dealer quotes or third party valuation firms and were therefore not subject to significant management judgment.

The table above excludes Other Investments in the amount of $122.5 million comprised primarily of privately-held equity and equity-like securities (e.g. warrants) in companies that are not private equity or 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 measurement as noted in the table above.

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6. EARNINGS PER COMMON UNIT

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

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

For the three months ended March 31, 2012 and 2011, basic and diluted earnings per common unit were calculated as follows:

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
	Basic	**Diluted**	**Basic**	**Diluted**
Net Income (Loss) Attributable to KKR & Co. L.P.	$ 190,436	$ 190,436	$ 159,565	$ 159,565
Net Income Attributable to KKR & Co. L.P. Per Common Unit	$ 0.83	$ 0.80	$ 0.75	$ 0.75
Total Weighted-Average Common Units Outstanding	229,099,335	237,832,106	213,479,630	213,509,630

For the three months ended March 31, 2012 and 2011, KKR Holdings units have been excluded from the calculation of diluted earnings per common unit given that the exchange of these units would proportionally increase KKR & Co. L.P. s interests in the KKR Group Partnerships and would have an anti-dilutive effect on earnings per common unit as a result of certain tax benefits KKR & Co. L.P. is assumed to receive upon the exchange.

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

Other assets consist of the following:

	March 31, 2012	December 31, 2011
Interest and Note Receivable (a)	$ 326,699	$ 319,402
Due from Broker (b)	209,167	
Unsettled Investment Sales (c)	91,590	230,970
Fixed Assets, net (d)	63,272	59,619
Foreign Exchange Forward Contracts (e)	47,784	114,224
Receivables	42,897	30,060
Deferred Tax Assets	28,981	34,125
Intangible Asset, net (f)	23,363	24,310
Deferred Financing Costs	21,085	17,691
Deferred Transaction Costs	13,009	8,987
Prepaid Expenses	15,721	10,709
Refundable Security Deposits	7,604	8,242
Other	26,175	10,366
	$ 917,347	$ 868,705

(a) Represents interest receivable and a promissory note received from a third party. The promissory note bears interest at a fixed rate of 3.0% per annum and matures on February 28, 2016.

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

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

(d) Net of accumulated depreciation and amortization of $83,076 and $80,501 as of March 31, 2012 and December 31, 2011, respectively. Depreciation and amortization expense totaled $2,572 and $2,670 for the three months ended March 31, 2012 and 2011, 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) Net of accumulated amortization of $14,523 and $13,576 as of March 31, 2012 and December 31, 2011, respectively. Amortization expense totaled $947 for the three months ended March 31, 2012 and 2011, respectively.

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

	March 31, 2012	December 31, 2011
Amounts Payable to Carry Pool (a)	$ 607,929	$ 448,818
Securities Sold Short (b)	477,357	202,908
Unsettled Investment Purchases (c)		