

KKR & Co. L.P.  
Form S-1/A  
November 13, 2007

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As filed with the Securities and Exchange Commission on November 13, 2007

Registration No. 333-144335

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## Amendment No. 2

to

## FORM S-1

REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

## KKR & CO. L.P.

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**6282**  
(Primary Standard Industrial  
Classification Code Number)

**26-0426107**  
(I.R.S. Employer  
Identification No.)

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**New York, NY 10019**  
**Telephone: (212) 750-8300**  
(Address, including zip code, and telephone number,  
including area code, of Registrant's principal executive offices)

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**Approximate date of commencement of the proposed sale of the securities to the public:** As soon as practicable after the Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

**CALCULATION OF REGISTRATION FEE**

<b>Title Of Each Class Of Securities To Be Registered</b>	<b>Proposed Maximum Aggregate Offering Price(1)(2)</b>	<b>Amount of Registration Fee</b>
Common Units Representing Limited Partner Interests	\$1,250,000,000	\$38,375(3)

- (1) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(o) under the Securities Act.
- (2) Includes units subject to the underwriters' option to purchase additional common units.
- (3) Previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, NOVEMBER 13, 2007

PRELIMINARY PROSPECTUS

## Common Units Representing Limited Partner Interests

This is the initial public offering of our common units, which represent limited partner interests in our partnership. We are selling all of the common units in this offering. None of our existing owners is selling any common units or will otherwise receive any of the net proceeds from this offering.

Prior to this offering, there has been no public market for our common units. We expect the public offering price will be between \$ and \$ per common unit. We intend to list our common units on the New York Stock Exchange under the symbol "KKR."

**Investing in our common units involves a high degree of risk. See "Risk Factors" beginning on page 31 of this prospectus. These risks include the following:**

We are managed by a general partner, which we refer to as our Managing Partner, and do not have our own directors or officers. Unlike the holders of common stock in a corporation, our unitholders will have only limited voting rights and will have no right to elect or remove our Managing Partner or its directors. Immediately following this offering, our principals will generally have sufficient voting power to determine the outcome of any matters that may be submitted for a vote of our unitholders.

We believe that we will be treated as a partnership for U.S. federal income tax purposes and you therefore will be required to take into account your allocable share of items of our income, gain, loss and deduction in computing your U.S. federal income tax liability. You may not receive cash distributions equal to your allocable share of our net taxable income or even the tax liability that results from that income.

Legislation has been introduced that would, if enacted, preclude us from qualifying as a partnership for U.S. federal income tax purposes under the rules governing publicly traded partnerships and would require that we be treated as a corporation for U.S. federal income tax purposes. Separately, legislation has been introduced that would, if enacted, treat income received by a partner with respect to an investment services partnership interest as ordinary income received for the performance of services. If the above or any similar legislation or regulation were to be enacted and apply to us, we would incur a material increase in our tax liability that could result in a reduction in the value of our common units.

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	Per Common Unit	Total
Initial public offering price	\$	\$

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<b>Underwriting discount</b>	\$	\$
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<b>Proceeds, before expenses, to us</b>	\$	\$
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To the extent that the underwriters sell more than \_\_\_\_\_ common units, the underwriters have the option to purchase up to an additional \_\_\_\_\_ common units from us at the initial public offering price less the underwriting discount.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the common units to purchasers on or about \_\_\_\_\_, 2007.

**Morgan Stanley**

**Citi**

The date of this prospectus is \_\_\_\_\_, 2007.

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You should rely only on the information contained in this prospectus or in any free writing prospectus we may authorize to be delivered to you. Neither we nor the underwriters have authorized anyone to provide you with additional or different information. We and the underwriters are offering to sell, and seeking offers to buy, our common units only in jurisdictions where offers and sales are permitted. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of our common units.

We have prepared this prospectus using a number of conventions, which you should consider when reading the information contained herein. Unless the context suggests otherwise, references in this prospectus to "KKR," "we," "us," "our" and "our partnership" refer:

prior to our reorganization into a holding company structure, to the KKR Group, which comprises certain consolidated and combined entities under the common control of our senior principals, and



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under the common ownership of our principals and certain other individuals who have been involved in our business, whom we refer to collectively as our existing owners; and

after our reorganization into a holding company structure, to KKR & Co. L.P. and its consolidated subsidiaries, which will continue to be under the common control of our senior principals.

The KKR Group is considered our predecessor for accounting purposes and its combined financial statements will be our historical financial statements following our reorganization and this offering. We will not acquire all of the interests in the KKR Group in connection with our reorganization and, accordingly, the combined financial statements of the KKR Group may not be indicative of the results of operations and financial condition that we will have following the completion of this offering. In addition, we will not be allocated any of the capital contributions made by the general partners of our funds prior to the completion of our reorganization and this offering or any returns generated on those contributions. See "Organizational Structure," "Unaudited Pro Forma Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

References in this prospectus to "KFN" are to KKR Financial Holdings LLC, a publicly traded credit strategy fund whose limited liability company interests are listed on the New York Stock Exchange under the symbol "KFN."

References in this prospectus to our (i) "principals" are to our senior investment and other professionals who hold interests in our Group Partnerships and (ii) "senior principals" are to those identified as senior principals in "Business Employees." References in this prospectus to our "traditional private equity funds" are to our private equity funds other than KKR Private Equity Investors (our private equity-oriented permanent capital fund).

In this prospectus, we also periodically refer to our "assets under management," which represent the assets as to which we are entitled to receive a fee or carried interest. We calculate the amount of assets under management as of any date as the sum of:

the fair value of the investments of our traditional private equity funds and our carry-paying co-investment vehicles plus the capital that we are entitled to call from investors in our traditional private equity funds with respect to their unfunded capital commitments;

the net asset value, or "NAV," of KKR Private Equity Investors and the KKR Strategic Capital Funds (our three private side-by-side credit strategy funds);

the equity of KFN; and

the capital raised by structured finance vehicles that we manage.

You should bear in mind that our calculation of assets under management may differ from the calculations of other asset managers and, as a result, our measurements of our assets under management may not be comparable to similar measures presented by other asset managers. Our definition of assets under management is not based on any definition of assets under management that is set forth in the agreements governing the investment funds that we manage. See "Private Equity Valuations and Related Data" for more information.

Unless indicated otherwise, the information included in this prospectus assumes no exercise by the underwriters of the option to purchase up to an additional common units from us and that the common units to be sold in this offering will be sold at a price of \$ per common unit, which is the midpoint of the price range indicated on the front cover of this prospectus.

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements, 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," "seek," "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 "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this prospectus. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

**MARKET AND INDUSTRY DATA**

This prospectus includes market and industry data and forecasts that we have derived from independent reports, publicly available information, various industry publications, other published industry sources and our internal data and estimates. Independent reports, industry publications and other published industry sources generally indicate that the information contained therein was obtained from sources believed to be reliable. Our internal data and estimates are based upon information obtained from investors in our funds, trade and business organizations and other contacts in the markets in which we operate and our understanding of industry conditions. Although we believe that such information is reliable, we have not had this information verified by any independent sources.

## SUMMARY

*This summary highlights information contained elsewhere in this prospectus and does not contain all the information you should consider before investing in our common units. You should read this entire prospectus carefully, including the section entitled "Risk Factors" and the historical financial statements and related notes included elsewhere herein, before you decide to invest in our common units.*

### Our Company

Founded in 1976, we are a leading global alternative asset manager. Our more than 400 employees, including more than 150 investment professionals, are led by our founders, Henry Kravis and George Roberts, who are pioneers of the leveraged buyout industry. Our history of landmark achievements in private equity includes the first leveraged buyout in excess of \$1 billion, several of the largest leveraged buyouts announced worldwide to date, the first buyout of a public company by tender offer and the largest leveraged buyouts completed or announced in each of the United States, the Netherlands, Denmark, India, Australia, Turkey, Singapore and France. We have continued our history of innovation by establishing new debt and public equity strategies that leverage the power of our brand and the intellectual capital in our private equity business.

Today, through our offices in New York, Menlo Park, San Francisco, London, Paris, Hong Kong and Tokyo, we sponsor and manage funds that make investments worldwide in private equity and debt transactions on behalf of third-party investors and our firm. We also manage substantial investments in public equity. During our 31-year history, we have raised 16 funds and received approximately \$59.7 billion of capital and capital commitments from investors. We have grown our assets under management significantly, from approximately \$18.3 billion as of December 31, 2002 to approximately \$54.4 billion as of June 30, 2007, representing a compounded annual growth rate of 27.4%. Of our total assets under management, approximately \$7.0 billion is "permanent capital," which is not required to be returned to investors and is able to be re-deployed as investments are realized.

Our business is organized into two segments: private equity and credit. Our private equity segment comprises six private equity funds that have a finite life and investment period, which we refer to as our traditional private equity funds, and KKR Private Equity Investors, our private equity-oriented permanent capital fund, which is listed on Euronext Amsterdam and has a perpetual existence and investment period. The general partners of our traditional private equity funds are generally required to make minimum capital commitments to the funds of 2% to 3% of a fund's total capital commitments. In addition, our principals and other qualifying employees are permitted to invest and have invested their own capital in side-by-side investments with our traditional private equity funds.

Our credit segment comprises the KKR Strategic Capital Funds, a group of three private credit strategy funds, and KKR Financial Holdings LLC, or KFN, a credit strategy fund listed on the New York Stock Exchange. Although our principals have invested capital in our credit strategy funds in their personal capacities, we have not made any direct capital contributions to those funds as a general partner or fund manager. However, we have received restricted shares and options of KFN as a component of compensation for management services provided to the fund. As a result of these arrangements, we held restricted shares and options representing 3.1% of KFN's outstanding shares on a fully diluted basis as of June 30, 2007.

We earn ongoing management fees for providing management and other services to our private equity and credit strategy funds as well as transaction, monitoring, incentive and other potential fees in connection with our investments. We also earn investment income from investing our own capital alongside fund investors and from our carried interest in fund investments, which provides us with a disproportionate share of the investment gains generated on third-party capital invested by our private equity funds.

In connection with this offering, we will complete a series of transactions pursuant to which our business will be reorganized into a holding company structure. Following our reorganization and this offering, we will have a right to the management, transaction, monitoring and other fees from our existing and future private equity funds and their portfolio companies. In addition, we will have the right to carried interest earned by the general partners of our existing and future private equity funds (other than the 1996 Fund and earlier funds) as well as any returns generated on capital contributions made by the general partners of these funds after the completion of this offering. We will also have a right to the management, incentive and other potential fees for managing our existing and future credit strategy funds as well as incentive fees from these funds.

We are also selectively pursuing opportunities to develop new investment structures and products that we believe will help us increase the amount of managed capital that we are able to commit to individual transactions, grow our assets under management and capture additional income streams.

### **Our Investment Approach**

We approach our business and our investments as industrialists. We seek to invest in high quality companies that have strong business franchises, attractive growth prospects, leading market positions and the ability to generate superior returns. When we make investments, we partner with highly motivated management teams to design and implement strategic and operational changes that create value in the businesses we acquire and we align our interests with other stakeholders by putting our own capital at risk. We believe that our leading position in the alternative asset management industry is due to the strategies we have created for sourcing investments and creating value for stakeholders.

#### ***Sourcing Advantage***

We source new investments through our internal deal generation strategies and business relationships with leaders in the business and financial communities. We believe that we have a number of advantages for sourcing investments that differentiate our firm. These advantages include:

***Industry Team Focus.*** Our investment professionals are organized into global industry teams. Each team conducts its own primary research and is responsible for developing a list of industry themes and trends, identifying companies that will benefit from those themes and trends, determining which companies would make an attractive investment and building relationships with industry leaders and management teams. Through the work of our industry teams, we have developed a detailed understanding of the economic drivers, inherent risks and opportunities for value creation across the industries in which we invest.

***Direct Contacts with Business Leaders.*** We have consistently focused on making investments in large companies. Over our 31-year history, we have focused on cultivating direct relationships with key decision-makers at major companies throughout the world, which often provides us with direct investment opportunities. We believe that we currently have direct relationships with the chief executive officers or members of the boards of directors of two-thirds of the companies in the S&P 500 and the S&P Global 100.

***Strong Relationships with Financial Leaders.*** We actively cultivate our relationships with major investment banking firms and other financial intermediaries and are among those firms' most significant clients. We believe our repeated and consistent dealings with major financial services firms over a long period of time, and our completion of a significant number of large transactions, have led to our being one of the first parties considered for potential investments.

By combining our industry team efforts with our established network of relationships, we believe we have a differentiated capability to source investments in large global companies.

## **Value Creation**

We have developed an institutionalized process for creating value in the companies in which we invest by focusing on the operational and strategic aspects of their businesses. We are a patient investor and we have consistently approached the management of our investments with the goal of creating value over the long-term rather than realizing short-term gains through rapid dispositions. Our value creation process begins before we commit to make an investment and continues until the investment is fully realized. Important components of this process include:

***Operationally Focused Investment Professionals.*** Our investment professionals focus on the operations of our portfolio companies and the ways in which we can improve their businesses. Given our operational focus, our recruiting efforts have emphasized hiring executives with significant operating experience, including former chief executive officers, chief financial officers and managers of companies operating in a wide range of industry sectors.

***Capstone Consultants.*** Our value-creation efforts are supported by Capstone Consulting, a team of approximately 30 operational consultants who work exclusively with our investment professionals and portfolio companies. Capstone works to address issues relating to top-line growth, cost optimization, efficient capital allocation and other challenges and opportunities that arise during the life of an investment.

***Senior Advisors.*** To complement the expertise of our investment professionals and operational consultants, we have retained a team of 20 senior advisors who have held leading positions in major corporations and public agencies worldwide. Our senior advisors provide us with additional operational and strategic insights, serve on the boards of our portfolio companies, help us evaluate individual investment opportunities and assist our portfolio companies with operational matters.

***Disciplined Value Creation Process.*** Before we invest in a company, our investment professionals identify the measures we will take to create new value for stakeholders. Because we believe that value creation must begin from the first day of an investment, our investment professionals and Capstone prepare "100-Day Plans" for investments that detail specific changes our portfolio company managers, investment professionals and operational consultants will implement during the first 100 days following our investment to drive value creation. We closely monitor our investments during and after the first 100 days with the goal of measuring progress, identifying additional opportunities for value creation and addressing any issues or challenges that may arise.

## **Private Equity**

We are a world leader in private equity, having sponsored and managed 14 private equity funds that have received more than \$57.1 billion of capital and capital commitments during our 31-year history. Our private equity funds focus on investing in large capitalization companies. We believe this focus allows us to invest in industry-leading franchises with global operations, attract world class management teams, deploy large amounts of capital in individual transactions and optimize amounts of income that we earn on a per transaction basis. Our approach leverages our capital base, infrastructure, skill set, global network and industry and operating expertise, which we believe sets us apart from others.

Our current private equity portfolio consists of 42 portfolio companies with more than \$180 billion of annual revenues and more than 800,000 employees worldwide. These companies are based in more than 12 countries and operate in more than 12 industries, which provides us with broad and deep industry and operating expertise. The following charts present information concerning the amount of capital invested by our 1996 Fund and subsequent traditional private equity funds by geography and industry from the time of the 1996 Fund's first investment through June 30, 2007. The predecessor combined financial statements included in this prospectus consolidate the 1996 Fund and subsequent traditional private equity funds. We

will not, however, acquire interests in the 1996 Fund or prior funds in connection with our reorganization and this offering.

**Dollars Invested by Geography**

(1996 Fund and Subsequent Funds as of June 30, 2007)

**Dollars Invested by Industry**

(1996 Fund and Subsequent Funds as of June 30, 2007)

When we make private equity investments, we adhere to a disciplined investment approach that seeks to generate large multiples of invested capital and attractive gross internal rates of return, or IRRs, by focusing on fundamentals and implementing operational and strategic changes that allow us to create and realize long-term value in our portfolio companies. We place significant emphasis on selecting high-quality investments that may be made at attractive prices, working with management to design and implement changes that drive value creation, and making informed decisions when developing investment exit strategies.

The following charts present information concerning the amount of capital invested and the amounts of realized and unrealized returns generated by our traditional private equity funds from our inception through June 30, 2007.

**Amount Invested and Total Value**

**Realized and Unrealized Value**

From our inception through June 30, 2007, our first ten traditional private equity funds (representing all of our private equity funds that have invested for at least 30 months) achieved a multiple of invested capital of 2.8x and a cumulative gross IRR of 26.3%, compared to the 13.7% gross IRR achieved by the S&P 500 Index over the same period. The table below presents information as of June 30, 2007 relating to the historical performance of each of our traditional private equity funds since our inception, which we believe illustrates the benefits of our approach to making private equity investments. This data does not reflect acquisitions or disposals of investments, changes in investment values or distributions occurring after June 30, 2007.

We encourage you to review the cautionary note below for a description of reasons why the future results of our private equity funds may differ from the historical results of our private equity funds. You

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should also see "Private Equity Valuations and Related Data" for a description of how the values in the table below were calculated.

Private Equity Funds(1)	Amount		Fair Value of Investments			Gross IRR	Net IRR	Multiple of Invested Capital
	Committed	Invested	Realized	Unrealized	Total			
(\$ in millions)								
<b>Historical Excluded Funds(2)</b>								
1976 Fund	\$ 31	\$ 31	\$ 537	\$	\$ 537	39.5%	35.5%	17.3
1980 Fund	357	357	1,828		1,828	29.0%	25.8%	5.1
1982 Fund	328	328	1,290		1,290	48.1%	39.2%	3.9
1984 Fund	1,000	1,000	5,963		5,963	34.5%	28.9%	6.0
1986 Fund	672	672	9,081		9,081	34.4%	28.9%	13.5
1987 Fund	6,130	6,130	14,746	270	15,016	12.2%	9.0%	2.5
1993 Fund	1,946	1,946	4,124	36	4,160	23.6%	16.8%	2.1
1996 Fund	6,012	6,012	10,535	1,926	12,461	18.7%	14.0%	2.1
<b>Included Funds(3)</b>								
European Fund (1999)(4)	3,085	3,085	3,992	4,341	8,333	32.4%	24.7%	2.7
Millennium Fund (2002)	6,000	5,886	4,358	7,468	11,826	52.3%	39.8%	2.0
European Fund II (2005)(5)(6)	5,670	3,976	35	4,390	4,425	*	*	*
2006 Fund(6)	16,625	1,578		1,578	1,578	*	*	*
Asian Fund (2007)(6)	4,000					*	*	*
Total Funds(6)	\$ 51,856	\$ 31,001	\$ 56,489	\$ 20,009	\$ 76,498	26.3%	20.3%	2.8
Total Funds in Accounting Predecessor(1)(7)	\$ 41,392	\$ 20,537	\$ 18,920	\$ 19,703	\$ 38,623	24.6%	19.1%	2.2
Total Included Funds(8)	\$ 35,380	\$ 14,525	\$ 8,385	\$ 17,777	\$ 26,162	38.3%	29.7%	2.2

- (1) The predecessor combined financial statements included in this prospectus consolidate the 1996 Fund and subsequent traditional private equity funds. We will not acquire interests in the 1996 Fund and prior funds in connection with our reorganization and this offering, because the general partners of those funds are not expected to receive meaningful proceeds from further realizations. In addition, we will not be allocated any of the capital contributions made by the general partners of our funds prior to the completion of our reorganization and this offering or any returns generated on those contributions. See "Organizational Structure" and "Unaudited Pro Forma Financial Information."
- (2) The last investment for each of the 1976 Fund, the 1980 Fund, the 1982 Fund, the 1984 Fund and the 1986 Fund was liquidated on May 14, 2003, July 11, 2003, December 11, 1997, July 17, 1998 and December 29, 2004, respectively. The 1987 Fund and the 1993 Fund currently each have one investment, and it is not known when those funds will be liquidated. In the case of the 1976 Fund and the 1980 Fund, the last distributions made to fund investors occurred on May 17, 2002 and December 14, 1999, respectively.
- (3) The Included Funds represent the funds in which we will acquire an interest in connection with our reorganization and this offering.
- (4) The European Fund's capital commitments include euro-denominated commitments of €196.5 million. We have converted these amounts into U.S. dollars based on the exchange rate prevailing on the dates on which capital was called.
- (5) The European Fund II's capital commitments include euro-denominated commitments of €2,597.2 million. We have converted these amounts into U.S. dollars based on the exchange rate prevailing on (i) the dates on which capital was called in the case of funded commitments and (ii) June 30, 2007 in the case of unfunded commitments.





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- (6) The gross IRR, net IRR and multiple of invested capital are calculated based on our first ten traditional private equity funds, which represent all of our private equity funds that have invested for at least 30 months. The European Fund II, the 2006 Fund and the Asian Fund have not invested for at least 30 months. We therefore have not calculated gross IRRs, net IRRs and multiples of invested capital with respect to those funds.
- (7) The gross IRR, net IRR and multiple of invested capital for the Accounting Predecessor are calculated based on the 1996 Fund, European Fund and Millenium Fund, which represent the funds in the Accounting Predecessor that have invested for at least 30 months.
- (8) The gross IRR, net IRR and multiple of invested capital for the Included Funds are calculated based on the European Fund and Millenium Fund, which represent the funds in the Included Funds that have invested for at least 30 months.

Additionally, because our private equity approach has produced significant distributions for our fund investors, we believe that it has been an important contributor to the extended relationships that we have developed with our investor base. The following table presents information concerning the total distributions made by our traditional private equity funds during the periods indicated.

Year	Year Ended December 31,					2007 (through June 30)	Total
	2002	2003	2004	2005	2006		
<i>(\$ in millions)</i>							
Distributions to Investors	\$ 897	\$ 3,016	\$ 7,035	\$ 3,569	\$ 5,251	\$ 1,311	\$ 21,079

Since June 30, 2007, we have completed an additional ten acquisitions with an aggregate transaction value of more than \$135 billion. In addition, since June 30, 2007, we have agreed to acquire a company for €910 million with an equity commitment of €380 million, and purchased \$342.9 million of senior convertible notes of another company.

KKR Private Equity Investors, which is not reflected in the foregoing tables, is an entity listed on Euronext Amsterdam focused primarily on making private equity investments through and alongside our private equity funds but with the flexibility to make other types of opportunistic investments, including credit and public equity investments. Unlike our traditional private equity funds, the fund has a perpetual investment period and is considered by us to be a permanent capital vehicle, in that fund investors generally are not entitled to have their capital returned. As of June 30, 2007, KKR Private Equity Investors had a net asset value of \$5.3 billion, which includes amounts invested in our traditional private equity funds. KKR Private Equity Investors consists of an upper-tier limited partnership, which we refer to as the feeder fund, that makes all of its investments through a lower-tier limited partnership, which we refer to as the master fund, of which it is the sole limited partner. In connection with the fund's formation, our senior principals and other KKR personnel contributed \$65.0 million of their personal capital to the feeder fund, representing 1.3% of the equity raised, and we contributed \$10.0 million of capital in respect of our general partner interest in the master fund. Following our reorganization and this offering, we will have an economic interest in the general partner of the master fund that will entitle us to the carried interest and incentive distributions received with respect to the fund's direct investments, but we will not own any of the foregoing equity.

### Credit

We believe the intellectual capital of our people, our integrated global investment platform and our ability to effectively adapt our investment strategies to market conditions allow us to capitalize on investment opportunities at every level of a company's capital structure. Commencing in 2004, we began to actively pursue debt investments as a separate asset class and we now sponsor and manage a group of private and publicly traded investment funds that invest primarily in corporate debt investments and

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manage structured finance vehicles. These funds, which we refer to as credit strategy funds, currently consist of KFN, a New York Stock Exchange-listed debt vehicle, and the KKR Strategic Capital Funds, comprised of three private credit strategy funds that are required to make investments on substantially the same terms in proportion to their respective capital commitments.

As of June 30, 2007, our credit strategy funds had approximately \$9.3 billion of corporate debt investments, \$11.2 billion of residential mortgage investments, and \$274.0 million of equity investments. We earn a management fee for managing our credit strategy funds based on the amount of capital under management in each fund. As of June 30, 2007, our credit strategy funds had \$2.8 billion of capital, of which \$1.6 billion related to KFN and consisted of permanent capital, and our credit strategy funds currently manage \$6.5 billion in structured finance vehicles. We have a right to earn management fees for managing our structured finance vehicles based on the amount of investments under management within each vehicle. As of June 30, 2007, our management companies held restricted shares and options of KFN representing 3.1% of KFN's outstanding shares on a fully diluted basis, which shares and options were received as payment for management services.

In May 2007, KFN was restructured to allow it to reallocate a significant portion of its capital to non-real estate-related investments. As part of its effort to reduce its real estate-related investments, KFN announced on August 15, 2007 the sale of approximately \$5.1 billion of residential mortgage loans and the termination of related interest rate swaps, which sale resulted in a net loss to KFN of approximately \$40.0 million. On October 18, 2007, KFN announced that its real estate investment trust, or REIT, subsidiary consummated the restructuring of its non-recourse asset-backed secured liquidity note facilities to extend the maturity of the notes. KFN expects that all charges related to the restructuring of these facilities will total approximately \$250 million for the quarter ended September 30, 2007.

The table below presents information relating to the historical performance of our credit strategy funds as of June 30, 2007. We encourage you to review the cautionary note below for a description of reasons why the future results of our credit strategy funds may differ from the historical results of our credit strategy funds.

	Inception	Assets Under Management	Annualized Gross IRR	Annualized Net IRR(1)	Total Investments(2)	Annualized Benchmark Return	
						Lehman Aggregate Bond Index	Merrill Lynch High Yield Index
(\$ in millions)							
KFN(3)	2004	\$ 1,610.4	18.9%	16.4%	\$ 7,145.8	3.2%	8.3%
KKR Strategic Capital Funds(4)	2006	1,182.5	32.8	27.9	3,388.5	3.0	10.0
<b>Total</b>		<b>\$ 2,792.9</b>			<b>\$ 10,534.3</b>		

- (1) The annualized net IRR represents the return on invested equity after giving effect to payments of management fees, incentive fees and carried interest, as applicable, assumes reinvestment of all distributions and excludes non-investment expenses. Returns for the KKR Strategic Capital Funds, which were organized in October 2006, have been annualized based on actual returns from inception through June 30, 2007 of 20.1%, which compares to actual returns for the Lehman Aggregate Bond Index and the Merrill Lynch High Yield Index of 2.2% and 7.4%, respectively, for the same period.
- (2) Total investments include investments held directly and synthetically through total rate of return swaps and credit default swaps and also includes all of the funds' pro rata interest in the holdings of a structured finance entity.
- (3) Excludes investments by KFN in residential mortgage-backed securities, which totaled \$11.2 billion as of June 30, 2007. KFN's residential mortgage investment financial results are not included in this table



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as KFN has announced that it intends to exit the residential mortgage business, which was the primary driver of its decision in May 2007 to convert from a REIT to a publicly traded LLC. For the six months ended June 30, 2007, KFN's annualized return on its raised equity capital invested in residential real estate investments was approximately 8%.

(4)

Two of the three side-by-side funds in the KKR Strategic Capital Funds we manage have been consolidated by the KKR Group. Although we receive management and incentive fees for managing the assets held by the third side-by-side fund in the KKR Strategic Capital Funds, we do not hold any economic or voting interests in it.

### **New Business Initiatives**

Our principal growth strategy throughout our firm's 31-year history has been to expand our existing private equity businesses and to enter attractive new businesses. While most of our recent growth has come from our private equity and debt activities, we believe significant growth opportunities exist for developing new business areas.

#### ***Public Equity***

Although our funds have historically focused on private equity and debt investments, we have managed investments in public equity throughout our history. Initially, our public equity investments consisted of minority and structured investments in public companies that were made by our private equity funds. More recently, our private equity-oriented permanent capital fund and our two credit strategy funds have provided us with more investment flexibility than traditional private equity funds and an additional capital base for making equity investments in public companies. Using this capital base, we have been able to build a portfolio of public equity and equity-linked securities that had a market value of \$1.5 billion as of June 30, 2007.

Our public equity strategies generally seek to leverage the intellectual capital developed in the course of our traditional private equity business, which may otherwise not be utilized if a private equity transaction is not consummated, to make public equity investments. We generally invest in companies whose market prices we believe significantly understate the quality of their assets. We believe that significant opportunities exist for us to expand our public equity activities and take advantage of the increasing number of suitable public equity investments that we identify. To achieve these results, we recently hired additional investment personnel who have specialized experience in the public equity markets.

#### ***Capital Markets Activities***

Capital markets activities represent an opportunity to efficiently increase our available investment capital, capture certain financing fees otherwise paid to third parties and earn incremental margins on committed capital. We are currently building this business in the United States, Europe and Asia with the objective of increasing the amount of third-party capital that we are able to commit to individual transactions, thereby growing our third-party assets under management and capturing additional income streams. We have hired experienced professionals with long-standing investor relationships to help us build this business. We expect that our capital markets activities initially will focus on syndicating to a broader base of investors a portion of the equity that we commit to provide in our larger private equity transactions, which we believe will help us reduce the need to partner with large consortiums of private equity firms on large leveraged buyouts, retain greater operational control over our portfolio companies and capture a greater portion of the economics that are generated by our private equity investments. Over time, we may expand our capital markets activities in a manner that similarly complements our other business activities.

## Our Values

When our founders started KKR in 1976, leveraged buyouts were a novel form of corporate finance. With no financial services firm to model ourselves on and with little interest in copying an existing formula, we sought to build a firm based on principles and values that would provide a proper institutional foundation for years to come.

We believe that our success to date has been largely attributable to our culture and values. As we continue to grow, our future performance will depend on both our ability to protect and remain true to our culture and our willingness to hire new people with different work experiences. We believe that adhering to the following values is critical to extending our record of success:

**Honesty.** We believe that integrity is the value upon which all other values are built. We are honest with one another and everyone with whom we work outside of our firm. We invest in companies and work with people with whom we are proud to associate ourselves.

**Respect.** We believe a collegial culture fostering a positive working environment benefits our firm as a whole. A guiding principle of our firm is to treat others as we would like to be treated. We believe in the importance of being fair, courteous and respectful to all.

**Teamwork.** We operate as a single worldwide team, working together to create the best outcome for our firm, our investors, the managers with whom we partner and other stakeholders. We seek solutions that benefit the businesses in which we invest, the people they employ and the constituencies they serve. We maintain a "flat" organizational structure in which our people help one another irrespective of where an issue or opportunity resides within our firm or our offices.

**Excellence and Innovation.** We strive to be the best at what we do. We believe that creativity is a competitive advantage and endeavor to put innovative ideas to work to solve problems. We are not afraid to assume prudent risks.

**Accountability.** We believe in the importance of firm-wide accountability. If an investment does not perform, we do not point fingers or assign blame. Rather, we collectively take responsibility, learn from our mistakes and improve our performance as individuals and as a team.

**Fortitude.** We believe in having the courage to say "no" to a deal even at a late stage if we become uncomfortable with any aspect of the transaction.

**Sharing.** We share financial results throughout our firm and we share the credit for our successes. No one in our firm claims sole possession of any idea or successful transaction.

These values are easy to write down, but hard to live by. They are, however, a healthy antidote to overconfidence, internal politics and other behaviors that could otherwise jeopardize our long-term success. We do not intend to change our values or the way we conduct our business as a result of this offering. Indeed, we would not be proceeding with this offering if we felt that it would move us away from our principles. We believe that if we continue to live by these values we will be able to maintain our industry leadership far into the future.

## Our Strengths

We believe that we possess a number of strengths that differentiate us from other alternative asset managers and provide us with competitive advantages for raising capital, securing investment opportunities, obtaining financing for transactions, consummating investments, creating value in our portfolio companies and generating attractive investment returns. These strengths include the following:

### ***One Firm with a Global Reach and Best-in-Class Processes***

With offices in seven major financial centers located on three continents, we are truly a global firm. Our global and diversified operations are supported by our sizeable capital base and extensive local market



knowledge, which allow us to deploy capital across a number of geographical markets in a broad range of companies, industry sectors and asset classes. As of June 30, 2007, 35% of our investment professionals were based outside the United States and 66% of the unrealized value of our private equity portfolio consisted of investments in companies outside the United States. Although our operations span multiple continents and business lines, we are still managed as one firm with a common culture and are focused on sharing knowledge, resources and best practices throughout our offices. We believe that operating as a centrally managed firm that is both global and diversified enhances the growth and stability of our business and helps us make informed decisions across asset classes and geographies.

#### ***Distinguished Track Record Across Economic Cycles***

During our 31-year history, we have successfully invested under all types of economic and financial conditions, developing a track record that we believe distinguishes our firm. From our inception through June 30, 2007, our ten private equity funds that had invested for at least 30 months had achieved a multiple of invested capital of 2.8x and a cumulative gross IRR of 26.3%. During 2007, we were named "Best Private Equity Firm" by *Global Finance* and "European Large Buyout Firm of the Year" by *Financial News* and the KKR Strategic Capital Funds were named "Hedge Fund Launch of the Year" by *Alternative Investment News*.

#### ***Alignment of Interests***

One of our fundamental philosophies has been to align our interests and the interests of our people with those of our fund investors. Since our inception, our investment professionals, senior advisors and other executives have invested or committed to invest more than \$1.5 billion of their personal capital in or alongside our funds. Our principals will not receive any of the proceeds from this offering and will collectively own more than % of the equity in our business immediately following this offering. To promote long-term alignment of interests, the equity directly or indirectly held by our principals and employees will be subject to significant forfeiture and transfer restrictions.

#### ***Experienced Investment Professionals and Continuity of Senior Leadership***

We have built our firm with the intellectual capital of our people, and we are guided daily by the diversity, depth and breadth of their collective knowledge and experience. Our investment professionals, who are led by our founders, Henry Kravis and George Roberts, have demonstrated an ability to address the challenges of cyclical markets by effectively adapting our investment strategies, financial structures and operational resources to existing market conditions, which provides us with a significant competitive advantage.

#### ***Focus on Value Creation***

We have developed an institutionalized process for creating value in our investments. As part of our effort, we utilize the services of Capstone Consulting, a team of operational consultants that works exclusively with our investment professionals and portfolio company management teams, and we are advised by a group of senior advisors that includes former chief executives of a number of *Fortune* 500 companies. Our investment professionals, senior advisors and consultants work with our portfolio companies to address financial and operational issues in order to drive value creation.

#### ***Long-Standing Investor Relationships***

Over our 31-year history, we have established strong relationships with investors that have allowed us to raise significant amounts of capital for investment in a broad range of asset classes. Our fund investors consist of a diversified group of some of the largest public and private pension plans, global financial institutions, university endowments, funds of funds and high net worth individuals, many of whom have invested with us for decades across multiple funds. More recently, we have expanded our investor base to

include public market investors, such as mutual funds and hedge funds, through the listing of two of our funds.

***Long-Term Capital Base with a Significant Amount of Permanent Capital***

As of June 30, 2007, we had \$54.4 billion of assets under management, making us one of the largest independent alternative asset managers in the world. These assets were invested or available for investment in private equity, debt and public equity transactions and include assets held by two listed permanent capital funds that are able to grow organically through continuous investment and reinvestment of capital.

***Proven Ability to Innovate***

We pioneered the development of the leveraged buyout and have worked throughout our history on creating innovative financing structures that allow us to compete aggressively for transactions while maintaining ongoing financial flexibility. Most recently, we have grown our permanent capital base and diversified our operations through the establishment of two innovative permanent capital vehicles that have the flexibility to invest across asset classes.

Despite these strengths, an investment in our common units involves substantial risks and uncertainties, including those discussed under "Investment Risks," "Cautionary Note Regarding Historical Fund Performance" and "Risk Factors."

**Our Growth Strategy**

We believe the "KKR" name is associated with: the successful execution of many of the largest and most complex private equity transactions worldwide; a focus on operational value creation; a strong investor base; a global network of strong business relationships; a reputation for integrity and fair dealing; and a distinguished track record of generating attractive investment returns. We intend to leverage the strength of our brand as we seek to grow our business.

***Deliver Attractive Returns Through Strong Investment Performance***

We intend to adhere to the disciplined investment approach that we have developed over our 31-year history, focusing in particular on driving value creation from the time an investment is made. We believe that by maintaining investment discipline and taking a "hands-on" approach to our investments, we will be best positioned to continue to generate attractive returns for our funds and create long-term value for our unitholders.

***Grow Globally Across Existing Asset Classes***

We intend to continue making private equity and debt investments in North America while increasing such investments in Europe and Asia and building out our public equity and debt operations in all three regions. Since October 2005, we have raised five new funds that received approximately \$32.6 billion of capital and capital commitments from investors, including approximately \$5.1 billion of permanent capital and a new \$4.0 billion private equity fund that is focused on investment opportunities in Asia.

***Selectively Pursue Opportunities to Expand Our Investment Structures and Products***

We believe that opportunities exist to develop and sponsor new investment vehicles and structures and to raise new types of funds that allow us to deploy a greater amount of managed capital in our investments and thereby capture a greater share of the economics generated by these investments. To support these initiatives, we are currently developing a capital markets business in the United States, Europe and Asia, which we believe will broaden our investor base and provide us with new alternatives and capabilities to grow our business.



### ***Maintain Our Long-Term Focus***

We have consistently approached the management of our business and our investments with the goal of creating and realizing value over the long term and we intend to maintain this long-term focus after we become a public company even though this may lead to increased volatility in our results from period to period. We do not intend to permit the short-term perspectives of some public market investors to influence our decision making or our duties or commitments to investors.

An investment in our common units involves substantial risks and uncertainties, including those discussed under " Investment Risks," " Cautionary Note Regarding Historical Fund Performance" and "Risk Factors."

### **Why We Are Going Public**

None of our existing owners is selling any common units in this offering or will otherwise receive any of the net proceeds that we raise. Our decision to go public is based on our conclusion that the offering will benefit our firm and stakeholders over the long term by enabling us to grow in a manner that complements our businesses. In particular, we are going public for the following reasons:

***We Want to Leverage Our Industry and Company Research Efforts by Building New Businesses.*** We believe that significant opportunities exist for us to build new businesses by leveraging the intellectual capital of our firm and increasing the utilization of our people. While our private equity teams conduct in-depth research and have developed specific views on trends and participants in their industries, a large number of our private equity efforts do not result in actual private equity transactions. Historically, when we were unable to complete a private equity transaction, much of the work that we had completed remained unutilized. With our integrated efforts in debt and public market investing, we have in recent years been able to leverage the work and contacts of our private equity teams and deploy capital behind our ideas. We believe that becoming a public company will enable us to invest more heavily behind these activities and the ideas that we develop in the normal course of our business.

***We Want to Reduce Our Reliance on Third Party Sources of Capital.*** Since our inception, we have completed or announced more than \$413 billion in private equity transactions, while investing or agreeing to invest approximately \$45 billion of our own funds' equity in those transactions. The balance of the financing consisted of debt and equity that was syndicated to others, including other private equity firms. We recently launched a new capital markets initiative to capture a greater share of the economics in the transactions we originate and increase the operational control that we are able to exercise over our private equity investments. We expect to expand these capital markets activities utilizing a portion of the proceeds from this offering.

***Going Public Will Provide Us with a Currency for Potential Future Acquisitions.*** We believe that our strong brand name in the financial services industry will support growth through acquisitions or combinations with similarly strong franchises that will complement our existing activities. By adding our products and brand to the products of acquired companies, we believe we will be well positioned to create significant value for our stakeholders. While we do not have any current acquisition plans, becoming a public company will provide us with a currency that we may use to pursue those alternatives when attractive opportunities arise.

We place a strong emphasis on our culture and our values, and we intend to continue to operate our firm in the same manner we have throughout our 31-year history. In structuring this offering, we have sought to preserve and enhance our culture and values by continuing the approach we have followed over time for compensating and managing our people. Our founders and other principals do not want our people to be advantaged or disadvantaged as a result of their title or tenure at our firm at the time we complete this offering.

**Investment Risks**

An investment in our common units involves substantial risks and uncertainties. Some of the more significant challenges and risks relating to an investment in our partnership include:

risks associated with our susceptibility to economic and financial conditions, including recent disruptions in the credit markets that have increased the cost of financing leveraged buyout transactions;

our dependence on our principals, including our founders and other key personnel;

the volatility of our net income and cash flow;

our ability to attract, retain and motivate high quality employees who will bring value to our operations;

our ability to develop and sponsor new investment vehicles and structures, including co-investment vehicles, and to raise new types of funds;

the strain on our resources due to the requirements of being a public entity;

the potential for our investments to underperform, which would cause a decline in our net income and cash flow, and could obligate us to repay some carried interest that we previously received;

competition in the asset management industry;

the limited ability of our unitholders to influence decisions regarding our business;

the historical returns of our funds may not be indicative of the future results of our funds;

extensive regulation of and the possibility of increased regulatory focus on our businesses;

the valuation methodologies for certain assets in our funds are subject to significant subjectivity;

potential conflicts of interest among our Managing Partner, its affiliates and us;

our dependence on leverage in making investments, including the inherent sensitivity of leveraged investments to adverse economic, market and industry developments;

the illiquidity of investments made by our funds, which may require us to hold investments for a considerable period of time;

potential costs and liabilities associated with litigation brought by investors in our funds and shareholders in companies that we acquire;

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our emphasis on private equity investments that are among the largest in the industry, which involve particular risks and uncertainties; and

our investment in companies that are based outside of the United States.

In addition, members of the U.S. Congress have introduced legislation that would, if enacted, preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes under the publicly traded partnership rules. Separately, members of the U.S. Congress have introduced legislation that would, if enacted, treat income received for performing investment management services as ordinary income received for the performance of services, which would also preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes. If any of these pieces of legislation or any similar legislation or regulation were to be enacted and apply to us, we would incur a material increase in our tax liability, which could result in a reduction in the value of our common units. Please see "Risk Factors" for a discussion of additional factors you should consider before making an investment in our common units.

**Cautionary Note Regarding Historical Fund Performance**

The historical results for our private equity and credit strategy funds included above may not be indicative of the future results that you should expect from us. In particular, our funds' future results may differ significantly from their historical results for the following reasons:

the rates of returns of our funds reflect unrealized gains as of the applicable valuation date that may never be realized, which may adversely affect the ultimate value realized from those funds' investments;

you will not benefit from any value that was created in our funds prior to your investment in our common units to the extent such value has been realized;

the historical returns of our funds and their future performance has been and will be affected by macroeconomic factors, including factors that may not have been prevalent in the periods relevant to the return data above;

in the past few years, the rates of returns of some of our funds have been positively influenced by a number of investments that experienced a substantial decrease in the average holding period of such investments and rapid and substantial increases in value following the dates on which those investments were made, trends and rates of return that are not expected to continue;

our funds' returns have benefited from investment opportunities and general market conditions that may not repeat themselves, including favorable borrowing conditions in the debt markets, and there can be no assurance that our current or future funds will be able to avail themselves of comparable investment opportunities or market conditions or that such market conditions will continue; and

we may create new funds in the future that reflect a different asset mix in terms of allocations among funds, investment strategies, and geographic and industry exposure.

**Our Common Units Are Not Intended for Investors with a Short-Term Focus**

We have substantially grown our business, particularly during the past several years, due largely to the successful investment performance of our funds. While we believe that the long-term growth trends in our businesses are favorable, our financial results are subject to significant volatility and we are unable to predict our financial performance from quarter to quarter or year to year. Our asset management activities have benefited from high levels of investments in alternative asset classes in recent years. These activity levels may continue, but they could also decline at any time.

When managing our business, we focus closely on actual and expected changes in economic and financial conditions and we seek to adjust our activities in response to those developments. In the past, changing economic and financial conditions have led to variations in the level of our investment activities during any particular time period. We expect such variations to occur in future periods, which may lead to significant volatility in our net income and cash flow from period to period. However, we believe that by continuing to adhere to the disciplined investment approach that we have developed over our 31-year history rather than focusing on short-term financial results, we will be best positioned to continue to grow and prosper over the long term. We also believe that continuing to follow our long-term investment philosophy will allow us to continue to build the value of each of our existing portfolio companies, whether or not such growth produces distributable cash flow in a particular period. Because of the nature of our businesses and our long-term focus, our common units should be purchased only by investors who expect to remain unitholders for an extended period of time.

**Organizational Structure**

The following diagram illustrates the ownership and organizational structure that we will have upon the completion of this offering.



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**Notes:**

(1) Except for KKR Management Holdings Corp., all entities are taxable as partnerships for U.S. federal income tax purposes. KKR Management Holdings Corp. will be taxable as a corporation for U.S. federal income tax purposes. For a discussion of pending legislation that may preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes, see "Risk Factors Risks Related to Our Business Legislation has been introduced that would, if enacted, preclude us from qualifying as a partnership for U.S. federal income tax purposes. If this or any similar legislation or regulation were to be enacted and apply to us, we would incur a material increase in our tax liability that could result in a reduction in the value of our common units."

(2) Following the Reorganization Transactions, minority investors will retain the following economic interests in some of the entities that comprise the KKR Group:

certain minority investors will receive % of the capital invested by or on behalf of the general partners of our private equity funds before the completion of the offering and any profit thereon;

certain minority investors will receive % of the net income earned by our management and capital markets companies and % of the carried interest received by the general partners of our funds for a specified period of time; and

certain minority investors will receive 35% of the net income earned by the management company for our credit strategy funds.

By their terms, the economic interests held by certain of these minority investors generally are expected to decrease over time, thereby increasing the interests of the Group Partnerships in the entities that comprise the KKR Group. See "Organizational Structure Group Partnerships," "Unaudited Pro Forma Information," and "Management's Discussion and Analysis of Financial Condition and Results of Operations Overview Impact of the Reorganization Transactions, this Offering and Related Transactions."

(3) In connection with the Reorganization Transactions, the Group Partnerships will not acquire any interests in the 1996 Fund or the general partners of the 1996 Fund, and will acquire only an economic (but not controlling) interest in the general partner of the KKR Private Equity Investors master fund. The KKR Group consists of the management companies for our funds, the general partners of the 1996 Fund and subsequently formed private equity funds, the general partners of two of the three entities that constitute the KKR Strategic Capital Funds and the consolidated subsidiaries of the foregoing and is our predecessor for accounting purposes. See "Organizational Structure The KKR Group."

(4) The KKR Strategic Capital Funds are comprised of three private credit strategy funds. Two of the three side-by-side funds in the KKR Strategic Capital Funds we manage have been consolidated by the KKR Group. Although we receive management and incentive fees for managing the assets held by the third side-by-side fund in the KKR Strategic Capital Funds, we do not hold any economic or voting interests in it.

**Reorganization Transactions**

We are a Delaware limited partnership. As is commonly the case with limited partnerships, our partnership agreement provides for the management of our business and affairs by a general partner rather than a board of directors. Our general partner, which we refer to as our Managing Partner, is controlled by Henry Kravis and George Roberts, our founders, and will have a board of directors that is co-chaired by our founders and officers that are appointed by its board. Messrs. Kravis and Roberts will serve as Co-Chief Executive Officers of our Managing Partner. Upon completion of this offering, the board will consist of a majority of independent directors and will have an audit committee and a conflicts committee

each composed entirely of independent directors. Our Managing Partner will not have an economic interest in our partnership except for one common unit.

Prior to the completion of this offering, we will complete a series of transactions, which we refer to as the Reorganization Transactions, pursuant to which our business will be reorganized into a holding company structure. After the completion of the Reorganization Transactions, our business will be conducted through two limited partnerships, which we refer to as the Group Partnerships, as described below. We will control the business and affairs of the Group Partnerships, and we will be entitled to a pro rata share of their assets, liabilities, profits, losses and distributions. As a result, we will become the parent company for the Group Partnerships and the businesses that they conduct.

Each Group Partnership will have an identical number of partner interests and, when held together, one partner interest in each of the Group Partnerships will represent a Group Partnership unit. We will indirectly hold a number of Group Partnership units that is equal to the number of our outstanding common units, and the balance of the outstanding Group Partnership units initially will be owned by KKR Holdings, which is owned by our founders, our principals and certain of our former personnel and controlled by our founders. Accordingly, we will indirectly own % of the outstanding Group Partnership units upon the completion of this offering, and KKR Holdings will own the remaining % of the outstanding Group Partnership units. See "About KKR Holdings." Except with respect to priority distributions for the benefit of unitholders as described under "Distribution Policy," all of the Group Partnership units will confer the same rights on the holders thereof and holders of Group Partnership units generally will be entitled to receive equivalent distributions pro rata based on their partner interests in the Group Partnerships.

Following the Reorganization Transactions, the Group Partnerships will own the following components of our historical businesses:

controlling and economic interests in our management companies, allowing us to control our management companies and their respective subsidiaries (including the entities through which we conduct capital markets activities) as well as share ratably in the management, monitoring, transaction and other potential fees paid by all of our funds, portfolio companies and investment targets and other amounts paid by our credit strategy funds;

controlling and economic interests in the general partners of our traditional private equity funds (other than the 1996 Fund and our earlier funds, as the general partners of those funds are not expected to receive meaningful proceeds from further realizations), which will allow us to control those entities and share ratably in the carried interest received from those funds as well as any returns on investments made by or on behalf of those general partners after the completion of the offering; and

an economic (but not controlling) interest in the general partner of the KKR Private Equity Investors master fund, which will allow us to share ratably in the carried interest paid with respect to that fund's direct investments.

The Group Partnerships will not acquire all of the interests in the KKR Group, our predecessor for accounting purposes, in connection with the Reorganization Transactions and, accordingly, the combined financial statements of the KKR Group may not be indicative of the results of operations and financial condition that we will have following the completion of this offering. The KKR Group consists of the management companies for our funds, the general partners of the 1996 Fund and subsequently formed private equity funds, the general partners of two of the three entities that constitute the KKR Strategic Capital Funds and the consolidated subsidiaries of the foregoing.

In addition to the "principals' interests" that will result from KKR Holdings' ownership of Group Partnership units, certain minority investors also will retain economic interests in some or all of the above



entities following the completion of the Reorganization Transactions. Those retained interests, which will be accounted for as "non-controlling interests in consolidated entities," will consist of:

economic interests in the general partners of our consolidated private equity funds that will entitle minority investors to % of the capital invested by or on behalf of those general partners before the completion of the offering and any profit thereon;

interests in our management and capital markets companies and the general partners of our consolidated funds that will entitle minority investors to % of the net income earned by those companies and % of the carried interest received by those general partners with respect to the funds' investments for a specified period of time; and

a 35% interest in the management company for our credit strategy funds that will allocate to minority investors their share of the management company's net income.

The minority investors described above consist of certain of our current and former principals who acquired these interests in connection with their activities as investment professionals, as well as existing members of our firm who are engaged primarily in making credit investments. Some of the minority investors who retain economic interests in the general partners of our consolidated private equity funds will hold those interests through KKR Holdings.

#### **Distributions to Existing Owners and Unitholders**

For the year ended December 31, 2006 and the six months ended June 30, 2007, we made cash and in-kind distributions of \$1.1 billion and \$414.2 million, respectively, to our existing owners. Prior to this offering, we intend to make one or more cash and in-kind distributions to certain of our existing owners representing substantially all of the cash-on-hand and certain personal property of the management company for our private equity funds. If the offering had occurred on June 30, 2007, we estimate that the aggregate amount of such distributions would have been \$ million. However, the actual amount of such distributions will depend on the amount of the management company's cash-on-hand at the time of the offering.

Following this offering, we intend to make quarterly cash distributions to our unitholders in amounts that in the aggregate are expected to constitute substantially all of our adjusted cash flow from operations each year in excess of amounts determined by our Managing Partner to be necessary or appropriate to provide for the conduct of our business, to make appropriate investments in our business and our funds, to comply with applicable law, any of our debt instruments or other agreements or to provide for future distributions to our unitholders for any one or more of the ensuing four quarters. The partnership agreements of the Group Partnerships will provide that until , our principals will not receive distributions, other than tax distributions, in respect of Group Partnership units held by KKR Holdings with respect to a given year unless and until our unitholders receive aggregate distributions of \$ per common unit on an annualized basis for such year. After , all the income of the Group Partnerships will be distributed pro rata to holders of Group Partnership units in accordance with their respective partner interests. See "Distribution Policy."

#### **Exchange Agreement**

In connection with the offering, we will enter into an exchange agreement with KKR Holdings pursuant to which KKR Holdings and certain of its transferees may, up to four times each year, exchange Group Partnership units held by them (together with corresponding special voting units) for our common units on a one-for-one basis. The Group Partnership units are also subject to transfer restrictions, and will not be exchangeable before .

**Tax Receivable Agreement**

The acquisition by our intermediate holding company of Group Partnership units from KKR Holdings is expected to result in an increase in our intermediate holding company's share of the tax basis of the tangible and intangible assets of KKR Management Holdings L.P., primarily attributable to a portion of the goodwill inherent in our business, that would not otherwise have been available. This increase in tax basis may increase depreciation and amortization for U.S. federal income tax purposes and therefore reduce the amount of income tax that our intermediate holding company would otherwise be required to pay in the future. We will enter into a tax receivable agreement with KKR Holdings requiring our intermediate holding company to pay to KKR Holdings or transferees of its Group Partnership units 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the intermediate holding company actually realizes as a result of this increase in tax basis, as well as 85% of the amount of any such savings the intermediate holding company actually realizes as a result of increases in tax basis that arise due to payments under the tax receivable agreement. See "Certain Relationships and Related Party Transactions Tax Receivable Agreement."

**About KKR Holdings**

Our principals and certain former personnel will hold equity interests in our business through KKR Holdings, which will hold the Group Partnership units not held by us. As a result, those individuals will receive financial benefits from our business in the form of distributions and payments received from KKR Holdings and the appreciation in the value of the Group Partnership units that KKR Holdings owns. The Group Partnership units held by KKR Holdings will be subject to applicable transfer restrictions, and will not be exchangeable for our common units before

**The Offering**

Common units offered by us	common units.
Common units to be outstanding after the offering	common units (or common units if all Group Partnership units, other than those held by us, are exchanged for newly-issued common units on a one-for-one basis).
Use of proceeds	We estimate that we will receive approximately \$ of net proceeds from this offering after deducting estimated underwriting discounts and offering expenses, or \$ if the underwriters exercise in full their option to purchase an additional common units from us. We intend to contribute the net proceeds we receive from the offering to the Group Partnerships in exchange for newly issued units in the Group Partnerships. The Group Partnerships are expected to use approximately % to % of the net proceeds that they receive from us to grow our existing business, including by making principal investments in those businesses, approximately % to % of the net proceeds to expand into new related businesses, approximately % to % of the net proceeds to make additional capital commitments to our funds and portfolio companies, and approximately % to % of the net proceeds for general corporate purposes. None of our principals are selling any common units or will otherwise receive any of the net proceeds from this offering.
Voting rights; special voting units	Our Managing Partner, which serves as our sole general partner, will manage all of our business and affairs. You will not hold securities of our Managing Partner. Unlike the holders of common stock in a corporation, you will have only limited voting rights relating to certain matters affecting your investment and you will not have the right to elect or remove our Managing Partner or its directors, who will be appointed by certain of our senior principals. Immediately following this offering, KKR Holdings, which is owned by our principals and certain of our former personnel and controlled by our founders, will beneficially own % of the equity in our business. KKR Holdings will also hold an equivalent amount of special voting units in our partnership, which will entitle it to cast an equivalent number of votes on those few matters that may be submitted to a vote of our unitholders. Due to the foregoing, our founders generally will have sufficient voting power to determine the outcome of any matter that may be submitted to a unitholder vote. See "Description of Our Partnership Agreement Meetings; Voting."
Distribution policy	We intend to make quarterly cash distributions to our unitholders in amounts that in the aggregate are expected to constitute substantially all of our adjusted cash flow from operations each year in excess of amounts determined by our Managing Partner to be necessary or appropriate to provide for the conduct of our business, to make appropriate investments in our business and our funds, to comply with applicable law, any of our debt instruments or other agreements or to provide for future distributions to our unitholders

for any one or more of the ensuing four quarters. We expect that our first quarterly distribution will be paid in \_\_\_\_\_ in respect of the period from the completion of this offering through \_\_\_\_\_. Because we will not know what our available adjusted cash flow from operations will be for any year until the end of such year, we expect that our first three quarterly distributions in respect of any given year will generally be smaller than the final quarterly distribution in respect of such year.

Our distribution policy reflects our belief that distributing substantially all of our adjusted cash flow from operations will provide transparency for our unitholders and impose on us an investment discipline with respect to the businesses and strategies that we pursue. The actual amount and timing of distributions on our common units will be subject to the discretion of our Managing Partner's board of directors, and we cannot assure you that we will in fact make distributions as intended, or at all. See "Distribution Policy."

We are a holding company and will have no material assets other than our ownership of Group Partnership units held directly and indirectly through our direct subsidiary, KKR Management Holdings Corp., which we refer to as our intermediate holding company. We intend to cause the Group Partnerships to make distributions on the Group Partnership units in order to fund any distributions that we may declare on our common units. If the Group Partnerships make such distributions, holders of Group Partnership units generally will be entitled to receive equivalent distributions pro rata based on their partner interests in the Group Partnerships, except as described under "Priority distributions for the benefit of unitholders prior to \_\_\_\_\_."

If distributions from the Group Partnerships would otherwise be insufficient to cover the tax liabilities of a holder of a Group Partnership unit, the partnership agreement of each Group Partnership will provide for tax distributions to the holders of Group Partnership units. Generally, these tax distributions will be computed based on our estimate of the net taxable income of the relevant partnership allocable to a holder of a Group Partnership unit multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. federal, state and local income tax rate prescribed for an individual or corporate resident in New York, New York (taking into account the nondeductibility of certain expenses and the character of our income). A portion of any such tax distributions received by us, net of amounts used by our subsidiaries to pay their tax liability, will be distributed to our unitholders. Such amounts are generally expected to be sufficient to permit our U.S. unitholders to fund their estimated U.S. tax obligations (including any federal, state and local income taxes) with respect to their distributive shares of net income or gain, after taking into account any withholding tax imposed on us. We cannot assure you that, for any particular unitholder, such distributions will be sufficient to pay the unitholder's actual U.S. or non-U.S. tax liability.

Priority distributions for the benefit of  
unitholders prior to \_\_\_\_\_

The partnership agreements of the Group Partnerships will

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provide that until \_\_\_\_\_, the distributions of the Group Partnerships each year will be as follows:

first, to our partnership and our intermediate holding company until sufficient amounts have been so distributed to permit us to make aggregate distributions to our unitholders of \$ \_\_\_\_\_ per common unit on an annualized basis for such year;

second, to the other holders of Group Partnership units until an equivalent amount on a per unit basis has been distributed to such other holders for such year; and

thereafter, pro rata to all holders of Group Partnership units in accordance with their respective percentage interests.

Accordingly, until \_\_\_\_\_, our principals will not receive distributions, other than tax distributions, in respect of Group Partnership units held by KKR Holdings with respect to a given year unless and until our unitholders receive aggregate distributions of \$ \_\_\_\_\_ per common unit on an annualized basis for such year. We do not intend to maintain this priority distribution after \_\_\_\_\_. After \_\_\_\_\_, all the income of the Group Partnerships will be distributed pro rata to holders of Group Partnership units in accordance with their respective partner interests.

Distributions prior to this offering

Prior to this offering, we intend to make one or more cash and in-kind distributions to certain of our existing owners representing substantially all of the cash-on-hand and certain personal property of the management company for our private equity funds. If the offering had occurred on June 30, 2007, we estimate that the aggregate amount of such distributions would have been \$ \_\_\_\_\_ million. However, the actual amount of such distributions will depend on the amount of the management company's cash-on-hand at the time of the offering.

Exchange rights relating to Group Partnership units

Prior to this offering, we will enter into an exchange agreement with KKR Holdings in connection with the Reorganization Transactions pursuant to which KKR Holdings or transferees of its Group Partnership units may, up to four times each year (subject to the terms of the exchange agreement), exchange Group Partnership units held by them (together with corresponding special voting units) for our common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. The Group Partnership units are also subject to transfer restrictions, and will not be exchangeable before \_\_\_\_\_. We have not yet determined how any such future exchange will be accounted for in our consolidated financial statements.

Tax receivable agreement

The acquisition by our intermediate holding company of Group Partnership units from KKR Holdings or transferees of its Group Partnership units from time to time pursuant to the exchange agreement is expected to result in an increase in our intermediate holding company's share of the tax basis of the tangible and

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intangible assets of KKR Management Holdings L.P., primarily attributable to a portion of the goodwill inherent in our business, that would not otherwise have been available. This increase in tax basis may increase (for tax purposes) depreciation and amortization and therefore reduce the amount of income tax that our intermediate holding company would otherwise be required to pay in the future. This increase in tax basis may also decrease gain (or increase loss) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets. We will enter into a tax receivable agreement with KKR Holdings requiring our intermediate holding company to pay to KKR Holdings or transferees of its Group Partnership units 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the intermediate holding company actually realizes (or is deemed to realize, in the case of an early termination payment by our intermediate holding company or a change of control) as a result of this increase in tax basis, as well as 85% of the amount of any such savings the intermediate holding company actually realizes (or is deemed to realize) as a result of increases in tax basis that arise due to future payments under the tax receivable agreement. Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase, our existing owners will not reimburse us for any payments previously made under the tax receivable agreement if such tax basis increase were successfully challenged by the IRS. In the event that other of our current or future subsidiaries become taxable as corporations and acquire Group Partnership units in the future, or if we become taxable as a corporation for U.S. federal income tax purposes, we expect that each will become subject to a tax receivable agreement with substantially similar terms. See "Certain Relationships and Related Party Transactions Tax Receivable Agreement." See "Risk Factors" for a discussion of risks you should carefully consider before deciding to invest in our common units.

Risk factors

Proposed New York Stock Exchange symbol

"KKR"

In this prospectus, unless otherwise indicated, the number of common units outstanding and the other information that is based thereon does not reflect:

common units issuable upon exchange of Group Partnership units that will be held by KKR Holdings or transferees of its Group Partnership units following the completion of the Reorganization Transactions, which Group Partnership units (together with a corresponding amount of special voting units) are exchangeable, up to four times each year, for our common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications and compliance, as well as significant transfer restrictions, and will therefore not be exchangeable before ;

common units that are issuable upon exercise of the underwriters' option to purchase additional common units from us;

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unvested restricted common units that we intend to grant to employees who are not our principals at the time of this offering under our 2007 Equity Incentive Plan; and

additional common units that have been reserved for issuance under our 2007 Equity Incentive Plan.

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KKR & Co. L.P. was formed as a Delaware limited partnership on June 25, 2007. Our Managing Partner was formed as a Delaware limited liability company on June 25, 2007. Our principal executive offices are located at 9 West 57th Street, 42nd Floor, New York, New York 10019, and our telephone number is (212) 750-8300. Our website is located at [www.kkr.com](http://www.kkr.com). The information on our website is not part of this prospectus or the registration statement of which this prospectus forms a part and is not being incorporated by reference into either such document.

## Summary Historical Financial Data

The following summary historical combined financial information and other data of the KKR Group should be read together with "Organizational Structure," "Unaudited Pro Forma Financial Information," "Selected Historical Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical predecessor combined financial statements and related notes included elsewhere in this prospectus. We derived the summary historical combined financial data of the KKR Group as of December 31, 2005 and 2006 and for the years ended December 31, 2004, 2005 and 2006 from our audited predecessor combined financial statements included elsewhere in this prospectus. We derived the summary historical combined financial data of the KKR Group as of June 30, 2007 and for the six months ended June 30, 2006 and 2007 from our unaudited predecessor combined financial statements which are included elsewhere in this prospectus. The information presented in the following tables reflects the restatement of the KKR Group's financial results, which is more fully described in Note 13 to the predecessor combined financial statements included in this prospectus. The KKR Group consists of: (i) the management companies for our funds; (ii) the general partners of the 1996 Fund and our subsequently formed private equity funds; (iii) the general partners of two of the entities that constitute the KKR Strategic Capital Funds; and (iv) the consolidated subsidiaries of the foregoing. The KKR Group is considered our predecessor for accounting purposes and its combined financial statements will be our historical financial statements following the Reorganization Transactions and this offering. We will not acquire all of the interests in the KKR Group in connection with the Reorganization Transactions and, accordingly, the combined financial statements of the KKR Group may not be indicative of the results of operations and financial condition that we will have following the completion of this offering.

	Year Ended December 31,			Six Months Ended June 30,	
	2004 (Restated)	2005 (Restated)	2006 (Restated)	2006	2007
	(\$ in thousands)			(\$ in thousands)	
<b>Statement of Income Data:</b>					
<b>Revenues</b>					
Fee income	\$ 183,462	\$ 232,945	\$ 410,329	\$ 155,087	\$ 115,380
<b>Expenses</b>					
Employee compensation and benefits	69,956	79,643	131,667	39,723	50,581
Occupancy and related charges	10,688	13,534	19,295	11,010	9,909
General, administrative and other	36,931	54,336	78,154	37,086	59,506
Fund expenses	16,470	20,778	38,350	14,550	35,821
Total expenses	134,045	168,291	267,466	102,369	155,817
<b>Investment Income</b>					
Net gains from investment activities	3,026,396	2,984,504	3,105,523	1,709,246	3,147,328
Dividend income	14,611	729,926	714,069	250,876	133,160
Interest income	54,060	27,166	210,872	48,586	133,549
Interest expense	(524)	(697)	(29,542)	(8,150)	(40,486)
Total investment income	3,094,543	3,740,899	4,000,922	2,000,558	3,373,551
Income before non-controlling interests in income of consolidated entities and income taxes	3,143,960	3,805,553	4,143,785	2,053,276	3,333,114
Non-controlling interests in income of consolidated entities	2,358,458	2,870,035	3,039,677	1,522,697	2,661,912
Income before taxes	785,502	935,518	1,104,108	530,579	671,202
Income taxes	6,265	2,900	4,163	1,554	3,806



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	Year Ended December 31,			Six Months Ended June 30,	
Net income	\$ 779,237	\$ 932,618	\$ 1,099,945	\$ 529,025	\$ 667,396

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	Year Ended December 31,			Six Months Ended June 30,	
	2004 (Restated)	2005 (Restated)	2006 (Restated)	2006	2007
	(\$ in thousands)			(\$ in thousands)	
<b>Statement of Financial Condition</b>					
<b>Data (period end):</b>					
Total assets		\$ 13,369,412	\$ 23,292,783		\$ 26,197,722
Total liabilities		418,778	1,281,923		918,986
Non-controlling interests in consolidated entities		11,518,013	20,318,440		23,257,856
Total partners' capital		1,432,621	1,692,420		2,020,880

**Statement of Cash Flow Data:**

Net cash provided by (used in) operating activities	\$ 1,799,767	\$ (106,448)	\$ (5,531,144)	\$ (4,594,172)	\$ (1,273,286)
Net cash used in investing activities	\$ (2,575)	\$ (5,052)	\$ (130,110)	\$ (9,111)	\$ (136,665)
Net cash (used in) provided by financing activities	\$ (1,737,509)	\$ 134,271	\$ 5,657,952	\$ 4,608,439	\$ 1,424,204

**Other Data:**

Total segment fee related earnings(1)	\$ 64,641	\$ 83,598	\$ 189,915	\$ 57,999	\$ 50,928
Adjusted cash flow from operations(2)	722,827	657,906	1,096,110	568,703	179,986
Assets under management (period end)	15,147,300	23,350,700	43,873,400	27,624,300	54,443,300
Private equity dollars invested(3)	2,065,603	2,913,427	6,661,698	2,074,700	1,786,600
Uncalled private equity commitments (period end)(4)	4,846,500	7,341,600	17,597,400	5,604,100	20,855,100

(1)

"Total segment fee related earnings" is the aggregate of a profit measure that is reported by our two reportable business segments. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Key Operating and Performance Measures Segment Operating and Performance Measures Fee Related Earnings" and Note 9 to the audited predecessor combined financial statements included elsewhere in this prospectus. The difference between total segment fee related earnings and income before taxes presented in accordance with generally accepted accounting principles in the United States, or GAAP, is that total segment fee related earnings represents income before taxes adjusted to: (i) exclude the expenses of consolidated funds; (ii) include management fees earned from consolidated funds that were eliminated in consolidation; (iii) exclude investment income; and (iv) exclude non-controlling interests in income of consolidated entities.

Management uses total segment fee related earnings as a supplemental non-GAAP measure of operating performance. Management makes operating decisions and assesses the performance of our business based on financial and operating metrics and data that are presented without the consolidation of any of our investment funds. Our current operations are managed based in part on total segment fee related earnings, which consist primarily of the management, transaction and monitoring fees that we earn as the sponsor of our private equity funds and the management fees, incentive fees and carried interest, as applicable, that we earn as the sponsor of our credit strategy funds, after payment of our operating expenses. It has been and remains a key objective of our firm to maximize total segment fee related earnings, because those amounts directly affect our profits. As a public entity, we will continue to focus on positive fee earnings generation and use total segment fee related earnings levels to make operating decisions and assess the performance of our business, because those amounts will directly affect the returns to our investors. We find total segment fee related

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earnings to be useful as a measure for understanding the performance of our operations from period to period and although not every company in our industry defines these metrics in precisely the same way that we do, we believe that this metric, as we use it, facilitates comparisons with other companies in our industry. We also believe that analysts and investors use total segment fee related

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earnings as a supplemental measure to evaluate our overall operating performance. However, unlike net income presented in accordance with GAAP, a limitation of total segment fee related earnings is that it is not a complete view of amounts that will ultimately accrue to investors as it excludes investment income and expenses of consolidated funds and their respective management companies, which could be significant. In light of the foregoing, we do not rely solely on total segment fee related earnings as a performance measure and also consider our GAAP results. Total segment fee related earnings is not a measurement of our financial performance under GAAP and should not be considered as an alternative to income before taxes or any other measures prepared in accordance with GAAP.

The following table presents a reconciliation of our total segment fee related earnings to income before taxes calculated in accordance with GAAP for the periods indicated. Total segment fee related earnings should not be considered in isolation or as an alternative to income before taxes.

	Year Ended December 31,			Six Months Ended June 30,	
	2004 (Restated)	2005 (Restated)	2006 (Restated)	2006	2007
	<i>(\$ in thousands)</i>			<i>(\$ in thousands)</i>	
Total segment fee related earnings	\$ 64,641	\$ 83,598	\$ 189,915	\$ 57,999	\$ 50,928
Investment income	3,094,543	3,740,899	4,000,922	2,000,558	3,373,551
Non-controlling interests in income of consolidated entities	(2,358,458)	(2,870,035)	(3,039,677)	(1,522,697)	(2,661,912)
Expenses of consolidated funds	(9,942)	(11,312)	(22,334)	(8,396)	(4,720)
Fee income (earned from) paid to consolidated funds	(5,282)	(7,632)	(24,718)	3,115	(86,645)
Income before taxes	\$ 785,502	\$ 935,518	\$ 1,104,108	\$ 530,579	\$ 671,202

(2)

"Adjusted cash flow from operations" is a supplemental non-GAAP measure that we use to assess liquidity and amounts available for distribution to our equity holders. See "Distribution Policy." Under GAAP, a significant number of our investment funds have been and will continue to be consolidated in our financial statements notwithstanding the fact that we hold only a minority economic interest in these funds. Consequently, our historical predecessor combined financial statements reflect, and our future consolidated financial statements will continue to reflect, the cash flows of our consolidated funds on a gross basis rather than the cash flows attributable to us.

Adjusted cash flow from operations is intended to reflect the actual cash flow attributable to us and is equal to cash flow from operations presented in accordance with GAAP, adjusted to exclude cash flow relating to: (i) the investment activities of our consolidated funds; (ii) the realized and unrealized income attributable to non-controlling interests in our consolidated funds; and (iii) changes in our operating assets and liabilities. We believe that adjusted cash flow from operations provides investors with useful information with respect to cash flows relating to our required capital investments and our ability to make annual cash distributions in accordance with our distribution policy. However, adjusted cash flow from operations should not be considered in isolation or as an alternative to cash flow from operations or income before taxes presented in accordance with GAAP.

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The following table presents a reconciliation of our adjusted cash flow from operations to our net cash (used in) provided by operating activities presented in accordance with GAAP for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2004 (Restated)	2005 (Restated)	2006 (Restated)	2006	2007
	(\$ in thousands)			(\$ in thousands)	
<b>Net Cash Provided By (Used In) Operating Activities</b>	\$ 1,799,767	\$ (106,448)	\$ (5,531,144)	\$ (4,594,172)	\$ (1,273,286)
Change in operating assets and liabilities	(124,626)	10,280	74,003	(7,655)	(185,055)
KKR Funds related investment and cash activities	(1,577,741)	907,294	6,475,177	4,934,346	1,621,406
Net realized gains on investments	2,932,802	1,567,312	3,244,931	2,003,575	572,707
Change in unrealized gains (losses) on investments allocable to non-controlling interests	37,184	1,142,480	(143,243)	(254,651)	2,087,211
Non-controlling interests in income of consolidated entities	(2,358,458)	(2,870,035)	(3,039,677)	(1,522,697)	(2,661,912)
Other non-cash adjustments	13,899	7,023	16,063	9,957	18,915
<b>Adjusted cash flow from operations</b>	\$ 722,827	\$ 657,906	\$ 1,096,110	\$ 568,703	\$ 179,986

- (3) "Private equity dollars invested" is the aggregate amount of capital invested by our private equity funds and carry-paying co-investment vehicles in private equity transactions. Such amounts include both capital contributed by fund investors and carry-paying co-investors with respect to which we are entitled to a carried interest and capital contributed by us as the general partner of a private equity fund with respect to which we are entitled to returns generated on the invested capital. From our inception through June 30, 2007, our first ten traditional private equity funds (representing all of our private equity funds that have invested for at least 30 months) achieved a multiple of invested capital of 2.8x the amount of capital they invested in private equity investments.
- (4) "Uncalled private equity commitments" represent unfunded commitments by limited partners of our traditional private equity funds to contribute capital to fund the purchase price to be paid for future portfolio company investments made by the funds. Such amounts do not include capital of our private equity-oriented permanent capital fund or our credit strategy funds that may be used to make private equity investments.

**Summary Pro Forma Financial Data**

The following table presents our summary condensed unaudited pro forma financial data, which has been derived from the unaudited pro forma financial information included under "Unaudited Pro Forma Financial Information." This data gives pro forma effect to the Reorganization Transactions, this offering and transactions relating to this offering, all as described under "Unaudited Pro Forma Financial Information," as if such transactions had occurred on January 1, 2006 for purposes of the unaudited pro forma statement of income data and as of June 30, 2007 for purposes of the unaudited pro forma statement of financial condition.

The pro forma adjustments principally give effect to the Reorganization Transactions, the elimination of the consolidated financial results of the general partners of the 1996 Fund, the deconsolidation of the KKR Private Equity Investors master fund and its general partner, and other transactions described under "Unaudited Pro Forma Financial Information."

These adjustments are based on available information and upon assumptions that our management believes are reasonable in order to reflect, on a pro forma basis, the impact of the transactions described above. The adjustments are described in more detail in the notes to the unaudited pro forma statements of income and the unaudited pro forma statement of financial condition included under "Unaudited Pro Forma Financial Information." Because information relating to these transactions is currently not determinable, this data is subject to completion and may change. In addition, this pro forma financial data has been included for informational purposes only and does not purport to reflect the results of operations or financial position that would have occurred had the transactions referred to above occurred on the dates indicated or had we operated as a public company during the periods presented or for any future period or date.

	<b>Year Ended December 31, 2006</b>	<b>Six Months Ended June 30, 2007</b>
<i>(\$ in thousands)</i>		
<b>Pro Forma Statements of Income Data:</b>		
<b>Revenues</b>		
Fee income	\$	\$
<b>Expenses</b>		
Employee compensation and benefits		
Occupancy and related charges		
General, administrative and other		
Fund expenses		
Total expenses		
<b>Investment Income</b>		
Net gains from investment activities		
Dividend income		
Interest income		
Interest expense		
Total investment income		
Income before non-controlling and principals' interests in income of consolidated entities and income taxes		
Non-controlling interests in income of consolidated entities		
Principals' interests in income of consolidated entities		
Net income		

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Year Ended  
December 31, 2006

Six Months Ended  
June 30, 2007

**Net Income Per Common Unit**

Basic

Diluted

**Weighted Average Common Units**

Basic

Diluted

As of  
June 30, 2007

(\$ in thousands)

**Pro Forma Statement of Financial Condition Data:**

Total assets

\$

Total liabilities

Non-controlling interests in consolidated entities

Principals' interests in consolidated entities

Total partners' capital

## RISK FACTORS

*An investment in our common units involves risks. You should carefully consider the following information about these risks, together with the other information contained in this prospectus, before investing in our common units.*

### **Risks Related to Our Business**

*Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the private equity, debt and public equity investments that we manage or by reducing the ability of our funds to raise or deploy capital, each of which could negatively impact our net income and cash flow and adversely affect our financial condition.*

Our business is materially affected by conditions in the financial markets and economic conditions throughout the world, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including wars, terrorist acts or security operations). These factors are outside our control and may affect the level and volatility of securities prices and the liquidity and the value of investments, and we may not be able to or may choose not to manage our exposure to these conditions. The market conditions surrounding each of our businesses, and in particular our private equity business, have been quite favorable for a number of years. Market conditions may not continue to be as favorable. For example, financing leveraged buyout transactions by issuing high-yield debt securities in the public capital markets has recently become more costly and restrictive than previously was the case. More costly and restrictive financing may adversely impact the returns of our leveraged buyout transactions and, therefore, adversely affect our results of operations and financial condition. In addition, in the event of a prolonged market downturn, our business could be affected in different ways. Our profitability may also be adversely affected by our fixed costs and the possibility that we would be unable to scale back other costs within a time frame sufficient to match any decreases in net income relating to changes in market and economic conditions.

Our funds may be affected by reduced opportunities to exit and realize value from their investments and by the fact that we may not be able to find suitable investments for the funds to effectively deploy capital, which could adversely affect our ability to raise new funds. During periods of difficult market conditions or slowdowns in a particular sector, companies in which we invest may experience decreased revenues, financial losses, difficulty in obtaining access to financing and increased funding costs. During such periods, these companies may also have difficulty in expanding their businesses and operations and be unable to meet their debt service obligations or other expenses as they become due, including expenses payable to us. In addition, during periods of adverse economic conditions, we may have difficulty accessing financial markets, which could make it more difficult or impossible for us to obtain funding for additional investments and harm our assets under management and operating results. A general market downturn, or a specific market dislocation, may result in lower investment returns for our funds, which would adversely affect our net income. Furthermore, such conditions would also increase the risk of default with respect to private equity, credit and public equity investments that we manage.

*Our earnings and cash flow are highly variable due to the nature of our business and we do not intend to provide earnings guidance, each of which may cause the price of our common units to be volatile.*

Our earnings are highly variable from quarter to quarter due to the volatility of investment returns of most of our funds and other investment vehicles and the fee income earned from our funds. We recognize earnings on investments in our funds based on our allocable share of realized and unrealized gains (or losses) reported by such funds, and a decline in realized or unrealized gains, or an increase in realized or unrealized losses, would adversely affect our net income. Fee income, which we recognize when contractually earned, can vary due to fluctuations in assets under management, the number of investment transactions made by our funds and the number of portfolio companies we manage. We may also



experience fluctuations in our results from quarter to quarter due to a number of other factors, including changes in the amount of dividends or interest earned in respect of investments, changes in our operating expenses, the degree to which we encounter competition and general economic and market conditions. Such variability may lead to variability in the trading price of our common units and can cause our results for a particular period not to be indicative of our performance in future periods. It may be difficult for us to achieve steady growth in net income and cash flow on a quarterly basis, which could in turn lead to large adverse movements in the price of our common units or increased volatility in our common unit price generally.

The timing and receipt of carried interest from our private equity funds are unpredictable and will contribute to the volatility of our cash flows. Carried interest from private equity investments depends on our funds' performance and opportunities for realizing gains, which may be limited. It takes a substantial period of time to identify attractive private equity investment opportunities, to raise all the funds needed to make an investment and then to realize the cash value (or other proceeds) of an investment through a sale, public offering or other exit. Even if a private equity investment proves to be profitable, it may be several years before any profits can be realized in cash. We cannot predict when, or if, any realization of investments will occur. If we were to have a realization event in a particular quarter, the event may have a significant impact on our cash flows during the quarter that may not be replicated in subsequent quarters. A decline in realized or unrealized gains, or an increase in realized or unrealized losses, would adversely affect our investment income, which could further increase the volatility of our quarterly results. In addition, in our traditional private equity funds, if the performance of one of the fund's later investments results in the fund failing to achieve overall profitability over the life of the fund, we may be obligated to repay any excess profits previously distributed to us in respect of a carried interest. This may require some repayment of carried interest previously received.

Because our earnings and cash flow can be highly variable from quarter to quarter and year to year, we do not plan to provide any guidance regarding our expected quarterly and annual operating results and cash flows. The lack of guidance may affect the expectations of public market analysts and could cause increased volatility in the price of our common units.

***We depend on our founders and other key personnel, the loss of whose services would have a material adverse effect on our business, results and financial condition.***

We depend on the efforts, skills, reputations and business contacts of our principals, including our founders, Henry Kravis and George Roberts, and other key personnel, the information and deal flow they and others generate during the normal course of their activities and the synergies among the diverse fields of expertise and knowledge held by our professionals. Accordingly, our success will depend on the continued service of these individuals, who are not obligated to remain employed with us. The loss of the services of any of them could have a material adverse effect on our revenues, net income and cash flows and could harm our ability to maintain or grow assets under management in existing funds or raise additional funds in the future.

Our principals and other key personnel possess substantial experience and expertise and have strong business relationships with investors in our funds and other members of the business community. As a result, the loss of these personnel could jeopardize our relationships with investors in our funds and members of the business community and result in the reduction of assets under management or fewer investment opportunities. For example, if any of our principals were to join or form a competing firm, our business, results and financial condition could suffer.

Furthermore, the agreements governing our traditional private equity funds and the KKR Strategic Capital Funds provide that in the event certain "key persons" in these funds (for example, both of Messrs. Kravis and Roberts) generally cease to actively manage a fund, investors in the fund will be entitled to: (i) in the case of our traditional private equity funds, reduce, in whole or in part, their capital commitments available for further investments; and (ii) in the case of the KKR Strategic Capital Funds,

withdraw all or any portion of their capital accounts, in each case on an investor-by-investor basis. The occurrence of such an event with respect to any of our traditional private equity funds or the KKR Strategic Capital Funds would likely have a significant negative impact on our revenue, net income and cash flow.

***Our structure involves complex provisions of U.S. federal income tax laws for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.***

The U.S. federal income tax treatment of unitholders depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax laws for which no clear precedent or authority may be available. You should be aware that the U.S. federal income tax rules are constantly under review by persons involved in the legislative process, the Internal Revenue Service, or IRS, and the U.S. Treasury Department, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. The present U.S. federal income tax treatment of an investment in our common units may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments and commitments previously made. Changes to the U.S. federal tax laws and interpretations thereof could make it more difficult or impossible to be treated as a partnership that is not taxable as a corporation for U.S. federal income tax purposes, affect or cause us to change our investments and commitments, affect the tax considerations of an investment in us, change the character or treatment of portions of our income (including, for instance, the treatment of carried interest as ordinary income rather than capital gain) and adversely affect an investment in our common units. On June 22, 2007, legislation was introduced to treat all or part of the capital gain and dividend income that is recognized by an investment partnership and allocable to a partner affiliated with the sponsor of the partnership (a portion of the carried interest) as ordinary income to such partner for U.S. federal income tax purposes, which would have the effect of precluding us from qualifying as a partnership for U.S. federal income tax purposes. Similar legislation was introduced on October 25, 2007, and the House of Representatives passed similar legislation on November 9, 2007. In addition, on June 14, 2007, legislation was introduced that would tax as a corporation any publicly traded partnership that directly or indirectly derives income from investment adviser or asset management services. Similar legislation was introduced on June 20, 2007. If any of these pieces of legislation or any similar legislation or regulation were to be enacted and apply to us, we would incur a material increase in our tax liability that could result in a reduction in the value of our common units. See the discussions below under " Legislation has been introduced that would, if enacted, preclude us from qualifying as a partnership for U.S. federal income tax purposes. If this or any similar legislation or regulation were to be enacted and apply to us, we would incur a material increase in our tax liability that could result in a reduction in the value of our common units."

Our organizational documents and agreements permit our Managing Partner to modify our amended and restated partnership agreement from time to time, without the consent of the unitholders, to address certain changes in U.S. federal income tax regulations, legislation or interpretation. In some circumstances, such revisions could have a material adverse impact on some or all unitholders. Moreover, we will apply certain assumptions and conventions in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to unitholders in a manner that reflects such unitholders' beneficial ownership of partnership items, taking into account variation in ownership interests during each taxable year because of trading activity. However, those assumptions and conventions may not be in compliance with all aspects of applicable tax requirements. It is possible that the IRS will assert successfully that the conventions and assumptions used by us do not satisfy the technical requirements of the Internal Revenue Code and/or Treasury regulations and could require that items of income, gain, deductions, loss or credit, including interest deductions, be adjusted, reallocated or disallowed in a manner that adversely affects unitholders.

*Legislation has been introduced that would, if enacted, preclude us from qualifying as a partnership for U.S. federal income tax purposes. If this or any similar legislation or regulation were to be enacted and apply to us, we would incur a material increase in our tax liability that could result in a reduction in the value of our common units.*

On June 14, 2007, the Chairman and the Ranking Republican Member of the U.S. Senate Committee on Finance introduced legislation that would tax as corporations publicly traded partnerships that directly or indirectly derive income from investment adviser or asset management services. In addition, they concurrently issued a press release stating that they do not believe that proposed public offerings of private equity and hedge fund management firms are consistent with the intent of the existing rules regarding publicly traded partnerships because the majority of their income is derived from the active provision of services to investment funds and limited partner investors in such funds. Further, they have sent letters to the Secretary of the Treasury and the Chairman of the U.S. Securities and Exchange Commission, or the SEC, regarding these tax issues in which they express a view that recent initial public offerings of private equity and hedge funds "raise serious tax questions that if left unaddressed have the potential to jeopardize the integrity of the tax code and the corporate tax base over the long term." As explained in the technical explanation accompanying the proposed legislation:

Under the bill, the exception from corporate treatment for a publicly traded partnership does not apply to any partnership that, directly or indirectly, has any item of income or gain (including capital gains or dividends), the rights to which are derived from services provided by any person as an investment adviser, as defined in the Investment Advisers Act of 1940, or as a person associated with an investment adviser, as defined in that Act. Further, the exception from corporate treatment does not apply to a partnership that, directly or indirectly, has any item of income or gain (including capital gains or dividends), the rights to which are derived from asset management services provided by an investment adviser, a person associated with an investment adviser, or any person related to either, in connection with the management of assets with respect to which investment adviser services were provided. For purposes of the bill, these determinations are made without regard to whether the person is required to register as an investment adviser under the Investment Advisers Act of 1940.

If enacted, the proposed legislation would be effective as of the date it was introduced, with transition relief that would not apply to us.

On June 20, 2007, similar legislation was introduced in the House of Representatives. If the proposed legislation survives the legislative and executive process in its proposed form and were to be enacted into law, we would incur a material increase in our tax liability. If we were taxed as a corporation, our effective tax rate would increase significantly. The federal statutory rate for corporations is currently 35%, and the state and local tax rates, net of the federal benefit, aggregate approximately % . If a variation of this proposed legislation or any other change in the tax laws, rules, regulations or interpretations preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes under the publicly traded partnership rules, our tax liability would materially increase, which could result in a reduction in the value of our common units.

On June 22, 2007, legislation was introduced by a member of the House Ways and Means Committee, co-sponsored by the committee chairs, eleven other members and the chair of the House Financial Services Committee, that would treat income received by a partner with respect to an investment services partnership interest as ordinary income received for the performance of services. On October 25, 2007, the House Ways and Means Committee Chairman, in connection with his tax reform proposal, introduced legislation that was substantially similar to the June 22, 2007 bill. The enactment of either variation of this proposed legislation would cause such income to be non-qualifying income under the publicly traded partnership rules, which would preclude us from qualifying as a partnership for U.S. federal income tax purposes, thereby materially increasing our tax liability, which could result in a reduction of the value of our common units.

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On November 9, 2007, the House of Representatives passed legislation similar to the June 22, 2007 legislation. Under a transition rule contained in the November 9, 2007 legislation, the enactment of such legislation would not preclude us from qualifying as a partnership for U.S. federal income tax purposes until our taxable year beginning January 1, 2010.

***Our transition to a publicly-traded structure may adversely affect our ability to retain and motivate our principals and other key personnel and to recruit, retain and motivate new principals and other key personnel, both of which could adversely affect our business, results and financial condition.***

Our most important asset is our people, and our continued success is highly dependent upon the efforts of our principals and other professionals. Our future success and growth depends to a substantial degree on our ability to retain and motivate our principals and other key personnel and to strategically recruit, retain and motivate new talented personnel, including new principals. However, we may not be successful in our efforts to recruit, retain and motivate the required personnel as the market for qualified investment professionals is extremely competitive.

In connection with the Reorganization Transactions and this offering, our current principals and certain of our former personnel will receive interests in KKR Holdings, which will hold Group Partnership units. Moreover, transfer restrictions to which interests in KKR Holdings are subject in certain instances lapse over time, may not be enforceable in all cases and can be waived. There is no guarantee that the non-competition, non-solicitation and confidentiality agreements to which our principals will be subject, together with our other arrangements with them, will prevent them from leaving us, joining our competitors or otherwise competing with us or that these agreements will be enforceable in all cases. In addition, these agreements will expire after a certain period of time, at which point each of our principals would be free to compete against us and solicit investors in our funds, clients and employees. See "Management Non-Competition, Non-Solicitation and Confidentiality Agreements."

Our ability to recruit, retain and motivate our professionals is dependent on our ability to offer highly attractive incentive opportunities. If legislation were to be enacted by the U.S. Congress to treat carried interest as ordinary income rather than as capital gain for U.S. federal income tax purposes, such legislation would materially increase the amount of taxes that we and possibly our unitholders would be required to pay, thereby adversely affecting our ability to offer such attractive incentive opportunities. See " Our structure involves complex provisions of U.S. federal income tax laws for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis," and " Legislation has been introduced that would, if enacted, preclude us from qualifying as a partnership for U.S. federal income tax purposes. If this or any similar legislation or regulation were to be enacted and apply to us, we would incur a material increase in our tax liability that could result in a reduction in the value of our common units."

We strive to maintain a work environment that reinforces our culture of collaboration, motivation and alignment of interests with investors. If we do not continue to develop and implement the right processes and tools to manage our changing enterprise and maintain our culture, our ability to compete successfully and achieve our business objectives could be impaired, which could negatively impact our business, financial condition and results of operations.

***The requirements of being a public entity and sustaining our growth may strain our resources.***

As a public company, we will be subject to the reporting requirements of the Securities Exchange Act of 1934, or the Exchange Act, and requirements of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. These requirements may place a strain on our systems and resources. The Exchange Act will require that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act will require that we maintain effective disclosure controls and procedures and internal

controls over financial reporting, which are discussed below. In order to maintain and improve the effectiveness of our disclosure controls and procedures, significant resources and management oversight will be required. We will be implementing additional procedures and processes for the purpose of addressing the standards and requirements applicable to public companies. In addition, sustaining our growth will also require us to commit additional management, operational and financial resources to identify new professionals to join our firm and to maintain appropriate operational and financial systems to adequately support expansion. These activities may divert management's attention from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. We will also incur costs that we have not previously incurred for director fees, investor relations expenses, expenses for compliance with the Sarbanes-Oxley Act and rules of the SEC and the New York Stock Exchange, and various other costs relating to being a public company. Operational risks may disrupt our businesses, result in losses or limit our growth.

We rely heavily on our financial, accounting and other data processing systems. If any of these systems does not operate properly or is disabled, we could suffer financial loss, a disruption of our businesses, liability to our funds, regulatory intervention or reputational damage. In addition, we operate in businesses that are highly dependent on information systems and technology. Our information systems and technology may not continue to be able to accommodate our growth, and the cost of maintaining such systems may increase from its current level. Such a failure to accommodate growth, or an increase in costs related to such information systems, could have a material adverse effect on us. Furthermore, we depend on our principal offices in New York City, where most of our administrative personnel are located, for the continued operation of our business. A disaster or a disruption in the infrastructure that supports our businesses, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, or directly affecting our principal offices, could have a material adverse impact on our ability to continue to operate our business without interruption. Our disaster recovery programs may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses, if at all.

***We have not evaluated our internal controls over financial reporting for purposes of compliance with Section 404 of the Sarbanes-Oxley Act.***

We have not previously been required to comply with requirements of the Sarbanes-Oxley Act, including the internal control evaluation and certification requirements of Section 404 of that statute, and we will not be required to comply with all of those requirements until after we have been subject to the reporting requirements of the Exchange Act for a specified period of time. Accordingly, we have not determined whether or not our existing internal controls over financial reporting systems comply with Section 404. However, we have restated the historical combined financial statements of the KKR Group contained in this prospectus. The restatement related primarily to the accounting for management fees for years prior to 2002, for which certain aspects of our management agreements were not taken into consideration. Also, we restated the condensed combined statement of cash flows for the quarter ended March 31, 2007 relating to the presentation of non-cash distributions. The restatement of our combined financial statements and any actions that we subsequently take will be factors to be considered when we determine whether our internal controls over financial reporting comply with Section 404. In the future, we may discover other areas of our internal control that need improvement. The internal control evaluation required by Section 404 will divert internal resources and will take a significant amount of time, effort and expense to complete. If it is determined that we are not in compliance with Section 404, we will be required to implement remedial procedures and re-evaluate our internal control over financial reporting. We may experience higher than anticipated operating expenses as well as higher independent auditor and consulting fees during the implementation of these changes and thereafter. Further, we may need to hire additional qualified personnel in order for us to comply with Section 404. If we are unable to implement any necessary changes effectively or efficiently, our operations, financial reporting or financial results could

be adversely affected and we could obtain an adverse report on internal controls from our independent registered public accountants.

***Our use of leverage to finance our business will expose us to substantial risks, which are exacerbated by our funds' investments in leveraged companies.***

It is our intention over time to use borrowings in order to finance our business operations as a public company. Using a significant degree of leverage will expose us to the typical risks associated with the use of substantial leverage, including those discussed below under "Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments." These risks are exacerbated by our funds' use of leverage to finance investments.

***The time and attention that our principals and other employees devote to assets that are not being contributed to the Group Partnerships will not financially benefit us and may reduce the time and attention these individuals devote to our business.***

The investment period for each of the 1987 Fund, the 1993 Fund and the 1996 Fund has ended. As of June 30, 2007, the unrealized value of the investments held by these funds totaled \$2.2 billion. Because we believe the general partners of these funds will not receive meaningful proceeds from further realizations, we will not acquire general partner interests in them in connection with the Reorganization Transactions. We will, however, continue to provide the funds with management and other services until their liquidation. While we will not receive meaningful fees for providing these services, our principals and other employees will be required to devote a portion of their time and attention to the management of those entities. The devotion of the time and attention of our principals and employees to those activities will not financially benefit us and may reduce the time and attention they devote to our business.

***We face risks and uncertainties in developing our new business initiatives.***

Part of our growth strategy is to develop new business areas, including sponsoring new investment vehicles and structures, including co-investment vehicles, and raising new types of funds, such as long-oriented public equity funds, structured product funds and industry- or geography-specific funds. In addition, to support these initiatives, we are currently developing a capital markets business in the United States, Europe and Asia. As a result, we are subject to all of the risks and uncertainties associated with the expansion into any new line of business, including the risk that these new business initiatives will not assist us in achieving our objectives. Any failure of these initiatives to meet or exceed expectations could have an adverse effect on our results of operations.

***Extensive regulation of our businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus could result in additional burdens on our business. Changes in tax laws and other legislative or regulatory changes could adversely affect us.***

Our business is subject to extensive regulation. See "Business Regulation." We are subject to regulation by governmental and self-regulatory organizations in the jurisdictions in which we operate around the world. Many of these regulators, including U.S. and foreign government agencies and self-regulatory organizations, are empowered to conduct investigations and administrative proceedings that can result in fines, suspensions of personnel or other sanctions, including censure, the issuance of cease-and-desist orders or the suspension or expulsion of applicable licenses and memberships. Even if an investigation or proceeding does not result in a sanction or the sanction imposed against us or our personnel by a regulator were small in monetary amount, the adverse publicity relating to the investigation, proceeding or imposition of these sanctions could harm our reputation and cause us to lose existing clients or fail to gain new clients.

We regularly rely on exemptions in the United States from various requirements of the Securities Act of 1933, or the Securities Act, the Exchange Act, the Investment Company Act of 1940, or the Investment Company Act, the Investment Advisers Act of 1940, or the Investment Advisers Act, and the U.S. Employee Retirement Income Security Act of 1974, or ERISA, in conducting our asset management

activities. These exemptions are sometimes highly complex and may in certain circumstances depend on compliance by third parties whom we do not control. If for any reason these exemptions were to become unavailable to us, we could become subject to regulatory action or third-party claims and our business could be materially and adversely affected. See " Risks Related to Our Organizational Structure If we were deemed to be an "investment company" under the Investment Company Act, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business." Lastly, the requirements imposed by our regulators are designed primarily to ensure the integrity of the financial markets and to protect investors in our funds and are not designed to protect our unitholders. Consequently, these regulations often serve to limit our activities. In addition, the regulatory environment in which our fund investors operate may affect our business. For example, changes in state laws may limit investment activities of state pension plans.

The regulatory environment in which we operate may become more burdensome. We are in the process of registering as an investment adviser under the Investment Advisers Act. As a registered investment advisor, we will be subject to the requirements and regulations of the Investment Advisers Act, which relate to, among other things, recordkeeping and reporting requirements, disclosure requirements, limitations on agency and principal transactions between an advisor and advisory clients. We may also be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. In addition, we may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. Compliance with any new laws or regulations could make compliance more difficult and expensive and affect the manner in which we conduct business.

Certain legislation has recently been adopted in Denmark and Germany that limits the tax deductibility of interest expense incurred by companies in those countries. These measures will most likely adversely affect Danish and German portfolio companies in which our private equity funds have investments and limit the benefits of additional investments in those countries. Our private equity business is subject to the risk that similar measures might be introduced in other countries in which it currently has investments or plans to invest in the future, or that other legislative or regulatory measures that negatively impact its portfolio investments might be promulgated in any of the countries in which it invests.

In the United Kingdom, the Financial Services Authority recently published a discussion paper on the impact that the growth in the private equity market has had on the markets in the United Kingdom and the suitability of its regulatory approach in addressing risks posed by the private equity market.

We have received a request for certain documents and other information from the Antitrust Division of the U.S. Department of Justice, or the 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. We are fully cooperating with the DOJ's investigation.

***We are subject to substantial litigation risks and may face significant liabilities and damage to our professional reputation as a result of litigation allegations and negative publicity.***

The investment decisions we make in our asset management business and the activities of our investment professionals on behalf of our portfolio companies may subject them and us to the risk of third-party litigation arising from investor dissatisfaction with the performance of those funds, the activities of our portfolio companies and a variety of other litigation claims. For example, in early 2007, 13 private equity firms, including us, were named as defendants in a purported class action complaint by shareholders in public companies recently acquired by private equity firms. In June 2007 this suit was dismissed by the plaintiffs without prejudice.

To the extent investors in our private equity funds suffer losses resulting from fraud, gross negligence, willful misconduct or other similar misconduct, investors may have remedies against us, our private equity

funds, our principals or our affiliates under the federal securities law and state law. Investors in our funds do not have legal remedies against us, the general partners of our funds, our funds, our principals or our affiliates solely based on their dissatisfaction with the investment performance of those funds. While the general partners and investment advisers to our private equity funds, including their directors, officers, other employees and affiliates, are generally indemnified to the fullest extent permitted by law with respect to their conduct in connection with the management of the business and affairs of our private equity funds, such indemnity does not extend to actions determined to have involved fraud, gross negligence, willful misconduct or other similar misconduct.

If any lawsuits were brought against us and resulted in a finding of substantial legal liability, the lawsuit could materially adversely affect our business, financial condition or results of operations or cause significant reputational harm to us, which could seriously impact our business. We depend to a large extent on our business relationships and our reputation for integrity and high-caliber professional services to attract and retain investors and to pursue investment opportunities for our funds. As a result, allegations of improper conduct by private litigants or regulators, whether the ultimate outcome is favorable or unfavorable to us, as well as negative publicity and press speculation about us, our investment activities or the private equity industry in general, whether or not valid, may harm our reputation, which may be more damaging to our business than to other types of businesses.

In addition, with a workforce composed of many highly paid professionals, we face the risk of litigation relating to claims for compensation, which may, individually or in the aggregate, be significant in amount. The cost of settling any such claims could negatively impact our business, financial condition and results of operations.

***Employee misconduct could harm us by impairing our ability to attract and retain clients and subjecting us to significant legal liability and reputational harm.***

There is a risk that our employees could engage in misconduct that adversely affects our business. We are subject to a number of obligations and standards arising from our business and our authority over the assets we manage. The violation of these obligations and standards by any of our employees would adversely affect our clients and us. Our business often requires that we deal with confidential matters of great significance to companies in which we may invest. If our employees were improperly to use or disclose confidential information, we could suffer serious harm to our reputation, financial position and current and future business relationships, as well as face potentially significant litigation. It is not always possible to detect or deter employee misconduct, and the extensive precautions we take to detect and prevent this activity may not be effective in all cases. If any of our employees were to engage in misconduct or were to be accused of such misconduct, our business and our reputation could be adversely affected.

#### **Risks Relating to the Investments We Manage**

***Poor performance of the investments we manage would cause a decline in our net income and cash flow, may obligate us to repay some carried interest previously paid to us, and could adversely affect our ability to raise capital for future funds.***

In the event that any of the significant investments we manage were to perform poorly, our net income and cash flow would decline because the value of our assets under management would decrease, which would result in a reduction in some of our management fees, and our investment returns would decrease, resulting in a reduction in the carried interest we earn. Moreover, we could experience losses on our investments of our own capital as a result of poor performance by the investments we manage. Furthermore, if, as a result of poor performance of later investments in one of our traditional private equity funds' life, the fund does not achieve overall profitability, we will be obligated to repay the amount by which carried interest that was previously distributed to us exceeds amounts to which we are ultimately entitled. These repayment obligations may be related to amounts previously distributed to our principals prior to the completion of this offering, with respect to which our unitholders did not receive any benefit. Poor performance of our funds could make it more difficult for us to raise new capital. Investors in funds



might decline to invest in future funds we raise. Investors and potential investors in our funds continually assess our funds' performance, and our ability to raise capital for existing and future funds will depend on our funds' continued satisfactory performance.

***Valuation methodologies for certain assets in our funds can be subject to significant subjectivity and the fair value of assets established pursuant to such methodologies may never be realized, which could result in significant losses for our funds.***

There are no readily ascertainable market prices for a substantial majority of illiquid investments of our funds. When determining fair values of investments, we use the last reported market price as of the statement of financial condition date for investments that have readily observable market prices. When an investment does not have a readily available market price, the fair value of the investment represents the value, as determined by us in good faith, at which the investment could be sold in an orderly disposition over a reasonable period of time between willing parties other than in a forced or liquidation sale. There is no single standard for determining fair value in good faith and in many cases fair value is best expressed as a range of fair values from which a single estimate may be derived. When making fair value determinations, we typically use a market multiples approach that considers a specified financial measure (such as EBITDA) or a discounted cash flow or liquidation analysis. We also consider a range of additional factors that we deem relevant, including the price at which the investment was acquired, the nature of the investment (such as whether it is a controlling interest), local market conditions, market prices for comparable securities and financing transactions and internal models that consider the current and expected operating performance and cash flows of the company in which the investment was made.

Because valuations, and in particular valuations of investments for which market quotations are not readily available, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, determinations of fair value may differ materially from the values that would have resulted if a ready market had existed. Even if market quotations are available for our investments, such quotations may not reflect the value that we would actually be able to realize because of various factors, including possible illiquidity. Our partners' capital could be adversely affected if the values of investments that we record are materially higher than the values that are ultimately realized upon the disposal of the investments and changes in values attributed to investments from quarter to quarter may result in volatility in our assets under management and such changes could materially affect the results of operations that we report from period to period. We cannot assure you that the investment values that we record from time to time will ultimately be realized. We also cannot assure you that you will be able to realize the investment values that are presented in this prospectus.

Because there is significant uncertainty in the valuation of, or in the stability of the value of, illiquid investments, the fair values of investments reflected in a fund's NAV do not necessarily reflect the prices that would actually be obtained by us on behalf of the fund when such investments are realized. Realizations at values significantly lower than the values at which investments have been reflected in prior fund NAVs would result in losses for the applicable fund and the loss of potential carried interest and other fees. Also, if realizations of our investments produce values materially different than the carrying values reflected in prior fund NAVs, investors may lose confidence in us, which would in turn result in difficulty in raising additional funds.

Even if market quotations are available for our investments, such quotations may not reflect the value that could actually be realized because of various factors, including the possible illiquidity associated with a large ownership position, subsequent illiquidity in the market for a company's securities, future market price volatility or the potential for a future loss in market value based on poor industry conditions or the market's view of overall company and management performance.

In addition, because we value our investments on a quarterly basis only, subsequent events that may have a material impact on those valuations will not be reflected until the next quarterly valuation date.

*The historical returns attributable to our funds, including those presented in this prospectus, should not be considered as indicative of the future results of our funds or of our future results or of any returns expected on an investment in our common units.*

We have presented in this prospectus net and gross IRRs, multiples of invested capital and realized and unrealized investment values for funds that we have sponsored and managed. The historical and potential future returns of the funds that we manage are not directly linked to returns on our common units. In connection with the Reorganization Transactions and this offering, we will not acquire all of the interests in the KKR Group, our accounting predecessor, and we will not acquire an interest in two legacy funds that are not included in the KKR Group. In addition, although two of the three side-by-side funds that constitute the KKR Strategic Capital Funds have been consolidated by the KKR Group, the third side-by-side fund in the KKR Strategic Capital Funds is not consolidated by the KKR Group because it is owned and controlled by third-party investors and we hold no economic or voting interests in that fund.

Following the Reorganization Transactions and this offering, we will have controlling and economic interests in the management companies of our funds, the general partners of our traditional private equity funds (other than the 1996 Fund and earlier funds) and future funds and our capital markets companies. We will also have an economic (but not controlling) interest in the general partner of the KKR Private Equity Investors master fund. As a result of these interests, we will have a right to share ratably in: (i) the management, transaction, monitoring and other fees from our existing and future private equity funds and their portfolio companies; (ii) the carried interest earned by the general partners of our existing and future private equity funds (other than the 1996 Fund and earlier funds); (iii) any returns generated on capital contributions made by the general partners of our existing and future private equity funds after the completion of this offering; and (iv) the management, incentive and other potential fees for managing our existing and future credit strategy funds.

In light of the fact that we will not acquire interests in all of the private equity and credit activities we have historically conducted, you should not conclude that continued positive performance of the funds that we manage will necessarily result in positive returns on an investment in our common units. However, poor performance of the funds that we manage would cause a decline in our income from such funds and would therefore have a negative effect on our performance and in all likelihood the returns on an investment in our common units.

Moreover, with respect to the historical returns of our funds:

the rates of returns of our funds reflect unrealized gains as of the applicable valuation date that may never be realized, which may adversely affect the ultimate value realized from those funds' investments;

you will not benefit from any value that was created in our funds prior to your investment in our common units to the extent such value has been realized;

the historical returns of our funds and their future performance has been and will be affected by macroeconomic factors, including factors that may not have been prevalent in the periods relevant to the return data above;

in the past few years, the rates of returns of some of our funds have been positively influenced by a number of investments that experienced a substantial decrease in the average holding period of such investments and rapid and substantial increases in value following the dates on which those investments were made, trends and rates of return that are not expected to continue;

our funds' returns have benefited from investment opportunities and general market conditions that may not repeat themselves, including favorable borrowing conditions in the debt markets, and there can be no assurance that our current or future funds will be able to avail themselves of comparable investment opportunities or market conditions or that such market conditions will continue;

the results of our credit segment are impacted by the performance of the credit strategy funds we manage. Recent disruptions in the credit markets may adversely impact the performance of these funds, which would reduce our management fees because these fees are based in part on the net asset value of these strategy funds. Additionally, reduced profitability or losses realized by the credit strategy funds would reduce or eliminate incentive fees earned by our credit segment; and

we may create new funds in the future that reflect a different asset mix in terms of allocations among funds, investment strategies, geographic and industry exposure and vintage year.

In addition, future returns will be affected by the risks described elsewhere in this prospectus, including risks of the industry sectors and businesses in which a particular fund invests.

***Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments.***

Because many of our funds' investments rely heavily on the use of leverage, our ability to achieve attractive rates of return on investments will depend on our continued ability to access sufficient sources of indebtedness at attractive rates. For example, our credit strategy funds use varying degrees of leverage when making investments. Similarly, in many private equity investments, indebtedness may constitute 70% or more of a portfolio company's total debt and equity capitalization, including debt that may be incurred in connection with the investment. An increase in either the general levels of interest rates or in the risk spread demanded by sources of indebtedness would make it more expensive to finance those investments. In addition, increases in interest rates could also decrease the value of fixed-rate debt investments that our funds make. Increases in interest rates could also make it more difficult to locate and consummate private equity investments because other potential buyers, including operating companies acting as strategic buyers, may be able to bid for an asset at a higher price due to a lower overall cost of capital. In addition, a portion of the indebtedness used to finance private equity investments often includes high-yield debt securities issued in the capital markets. Availability of capital from the high-yield debt markets is subject to significant volatility, and there may be times when we might not be able to access those markets at attractive rates, or at all, when completing an investment.

Investments in highly leveraged entities are also inherently more sensitive to declines in revenues, increases in expenses and interest rates and adverse economic, market and industry developments. The incurrence of a significant amount of indebtedness by an entity could, among other things:

subject the entity to a number of restrictive covenants, terms and conditions, any violation of which would be viewed by creditors as an event of default and could materially impact our ability to realize value from our investment;

give rise to an obligation to make mandatory prepayments of debt using excess cash flow, which might limit the entity's ability to respond to changing industry conditions to the extent additional cash is needed for the response, to make unplanned but necessary capital expenditures or to take advantage of growth opportunities;

limit the entity's ability to adjust to changing market conditions, thereby placing it at a competitive disadvantage compared to its competitors who have relatively less debt;

limit the entity's ability to engage in strategic acquisitions that might be necessary to generate attractive returns or further growth; and

limit the entity's ability to obtain additional financing or increase the cost of obtaining such financing, including for capital expenditures, working capital or other general corporate purposes.

A leveraged company's income and equity also tend to increase or decrease at a greater rate than would otherwise be the case if money had not been borrowed. As a result, the risk of loss associated with a leveraged company is generally greater than for companies with comparatively less debt.

Any of the foregoing circumstances could have a material adverse effect on our financial condition, results of operations and cash flow.

***The asset management business is intensely competitive.***

We compete as an alternative asset manager for both investors and investment opportunities. Our competitors consist primarily of sponsors of public and private investment funds, business development companies, investment banks, commercial finance companies and operating companies acting as strategic buyers. We believe that competition for investors is based primarily on investment performance; business reputation; the duration of relationships with investors; the quality of services provided to investors; pricing; and the relative attractiveness of the types of investments that have been or are to be made. We believe that competition for investment opportunities is based primarily on the pricing, terms and structure of a proposed investment and certainty of execution. A number of factors serve to increase our competitive risks:

a number of our competitors in some of our businesses have greater financial, technical, marketing and other resources and more personnel than we do;

several of our competitors have recently raised, or are expected to raise, significant amounts of capital, and many of them have similar investment objectives to ours, which may create additional competition for investment opportunities and may reduce the size and duration of pricing inefficiencies that many alternative investment strategies seek to exploit;

some of these competitors may also have a lower cost of capital and access to funding sources that are not available to us, which may create competitive disadvantages for us with respect to investment opportunities;

some of our competitors may have higher risk tolerances, different risk assessments or lower return thresholds, which could allow them to consider a wider variety of investments and to bid more aggressively than us for investments;

our competitors that are corporate buyers may be able to achieve synergistic cost savings in respect of an investment, which may provide them with a competitive advantage in bidding for an investment;

there are relatively few barriers to entry impeding the formation of new funds, including a relatively low cost of entering these businesses, and the successful efforts of new entrants into our various lines of business, including major commercial and investment banks and other financial institutions, have resulted in increased competition;

some investors may prefer to invest with an investment manager that is not publicly traded; and

other industry participants will from time to time seek to recruit our investment professionals and other employees away from us.

We may lose investment opportunities in the future if we do not match investment prices, structures and terms offered by competitors. Alternatively, we may experience decreased investment returns and increased risks of loss if we match investment prices, structures and terms offered by competitors. In addition, if interest rates were to rise or if market conditions for competing investment products improve and such products begin to offer rates of return superior to those achieved by our funds, the attractiveness of our funds relative to investments in other investment products could decrease. This competitive pressure could adversely affect our ability to make successful investments and limit our ability to raise future funds, either of which would adversely impact our business, results of operations and cash flow.

***The due diligence process that we undertake in connection with our investments may not reveal all facts that may be relevant in connection with an investment.***

Before making our investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. The objective of the due diligence process is to identify attractive investment opportunities based on the facts and circumstances surrounding an investment and, in the case of private equity investments, and to prepare a framework that may be used from the date of an acquisition to drive operational achievement and value creation. When conducting due diligence, we typically evaluate a number of important business, financial, tax, accounting, environmental and legal issues in determining whether or not to proceed with an investment. Outside consultants, legal advisers, accountants and investment banks are involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we rely on resources available to us, including information provided by the target of the investment and, in some circumstances, third-party investigations. The due diligence process may at times be subjective with respect to newly organized companies for which only limited information is available. Accordingly, we cannot be certain that the due diligence investigation that we will carry out with respect to any investment opportunity will reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. We also cannot be certain that our due diligence investigations will result in investments being successful.

***Our asset management activities involve investments in relatively high-risk, illiquid assets, and we may fail to realize any profits from these activities for a considerable period of time or lose some or all of the capital invested.***

Our funds hold investments in securities that are not publicly traded. In many cases, our funds may be prohibited by contract or by applicable securities laws from selling such securities for a period of time. Our funds will generally not be able to sell these securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration is available. The ability of many of our funds to dispose of investments is heavily dependent on the public equity markets. For example, the ability to realize any value from an investment may depend upon the ability to complete an initial public offering of the portfolio company in which such investment is made. Even if the securities are publicly traded, large holdings of securities can often be disposed of only over a substantial length of time, exposing our investment returns to risks of downward movement in market prices during the intended disposition period. Accordingly, under certain conditions, our funds may be forced to either sell securities at lower prices than they had expected to realize or defer sales that they had planned to make, potentially for a considerable period of time. We have made and expect to continue to make significant capital investments in our current and future funds. Contributing capital to these funds is risky, and we may lose some or all of the principal amount of our investments.

***The investments of our funds are subject to a number of inherent risks.***

Our results are highly dependent on our continued ability to generate attractive returns from our investments. Investments made by our private equity funds involve a number of significant risks inherent to private equity investing, including the following:

companies in which private equity investments are made may have limited financial resources and may be unable to meet their obligations under their securities, which may be accompanied by a deterioration in the value of their equity securities or any collateral or guarantees provided with respect to their debt;

companies in which private equity investments are made are more likely to depend on the management talents and efforts of a small group of persons and, as a result, the death, disability,

resignation or termination of one or more of those persons could have a material adverse impact on their business and prospects and the investment made;

companies in which private equity investments are made generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; and

executive officers, directors and employees of an equity sponsor may be named as defendants in litigation involving a company in which a private equity investment is made or is being made.

***Our private equity investments are typically among the largest in the industry, which involve certain complexities and risks that are not encountered in small- and medium-sized investments.***

Our private equity funds make investments primarily in companies with large capitalizations, which involves certain complexities and risks that are not encountered in small- and medium-sized investments. For example, larger transactions may be more difficult to finance and exiting larger deals may present incremental challenges. In addition, larger transactions may pose greater challenges in implementing changes in the company's management, culture, finances or operations, and may entail greater scrutiny by regulators, labor unions and other third parties. Recently, labor unions have been more active in opposing certain larger investments by our private equity funds and private equity firms generally.

In recent years, the amount of equity capital that is required to complete a large capitalization private equity transaction has increased significantly, which has resulted in some of the largest private equity transactions being structured as "consortium transactions." A consortium transaction involves an equity investment in which two or more other private equity firms serve together or collectively as equity sponsors. While we have sought to limit where possible the amount of consortium transactions in which we have been involved, we have participated in a significant number of those transactions. Ten out of 37 of the investments in our current private equity portfolio were acquired through consortium transactions. Consortium transactions generally entail a reduced level of control by our firm over the investment because governance rights must be shared with the other private equity sponsors. Accordingly, we may not be able to control decisions relating to a consortium investment, including decisions relating to the management and operation of the company and the timing and nature of any exit, which could result in the risks described in " Our funds have made investments in companies that we do not control, exposing us to the risk of decisions made by others with which we may not agree." Any of these factors could increase the risk that our larger investments could be less successful. The consequences to our investment funds of an unsuccessful larger investment could be more severe given the size of the investment.

***Our funds have made investments in companies that we do not control, exposing us to the risk of decisions made by others with which we may not agree.***

Our funds hold investments that include debt instruments and equity securities of companies that we do not control. Such instruments and securities may be acquired by our funds through trading activities or through purchases of securities from the issuer. In addition, our funds may acquire minority equity interests, particularly when sponsoring investments as part of a large investor consortium, and may also dispose of a portion of their majority equity investments in portfolio companies over time in a manner that results in the funds retaining a minority investment. Those investments will be subject to the risk that the company in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve our interests. If any of the foregoing were to occur, the value of investments by our funds could decrease and our financial condition, results of operations and cash flow could suffer as a result.

*We expect to make investments in companies that are based outside of the United States, which may expose us to additional risks not typically associated with investing in companies that are based in the United States.*

Many of our funds invest a significant portion of their assets in the equity, debt, loans or other securities of issuers that are based outside of the United States. A substantial amount of these investments consist of private equity investments made by our private equity funds. For example, as of June 30, 2007, approximately 63% of the fair value of those investments of those funds was attributable to foreign investments. Investing in companies that are based outside of the United States, particularly in countries characterized as having emerging markets, involves risks and considerations that are not typically associated with investments in companies established in the United States. These risks may include the following:

the possibility of exchange control regulations, political and social instability, nationalization or expropriation of assets;

the imposition of non-U.S. taxes;

less liquid markets;

reliance on a more limited number of commodity inputs, service providers and/or distribution mechanisms;

adverse fluctuations in currency exchange rates;

higher rates of inflation;

less available current information about an issuer;

higher transaction costs;

less government supervision of exchanges, brokers and issuers;

less developed bankruptcy laws;

difficulty in enforcing contractual obligations;

lack of uniform accounting, auditing and financial reporting standards;

less stringent requirements relating to fiduciary duties;

fewer investor protections; and

greater price volatility.

Although we expect that most of our funds' capital commitments will be denominated in U.S. dollars, investments that are denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, levels of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. We may employ hedging

techniques to minimize these risks, but we can offer no assurance that such strategies will be effective. If we engage in hedging transactions, we may be exposed to additional risks associated with such transactions. See " Risk management activities may adversely affect the return on our investments."



***Our equity investments and many of our debt investments often rank junior to investments made by others, exposing us to greater risk of losing our investment.***

In most cases, the companies in which our funds invest have, or are permitted to have, outstanding indebtedness or equity securities that rank senior to our fund's investment. By their terms, such instruments may provide that their holders are entitled to receive payments of dividends, interest or principal on or before the dates on which payments are to be made in respect of our investment. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a company in which an investment is made, holders of securities ranking senior to our investment would typically be entitled to receive payment in full before distributions could be made in respect of our investment. After repaying senior security holders, the company may not have any remaining assets to use for repaying amounts owed in respect of our investment. To the extent that any assets remain, holders of claims that rank equally with our investment would be entitled to share on an equal and ratable basis in distributions that are made out of those assets. Also, during periods of financial distress or following an insolvency, the ability of our funds to influence a company's affairs and to take actions to protect their investments may be substantially less than that of the senior creditors.

***Risk management activities may adversely affect the return on our investments.***

When managing our exposure to market risks, we frequently use hedging strategies or certain forms of derivative instruments to limit our exposure to changes in the relative values of investments that may result from market developments, including changes in prevailing interest rates and currency exchange rates. The scope of risk management activities undertaken by us varies based on the level and volatility of interest rates, prevailing foreign currency exchange rates, the types of investments that are made and other changing market conditions. The use of hedging transactions and other derivative instruments to reduce the effects of a decline in the value of a position does not eliminate the possibility of fluctuations in the value of the position or prevent losses if the value of the position declines. However, such activities can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of the position. Such transactions may also limit the opportunity for gain if the value of a position increases. Moreover, it may not be possible to limit the exposure to a market development that is so generally anticipated that a hedging or other derivative transaction cannot be entered into at an acceptable price.

The success of any hedging or other derivative transactions that we enter into generally will depend on our ability to correctly predict market changes. As a result, while we may enter into such transactions in order to reduce our exposure to market risks, unanticipated market changes may result in poorer overall investment performance than if the hedging or other derivative transaction had not been executed. In addition, the degree of correlation between price movements of the instruments used in connection with hedging activities and price movements in a position being hedged may vary. Moreover, for a variety of reasons, we may not seek or be successful in establishing a perfect correlation between the instruments used in a hedging or other derivative transactions and the position being hedged. An imperfect correlation could prevent us from achieving the intended result and could give rise to a loss. In addition, it may not be possible to fully or perfectly limit our exposure against all changes in the value of our investments, because the value of investments is likely to fluctuate as a result of a number of factors, some of which will be beyond our control or ability to hedge.

***Certain of our funds may make a limited number of investments, or investments that are concentrated in certain geographic regions or asset types, which could negatively affect their performance to the extent those concentrated investments perform poorly.***

The governing agreements of our funds contain only limited investment restrictions and only limited requirements as to diversification of fund investments, either by geographic region or asset type. During

periods of difficult market conditions or slowdowns in these sectors or geographic regions, decreased revenues, difficulty in obtaining access to financing and increased funding costs may be exacerbated by this concentration of investments, which would result in lower investment returns.

***Our funds may make investments that could give rise to a conflict of interest.***

Our funds invest in a broad range of asset classes throughout the corporate capital structure. These investments include investments in corporate loans and debt securities, preferred equity securities and common equity securities. In certain cases, we may manage separate funds that invest in different parts of the same company's capital structure. For example, our credit strategy funds may invest in different classes of the same company's debt and may make debt investments in a company that is owned by one of our private equity funds. In those cases, the interests of our funds may not always be aligned, which could create actual or potential conflicts of interest or the appearance of such conflicts. For example, one of our private equity funds could have an interest in pursuing an acquisition, divestiture or other transaction that, in our judgment, could enhance the value of the private equity investment, even though the proposed transaction would subject one of our credit strategy fund's debt investments to additional or increased risks. Similarly, our ability to effectively implement our public equity strategies may be limited to the extent that contractual obligations entered into in the ordinary course of our traditional private equity business impose restrictions on our engaging in transactions that we may be interested in otherwise pursuing. Appropriately dealing with conflicts of interest is complex and difficult and we could suffer reputational damage or potential liability if we fail, or appear to fail, to deal appropriately with conflicts as they arise.

**Risks Related to Our Organizational Structure**

***Our unitholders do not control our Managing Partner or vote in the election or removal of its directors and will have limited ability to influence decisions regarding our business.***

Our Managing Partner, which serves as our sole general partner and manages our business and affairs, is owned by our senior principals, including our founders. Pursuant to its limited liability company agreement, our Managing Partner has established a board of directors that will be responsible for the oversight of our business and operations. The board of directors, co-chaired by our founders, appoints the officers of the Managing Partner. Our unitholders do not control our Managing Partner or its board of directors and, unlike the holders of common stock in a corporation, they will have only limited voting rights under our partnership agreement and generally will be unable to influence decisions regarding our business. Our unitholders also will not have the right to remove our Managing Partner as the general partner of our partnership without our Managing Partner's consent.

***Our founders will be able to determine the outcome of any matter that may be submitted for a vote of the limited partners.***

Immediately following this offering, KKR Holdings, which is owned by our principals and certain of our former personnel and controlled by our founders, will beneficially own % of the equity in our business. KKR Holdings will also hold an equivalent amount of special voting units in our partnership, which will entitle it to cast an equivalent number of votes on those few matters that may be submitted to a vote of our unitholders. Due to the foregoing, immediately following this offering, our founders, who will have the power to vote the special voting units held by KKR Holdings, will generally have sufficient voting power to determine the outcome of those few matters that may be submitted for a vote of our unitholders, including amendments to our partnership agreement that may be materially adverse to our unitholders. In addition, our partnership agreement contains provisions that enable us to take actions that would materially and adversely affect all unitholders or a particular class of unitholders upon the majority vote of all outstanding voting units, and since % of our voting units will be controlled by our founders

immediately following this offering, our founders will have the ability to take actions that could materially and adversely affect unitholders either as a whole or as a particular class.

Our unitholders' voting rights are further restricted by provisions in our partnership agreement stating that any common units held by a person that beneficially owns % or more of any class of our common units then outstanding (other than our Managing Partner or its affiliates, or a direct or subsequently approved transferee of our Managing Partner or its affiliates) cannot be voted on any matter. Our partnership agreement also contains provisions limiting the ability of our unitholders to call meetings, to acquire information about our operations, and to influence the manner or direction of our management. Our partnership agreement also does not restrict our Managing Partner's ability to take actions that may result in our being treated as an entity taxable as a corporation for U.S. federal (and applicable state) income tax purposes. Furthermore, unitholders are not entitled to dissenters' rights of appraisal under our partnership agreement or applicable Delaware law in the event of a merger or consolidation, a sale of substantially all of our assets or any other transaction or event.

In addition, as a result of these matters and the provisions referred to under " Our unitholders do not control our Managing Partner or vote in the election or removal of its directors and will have limited ability to influence decisions regarding our business," our unitholders may be deprived of an opportunity to receive a premium for their common units in the future through a sale of our partnership, and the trading prices of our common units may be adversely affected by the absence or reduction of a takeover premium in the trading price.

***We are permitted to repurchase all of the outstanding common units under certain circumstances, and this repurchase may occur at an undesirable time or price.***

We have the right to acquire all of our then-outstanding common units at the then-current trading price either if % or less of our common units are held by persons other than our Managing Partner and its affiliates or if we, the Managing Partner or its directors, officers, trustees or agents are in any manner subjected to the provisions of the Investment Company Act. As a result of our Managing Partner's right to purchase outstanding common units, a holder of common units may have his common units purchased at an undesirable time or price.

***We are a limited partnership and as a result will qualify for and intend to rely on some exemptions from the corporate governance and other requirements of the New York Stock Exchange.***

We are a limited partnership and will qualify for exceptions from certain corporate governance and other requirements of the rules of the New York Stock Exchange. Pursuant to these exceptions, limited partnerships may elect not to comply with certain corporate governance requirements of the New York Stock Exchange, including the requirements: (i) that a majority of the board of directors of the listed company consist of independent directors; (ii) that the listed company have a nominating and corporate governance committee that is composed entirely of independent directors; and (iii) that the listed company have a compensation committee that is composed entirely of independent directors. In addition, as a limited partnership, we will not be required to hold annual unitholder meetings. While our Managing Partner's board of directors will consist of a majority of directors who are independent under New York Stock Exchange Rules and have a nominating and governance committee, our nominating and governance committee will not consist entirely of independent directors or meet other substantive requirements that would be applicable absent such an exemption, and we do not intend to have a compensation committee. Accordingly, you will not have the same protections afforded to equity holders of entities that are subject to all of the corporate governance requirements of the New York Stock Exchange.

*Potential conflicts of interest may arise among our Managing Partner, its affiliates and us. Our Managing Partner and its affiliates have limited fiduciary duties to us and our unitholders, which may permit them to favor their own interests to the detriment of us and our unitholders.*

Conflicts of interest may arise among our Managing Partner and its affiliates, on the one hand, and us and our unitholders, on the other hand. As a result of these conflicts, our Managing Partner may favor its own interests and the interests of its affiliates over the interests of our unitholders. These conflicts include, among others, the following:

our Managing Partner determines the amount and timing of our investments and dispositions, indebtedness, issuances of additional partner interests and amounts of reserves, each of which can affect the amount of cash that is available for distribution to you;

our Managing Partner is allowed to take into account the interests of parties other than our partnership in resolving conflicts of interest, which has the effect of limiting its duties, including fiduciary duties, to our unitholders. For example, our affiliates that serve as the general partners of our funds have fiduciary and contractual obligations to our fund investors, and such obligations may cause such affiliates to regularly take actions that might adversely affect our near-term results of operations or cash flow. Our Managing Partner would have no obligation to intervene in, or to notify our unitholders of, such actions by such affiliates;

because our principals will indirectly hold Group Partnership units that are not subject to corporate income taxation and we will hold some of our Group Partnership units through a wholly-owned subsidiary that is taxable as a corporation, conflicts may arise between our principals and our partnership relating to the selection and structuring of investments;

as discussed below, our Managing Partner has limited its liability and reduced or eliminated its duties, including fiduciary duties, under our partnership agreement, while also restricting the remedies available to our unitholders for actions that, without these limitations, might constitute breaches of duty, including fiduciary duties. In addition, we have agreed to indemnify our Managing Partner and its affiliates to the fullest extent permitted by law, except with respect to conduct involving bad faith, fraud or willful misconduct. By purchasing our common units, you will have agreed and consented to the provisions set forth in our partnership agreement, including the provisions regarding conflicts of interest situations that, in the absence of such provisions, might constitute a breach of fiduciary or other duties under applicable state law;

our partnership agreement does not restrict our Managing Partner from causing us to pay it or its affiliates for any services rendered, or from entering into additional contractual arrangements with any of these entities on our behalf, so long as the terms of any such additional contractual arrangements are fair and reasonable to us as determined under the partnership agreement;

our Managing Partner determines how much debt we incur and that decision may adversely affect our credit ratings;

our Managing Partner determines which costs incurred by it and its affiliates are reimbursable by us;

other than as set forth in the non-competition, non-solicitation and confidentiality agreements to which our principals will be subject, which may not be enforceable, affiliates of our Managing Partner and existing and former personnel employed by our Managing Partner are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us;

our Managing Partner controls the enforcement of obligations owed to us by it and its affiliates; and

our Managing Partner decides whether to retain separate counsel, accountants or others to perform services for us.

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See "Certain Relationships and Related Party Transactions" and "Conflicts of Interest and Fiduciary Responsibilities."

***Our partnership agreement will contain provisions that reduce or eliminate duties (including fiduciary duties) of our Managing Partner and limit remedies available to unitholders for actions that might otherwise constitute a breach of duty. It will be difficult for a unitholder to successfully challenge a resolution of a conflict of interest by our Managing Partner or by its conflicts committee.***

Our partnership agreement will contain provisions that require our unitholders to waive or consent to conduct by our Managing Partner and its affiliates that might otherwise raise issues about compliance with fiduciary duties or applicable law. For example, our partnership agreement will provide that when our Managing Partner is acting in its individual capacity, as opposed to in its capacity as our Managing Partner, it may act without any fiduciary obligations to us or our unitholders whatsoever. When our Managing Partner, in its capacity as our general partner, is permitted to or required to make a decision in its "sole discretion" or "discretion" or that it deems "necessary or appropriate" or "necessary or advisable," then our Managing Partner will be entitled to consider only such interests and factors as it desires, including its own interests, and will have no duty or obligation (fiduciary or otherwise) to give any consideration to any interest of or factors affecting us or any unitholders and will not be subject to any different standards imposed by the partnership agreement, the Delaware Revised Uniform Limited Partnership Act, which we refer to as the Delaware Limited Partnership Act, or under any other law, rule or regulation or in equity.

The above modifications of fiduciary duties are expressly permitted by Delaware law. Hence, we and our unitholders will only have recourse and be able to seek remedies against our Managing Partner if our Managing Partner breaches its obligations pursuant to our partnership agreement. Unless our Managing Partner breaches its obligations pursuant to our partnership agreement, we and our unitholders will not have any recourse against our Managing Partner even if our Managing Partner were to act in a manner that was inconsistent with traditional fiduciary duties. Furthermore, even if there has been a breach of the obligations set forth in our partnership agreement, our partnership agreement provides that our Managing Partner and its officers and directors will not be liable to us or our unitholders for errors of judgment or for any acts or omissions unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that the Managing Partner or its officers and directors acted in bad faith or engaged in fraud or willful misconduct. These provisions are detrimental to the unitholders because they restrict the remedies available to unitholders for actions that without those limitations might constitute breaches of duty including fiduciary duties.

Whenever a potential conflict of interest exists between us and our Managing Partner, our Managing Partner may resolve such conflict of interest. If our Managing Partner determines that its resolution of the conflict of interest is on terms no less favorable to us than those generally being provided to or available from unrelated third parties or is fair and reasonable to us, taking into account the totality of the relationships between us and our Managing Partner, then it will be presumed that in making this determination, our Managing Partner acted in good faith. A unitholder seeking to challenge this resolution of the conflict of interest would bear the burden of overcoming such presumption. This is different from the situation with Delaware corporations, where a conflict resolution by an interested party would be presumed to be unfair and the interested party would have the burden of demonstrating that the resolution was fair.

Also, if our Managing Partner obtains the approval of the conflicts committee of our Managing Partner, the resolution will be conclusively deemed to be fair and reasonable to us and not a breach by our Managing Partner of any duties it may owe to us or our unitholders. This is different from the situation with Delaware corporations, where a conflict resolution by a committee consisting solely of independent directors may, in certain circumstances, merely shift the burden of demonstrating unfairness to the plaintiff. If you choose to purchase a common unit, you will be treated as having consented to the provisions set forth in the partnership agreement, including provisions regarding conflicts of interest

situations that, in the absence of such provisions, might be considered a breach of fiduciary or other duties under applicable state law. As a result, unitholders will, as a practical matter, not be able to successfully challenge an informed decision by the conflicts committee. See "Conflicts of Interest and Fiduciary Responsibilities."

***The control of our Managing Partner may be transferred to a third party without unitholder consent.***

Our Managing Partner may transfer its general partner interest to a third party in a merger or consolidation or in a transfer of all or substantially all of its assets without the consent of our unitholders. Furthermore, at any time, the members of our Managing Partner may sell or transfer all or part of their limited liability company interests in our Managing Partner without the approval of the unitholders, subject to certain restrictions as described elsewhere in this prospectus. A new general partner may not be willing or able to form new funds and could form funds that have investment objectives and governing terms that differ materially from those of our current funds. A new owner could also have a different investment philosophy, employ investment professionals who are less experienced, be unsuccessful in identifying investment opportunities or have a track record that is not as successful as our track record. If any of the foregoing were to occur, we could experience difficulty in making new investments, and the value of our existing investments, our business, our results of operations and our financial condition could materially suffer.

***We intend to pay periodic distributions to our unitholders, but our ability to do so may be limited by our holding company structure, applicable provisions of Delaware law and contractual restrictions.***

Following the completion of this offering, we intend to pay cash distributions on a quarterly basis. We are a holding company and will have no material assets other than the Group Partnership units that we will hold through wholly-owned subsidiaries and will have no independent means of generating income. Accordingly, we intend to cause the Group Partnerships to make distributions on the Group Partnership units, including Group Partnership units that we directly or indirectly hold, in order to provide us with sufficient amounts to fund distributions we may declare on our common units. If the Group Partnerships make such distributions, other holders of Group Partnership units, including KKR Holdings, will be entitled to receive equivalent distributions pro rata based on their Group Partnership units, except that we will be entitled to priority distributions of income through \_\_\_\_\_ as described under "Distribution Policy."

The declaration and payment of any future distributions will be at the sole discretion of our Managing Partner, which may change our distribution policy at any time. Our Managing Partner will take into account general economic and business conditions, our strategic plans and prospects, our business and investment opportunities, our financial condition and operating results, working capital requirements and anticipated cash needs, contractual restrictions and obligations, including payment obligations pursuant to the tax receivable agreement, legal, tax and regulatory restrictions, restrictions or other implications on the payment of distributions by us to our unitholders or by our subsidiaries to us and such other factors as our Managing Partner may deem relevant. Under the Delaware Limited Partnership Act, we may not make a distribution to a partner if after the distribution all our liabilities, other than liabilities to partners on account of their partner interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of our assets. If we were to make such an impermissible distribution, any limited partner who received a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Limited Partnership Act would be liable to us for the amount of the distribution for three years. In addition, the Group Partnerships' cash flow from operations may be insufficient to enable it to make required minimum tax distributions to its partners, in which case the Group Partnerships may have to borrow funds or sell assets, and thus our liquidity and financial condition could be materially adversely affected.

Furthermore, by paying cash distributions rather than investing that cash in our businesses, we risk slowing the pace of our growth, or not having a sufficient amount of cash to fund our operations, new investments or unanticipated capital expenditures, should the need arise.

Our ability to characterize such distributions as capital gains or qualified dividend income may be limited, and you should expect that some or all of such distributions may be regarded as ordinary income.

***We will be required to pay our principals for most of the benefits relating to any additional tax depreciation or amortization deductions we may claim as a result of the tax basis step-up we receive in connection with subsequent exchanges of our common units and related transactions.***

We and our intermediate holding company may be required to acquire Group Partnership units from time to time pursuant to our exchange agreement with KKR Holdings. To the extent this occurs, the exchanges are expected to result in an increase in our intermediate holding company's share of the tax basis of the tangible and intangible assets of KKR Management Holdings L.P., primarily attributable to a portion of the goodwill inherent in our business, that would not otherwise have been available. This increase in tax basis may increase (for tax purposes) depreciation and amortization and therefore reduce the amount of income tax our intermediate holding company would otherwise be required to pay in the future. This increase in tax basis may also decrease gain (or increase loss) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets.

We will enter into a tax receivable agreement with KKR Holdings requiring our intermediate holding company to pay to KKR Holdings or transferees of its Group Partnership units 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the intermediate holding company actually realizes (or is deemed to realize, in the case of an early termination payment by our intermediate holding company or a change of control) as a result of this increase in tax basis, as well as 85% of the amount of any such savings the intermediate holding company actually realizes (or is deemed to realize) as a result of increases in tax basis that arise due to future payments under the agreement. This payment obligation will be an obligation of our intermediate holding company and not of either Group Partnership. In the event that other of our current or future subsidiaries become taxable as corporations and acquire Group Partnership units in the future, or if we become taxable as a corporation for U.S. federal income tax purposes, we expect that each such entity will become subject to a tax receivable agreement with substantially similar terms. While the actual increase in tax basis, as well as the amount and timing of any payments under this agreement, will vary depending upon a number of factors, including the timing of exchanges, the price of our common units at the time of the exchange, the extent to which such exchanges are taxable and the amount and timing of our taxable income, we expect that as a result of the size of the increases in the tax basis of the tangible and intangible assets of our Group Partnerships, the payments that we may be required to make to our existing owners will be substantial. The payments under the tax receivable agreement are not conditioned upon our existing owners' continued ownership of us. We may need to incur debt to finance payments under the tax receivable agreement to the extent our cash resources are insufficient to meet our obligations under the tax receivable agreement as a result of timing discrepancies or otherwise. In particular, our intermediate holding company's obligations under the tax receivable agreement would be effectively accelerated in the event of an early termination of the tax receivable agreement by our intermediate holding company or in the event of certain mergers, asset sales and other forms of business combinations or other changes of control. In these situations, our obligations under the tax receivable agreement could have a substantial negative impact on our liquidity.

Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase, our existing owners will not reimburse us for any payments previously made under the tax receivable agreement if such tax basis increase is successfully challenged by the IRS. As a result, in certain circumstances payments to our existing owners under the tax receivable agreement could be in excess of the intermediate holding company's cash tax savings. The intermediate holding company's ability to achieve benefits from any tax basis increase, and the payments to be made under this agreement, will depend upon a number of factors, as discussed above, including the timing and amount of our future income.

*If we were deemed to be an "investment company" under the Investment Company Act, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business.*

A person will generally be deemed to be an "investment company" for purposes of the Investment Company Act if:

it is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities; or

absent an applicable exemption, it owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis.

We believe that we are engaged primarily in the business of providing asset management services and not in the business of investing, reinvesting or trading in securities. We regard ourselves as an asset management firm and do not propose to engage primarily in the business of investing, reinvesting or trading in securities. Accordingly, we do not believe that we are, or following this offering will be, an "orthodox" investment company as defined in Section 3(a)(1)(A) of the Investment Company Act and described in the first bullet point above. Further, following the completion of this offering, we will have no material assets other than our equity interest as general partner of one of the Group Partnerships and our equity interest in a wholly-owned subsidiary, which in turn will have no material assets other than the equity interest as general partner of the other Group Partnership. Through these interests, we will directly or indirectly be the sole general partners of the Group Partnerships and will be vested with all management and control over the Group Partnerships. We do not believe our equity interest in our wholly-owned subsidiary or our equity interests directly or through our wholly-owned subsidiary in the Group Partnerships are investment securities. Moreover, because we believe that the capital interests of the general partners of our funds in their respective funds are neither securities nor investment securities, we believe that less than 40% of our partnership's total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis after this offering will be comprised of assets that could be considered investment securities. Accordingly, we do not believe we are, or following this offering will be, an inadvertent investment company by virtue of the 40% test in Section 3(a)(1)(C) of the Investment Company Act as described in the second bullet point above. In addition, we believe we are not an investment company under Section 3(b)(1) of the Investment Company Act because we are primarily engaged in a non-investment company business.

The Investment Company Act and the rules thereunder contain detailed parameters for the organization and operation of investment companies. Among other things, the Investment Company Act and the rules thereunder limit or prohibit transactions with affiliates, impose limitations on the issuance of debt and equity securities, generally prohibit the issuance of options and impose certain governance requirements. We intend to conduct our operations so that we will not be deemed to be an investment company under the Investment Company Act. If anything were to happen which would cause our partnership to be deemed to be an investment company under the Investment Company Act, requirements imposed by the Investment Company Act, including limitations on our capital structure, ability to transact business with affiliates (including us) and ability to compensate key employees, could make it impractical for us to continue our business as currently conducted, impair the agreements and arrangements between and among our partnership, the Group Partnerships and KKR Holdings, or any combination thereof, and materially adversely affect our business, financial condition and results of operations. In addition, we may be required to limit the amount of investments that we make as a principal or otherwise conduct our business in a manner that does not subject us to the registration and other requirements of the Investment Company Act.



### **Risks Related to Our Common Units and this Offering**

*There may not be an active trading market for our common units, which may cause our common units to trade at a discount from the initial offering price and make it difficult to sell the common units you purchase.*

Prior to this offering, there has not been a public trading market for our common units. It is possible that after this offering an active trading market will not develop or continue, which would make it difficult for you to sell your common units at an attractive price or at all. The initial public offering price per common unit will be determined by agreement among us and the representatives of the underwriters and may not be indicative of the price at which our common units will trade in the public market after this offering.

*Our common unit price may decline due to the large number of common units eligible for future sale and for exchange.*

The market price of our common units could decline as a result of sales of a large number of common units in the market after the offering or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell common units in the future at a time and at a price that we deem appropriate. Upon completion of this offering, we will have common units outstanding or common units outstanding assuming the underwriters exercise in full their option to purchase additional common units from us. All of the common units will have been sold in this offering and will be freely tradable without restriction or further registration under the Securities Act by persons other than our "affiliates." See "Common Units Eligible for Future Sale." Subject to lock-up restrictions described under "Underwriting," we may issue and sell in the future additional common units.

In addition, upon completion of this offering, KKR Holdings, which is owned by our principals and certain of our former personnel and controlled by our founders, will own an aggregate of Group Partnership units. Over time, KKR Holdings may distribute to its members these Group Partnership units. These members would then have the right to compel the Group Partnerships to redeem these Group Partnership units for cash or our common units, at the option of the Group Partnerships. When a member of KKR Holdings gives the Group Partnerships notice of his or her intention to compel a redemption, our partnership, with respect to our direct interests in KKR Fund Holdings L.P., and our intermediate holding company with respect to interests in KKR Management Holdings L.P., will have superseding rights to instead acquire Group Partnership units for cash or our common units. The common units issued upon such exchanges would be "restricted securities," as defined in Rule 144 under the Securities Act, unless we register such issuances. However, we will enter into a registration rights agreement with KKR Holdings that will require us to register these common units under the Securities Act. While we intend to contractually restrict our existing owners' ability to transfer Group Partnership units or common units that they may hold, these contractual provisions may lapse over time or be waived, modified or amended at any time.

In addition, our partnership agreement authorizes us to issue an unlimited number of additional partnership securities and options, rights, warrants and appreciation rights relating to partnership securities for the consideration and on the terms and conditions established by our Managing Partner in its sole discretion without the approval of our unitholders, including awards under the 2007 Equity Incentive Plan. In accordance with the Delaware Limited Partnership Act and the provisions of our partnership agreement, we may also issue additional partner interests that have designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to our common units.

*The market price of our common units may be volatile, which could cause the value of your investment to decline.*

Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of common units in spite of our operating performance. In addition, our operating results could be below the

expectations of public market analysts and investors due to a number of potential factors, including variations in our quarterly operating results or distributions to unitholders, additions or departures of key management personnel, failure to meet analysts' earnings estimates, publication of research reports about our industry, changes or proposed changes in laws or regulations or differing interpretations or enforcement thereof affecting our business, adverse market reaction to any indebtedness we may incur or securities we may issue in the future, changes in market valuations of similar companies or speculation in the press or investment community, and in response the market price of our common units could decrease significantly. You may be unable to resell your common units at or above the initial public offering price.

### **Risks Relating to U.S. Taxation**

***If we were treated as a corporation for U.S. federal income tax or state tax purposes, then our distributions to you would be substantially reduced and the value of our common units could be adversely affected.***

The value of your investment in us depends in part on our being treated as a partnership for U.S. federal income tax purposes, which requires that 90% or more of our gross income for every taxable year consist of qualifying income, as defined in Section 7704 of the Internal Revenue Code, and that our partnership not be registered under the Investment Company Act. Qualifying income generally includes dividends, interest, capital gains from the sale or other disposition of stocks and securities and certain other forms of investment income. We may not meet these requirements or current law may change so as to cause, in either event, us to be treated as a corporation for U.S. federal income tax purposes or otherwise subject to U.S. federal income tax. We have not requested, and do not plan to request, a ruling from the IRS, on this or any other matter affecting us.

If we were treated as a corporation for U.S. federal income tax purposes, we would pay U.S. federal, state and local income tax on our taxable income at the applicable tax rates. Distributions to you would generally be taxed again as corporate distributions, and no income, gains, losses, deductions or credits would otherwise flow through to you. Because a tax would be imposed upon us as a corporation, our distributions to you would be substantially reduced which could cause a reduction in the value of our common units.

Current law may change, causing us to be treated as a corporation for U.S. federal or state income tax purposes or otherwise subjecting us to entity level taxation. See "Risks Related to Our Business" Legislation has been introduced that would, if enacted, preclude us from qualifying as a partnership for U.S. federal income tax purposes. If this or any similar legislation or regulation were to be enacted and apply to us, we would incur a material increase in our tax liability that could result in a reduction in the value of our common units." Because of widespread state budget deficits, several states are evaluating ways to subject partnerships to entity level taxation through the imposition of state income, franchise or other forms of taxation. If any state were to impose a tax upon us as an entity, our distributions to you would be reduced.

***You will be subject to U.S. federal income tax on your share of our taxable income, regardless of whether you receive any cash dividends from us.***

As long as 90% of our gross income for each taxable year constitutes qualifying income as defined in Section 7704 of the Internal Revenue Code, we are not required to register as an investment company under the Investment Company Act on a continuing basis, and assuming there is no change in law (see "Risks Related to Our Business" Legislation has been introduced that would, if enacted, preclude us from qualifying as a partnership for U.S. federal income tax purposes. If this or any similar legislation or regulation were to be enacted and apply to us, we would incur a material increase in our tax liability that could result in a reduction in the value of our common units"), we will be treated, for U.S. federal income tax purposes, as a partnership and not as an association or a publicly-traded partnership taxable as a corporation. As a result, you will be subject to U.S. federal, state, local and possibly, in some cases, foreign income taxation on your allocable share of our items of income, gain, loss, deduction and credit (including

our allocable share of those items of any entity in which we invest that is treated as a partnership or is otherwise subject to tax on a flow through basis) for each of our taxable years ending with or within your taxable year, regardless of whether or not you receive cash dividends from us.

You may not receive cash dividends equal to your allocable share of our net taxable income or even the tax liability that results from that income, although we intend to make tax distributions, a portion of which will be distributed to our unitholders. See "Distribution Policy." In addition, certain of our holdings, including holdings, if any, in a controlled foreign corporation, or a CFC, and a passive foreign investment company, or a PFIC, may produce taxable income prior to the receipt of cash relating to such income, and unitholders that are U.S. taxpayers will be required to take such income into account in determining their taxable income. In the event of an inadvertent termination of our partnership status for which the IRS has granted us limited relief, each holder of our common units may be obligated to make such adjustments as the IRS may require to maintain our status as a partnership. Such adjustments may require persons holding our common units to recognize additional amounts in income during the years in which they hold such units.

In addition, because of our methods of allocating income and gain among our unitholders, you may be taxed on amounts that accrued economically before you became a unitholder. See "Material U.S. Federal Tax Considerations."

***Our interest in certain of our businesses will be held through the intermediate holding company, which will be treated as a corporation for U.S. federal income tax purposes; such corporation will be liable for significant taxes and may create other adverse tax consequences, which could potentially adversely affect the value of your investment.***

In light of the publicly-traded partnership rules under U.S. federal income tax laws and other requirements, we will hold our interest in certain of our businesses through the intermediate holding company which will be treated as corporations for U.S. federal income tax purposes. The intermediate holding company will be liable for significant U.S. federal income taxes and applicable state, local and other taxes that would not otherwise be incurred, which could adversely affect the value of your investment, and which could be increased if the IRS were to successfully reallocate deductions or income of the related entities conducting our business. Those additional taxes have not applied to our existing owners in our organizational structure in effect before this offering and will not apply to our existing owners following this offering to the extent they own equity interests directly or indirectly in the Group Partnerships.

***Complying with certain tax-related requirements may cause us to invest through foreign or domestic corporations subject to corporate income tax or enter into acquisitions, borrowings, financings or arrangements we may not have otherwise entered into.***

In order for us to be treated as a partnership for U.S. federal income tax purposes and not as an association or publicly traded partnership taxable as a corporation, we must meet the qualifying income exception discussed below on a continuing basis and we must not be required to register as an investment company under the Investment Company Act. In order to effect such treatment, we or our subsidiaries may be required to invest through foreign or domestic corporations subject to corporate income tax, or enter into acquisitions, borrowings, financings or other transactions we may not have otherwise entered into.

***Tax gain or loss on disposition of our common units could be more or less than expected.***

If you sell your common units, you will recognize a gain or loss equal to the difference between the amount realized and the adjusted tax basis in those common units. Prior distributions to you in excess of the total net taxable income allocated to you, which decreased the tax basis in your common units, will in effect become taxable income to you if the common units are sold at a price greater than your tax basis in

those common units, even if the price is less than the original cost. A portion of the amount realized, whether or not representing gain, may be ordinary income to you.

***We do not intend to make, or cause to be made, an election under Section 754 of the Internal Revenue Code to adjust our asset basis or the asset basis of certain of the Group Partnerships. Thus, a holder of common units could be allocated more taxable income in respect of those common units prior to disposition than if such an election were made.***

We currently do not intend to make, or cause to be made, an election to adjust asset basis under Section 754 of the Internal Revenue Code with respect to us. If no such election is made, there will generally be no adjustment for a transferee of common units even if the purchase price of those common units is higher than the common units' share of the aggregate tax basis of our assets immediately prior to the transfer. In that case, on a sale of an asset, gain allocable to a transferee could include built-in gain allocable to the transferee at the time of the transfer, which built-in gain would otherwise generally be eliminated if a Section 754 election had been made. See "Material U.S. Federal Tax Considerations U.S. Taxes Consequences to U.S. Holders of Common Units Section 754 Election."

***We may hold or acquire certain investments through an entity classified as a PFIC or CFC for U.S. federal income tax purposes.***

Certain of our funds' investments may be in foreign corporations or may be acquired through a foreign subsidiary that would be classified as a corporation for U.S. federal income tax purposes. Such an entity may be a PFIC or a CFC for U.S. federal income tax purposes. Unitholders indirectly owning an interest in a PFIC or a CFC may experience adverse U.S. tax consequences. See "Material U.S. Federal Tax Considerations U.S. Taxes Consequences to U.S. Holders of Common Units Passive Foreign Investment Companies" and " Controlled Foreign Corporations."

***Non-U.S. persons face unique U.S. tax issues from owning common units that may result in adverse tax consequences to them.***

We may be, or may become, engaged in a U.S. trade or business for U.S. federal income tax purposes, including by reason of investments in U.S. real property holding corporations, in which case some portion of our income would be treated as effectively connected income with respect to non-U.S. holders, or ECI. To the extent our income is treated as ECI, non-U.S. holders generally would be subject to withholding tax on distributions they receive of such income, would be required to file a U.S. federal income tax return for such year reporting their allocable share of income effectively connected with such trade or business and any other income treated as ECI, and would be subject to U.S. federal income tax at regular U.S. tax rates on any such income (state and local income taxes and filings may also apply in that event). Non-U.S. holders that are corporations may also be subject to a 30% branch profits tax on their distributions of such income. In addition, certain income from U.S. sources that is not ECI allocable to non-U.S. holders will be reduced by withholding taxes imposed at the highest effective applicable tax rate.

***Tax-exempt entities face unique tax issues from owning common units that may result in adverse tax consequences to them.***

In light of our intended investment activities, we are likely to derive income that constitutes unrelated business taxable income, or UBTI, because we will likely incur acquisition indebtedness. Consequently, a holder of common units that is a tax-exempt organization will likely be subject to unrelated business income tax to the extent that its allocable share of our income consists of UBTI. A tax-exempt partner of a partnership would be treated as earning UBTI if the partnership regularly engages in a trade or business that is unrelated to the exempt function of the tax-exempt partner, if the partnership derives income from debt-financed property or if the partner interest itself is debt-financed.

***We cannot match transferors and transferees of common units, and we will therefore adopt certain income tax accounting conventions that may not conform with all aspects of applicable tax requirements. The IRS may challenge this treatment, which could adversely affect the value of our common units.***

Because we cannot match transferors and transferees of common units, we will adopt depreciation, amortization and other tax accounting positions that may not conform with all aspects of existing Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to our unitholders. It also could affect the timing of these tax benefits or the amount of gain on the sale of common units and could have a negative impact on the value of our common units or result in audits of and adjustments to our unitholders' tax returns.

***The sale or exchange of 50% or more of our capital and profit interests will result in the termination of our partnership for U.S. federal income tax purposes.***

We will be considered to have been terminated for U.S. federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. A termination of our partnership would, among other things, result in the closing of our taxable year for all unitholders. See "Material U.S. Federal Tax Considerations" for a description of the consequences of our termination for U.S. federal income tax purposes.

***Unitholders may be subject to state and local taxes and return filing requirements as a result of investing in our common units.***

In addition to U.S. federal income taxes, our unitholders may be subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property now or in the future, even if our unitholders do not reside in any of those jurisdictions. Our unitholders may be required to file state and local income tax returns and pay state and local income taxes in some or all of these jurisdictions. Further, unitholders may be subject to penalties for failure to comply with those requirements. It is the responsibility of each unitholder to file all U.S. federal, state and local tax returns that may be required of such unitholder. Our counsel has not rendered an opinion on the state or local tax consequences of an investment in our common units.

***We do not expect to be able to furnish to each unitholder specific tax information within 90 days after the close of each calendar year, which means that holders of common units who are U.S. taxpayers should anticipate the need to file annually a request for an extension of the due date of their income tax return.***

As a publicly traded partnership, our operating results, including distributions of income, dividends, gains, losses or deductions, and adjustments to carrying basis, will be reported on Schedule K-1 and distributed to each unitholder annually. It will require longer than 90 days after the end of our fiscal year to obtain the requisite information from all lower-tier entities so that K-1s may be prepared for the Partnership. For this reason, holders of common units who are U.S. taxpayers should anticipate the need to file annually with the IRS (and certain states) a request for an extension past April 15 or the otherwise applicable due date of their income tax return for the taxable year. See "Material U.S. Federal Tax Considerations U.S. Taxes Administrative Matters Information Returns."

**USE OF PROCEEDS**

We estimate that we will receive approximately \$ [redacted] of net proceeds from this offering after deducting estimated underwriting discounts and offering expenses, or \$ [redacted] if the underwriters exercise in full their option to purchase additional common units from us, in each case at the assumed offering price of \$ [redacted] based on the midpoint of the price range indicated on the cover page of this prospectus. We intend to contribute the net proceeds we receive from this offering to the Group Partnerships in exchange for newly issued units in the Group Partnerships. We anticipate that the Group Partnerships will use approximately [redacted] % to [redacted] % of the net proceeds that they receive from us to grow our existing businesses, including by making principal investments in those businesses, approximately [redacted] % to [redacted] % of the net proceeds to expand into new related businesses, approximately [redacted] % to [redacted] % of the net proceeds to make additional capital commitments to our funds and portfolio companies and approximately [redacted] % to [redacted] % of the net proceeds for general corporate purposes. None of our principals are selling any common units or will otherwise receive any of the net proceeds from this offering.

## DISTRIBUTION POLICY

We intend to make quarterly cash distributions to our unitholders in amounts that in the aggregate are expected to constitute substantially all of our adjusted cash flow from operations each year in excess of amounts determined by our Managing Partner to be necessary or appropriate to provide for the conduct of our business, to make appropriate investments in our business and our funds, to comply with applicable law and any of our debt instruments or other agreements or to provide for future distributions to our unitholders for any one or more of the ensuing four quarters. Our distribution policy reflects our belief that distributing substantially all of our adjusted cash flow from operations will provide transparency for our unitholders and impose on us an investment discipline with respect to the businesses and strategies that we pursue.

Adjusted cash flow from operations is intended to reflect the actual cash flow attributable to us and is equal to cash flow presented in accordance with GAAP, adjusted to exclude cash flow relating to: (i) the investment activities of our consolidated funds; (ii) the realized and unrealized income attributable to non-controlling interests in consolidated funds; and (iii) changes in our operating assets and liabilities. We expect that our first quarterly distribution will be paid in \_\_\_\_\_ in respect of the period from the completion of this offering through \_\_\_\_\_. Because we will not know what our available adjusted cash flow from operations will be for any year until the end of such year, we expect that our first three quarterly distributions in respect of any given year will generally be smaller than the final quarterly distribution in respect of such year.

Because we are a holding company and do not own any material cash-generating assets other than our direct and indirect interests in the Group Partnerships, we will depend on cash distributions that we receive on the Group Partnership units that we hold directly or through our intermediate holding company to fund any distributions that we make on our common units. Our Managing Partner intends to cause the Group Partnerships to make cash distributions on the Group Partnership units that we directly and indirectly hold in amounts that are sufficient to allow us to fund any distributions that are declared on our common units. We will fund distributions, if any, in three steps:

first, the Managing Partner will cause the Group Partnerships to make distributions to holders of Group Partnership units pro rata in accordance with their respective percentage interests in the Group Partnerships (except as set forth in the following paragraph);

second, we will cause our intermediate holding company to distribute to us its share of such distributions, after deducting taxes and amounts payable under the tax receivable agreement; and

third, we will distribute our net share of such distributions to our unitholders on a pro rata basis.

The partnership agreements of the Group Partnerships will provide that until \_\_\_\_\_, distributions from the Group Partnerships, if any, will be allocated each year in three steps:

first, to us and our intermediate holding company until sufficient amounts have been so allocated to permit us to make aggregate distributions to our unitholders of \$ \_\_\_\_\_ per common unit on an annualized basis for such year;

second, to the other holders of Group Partnership units until an equivalent amount on a per unit basis has been distributed to such other holders for such year; and

thereafter, pro rata to all holders of Group Partnership units.

Accordingly, until \_\_\_\_\_, our principals will not receive distributions, other than tax distributions, in respect of their Group Partnership units for a year unless and until our unitholders receive aggregate distributions of \$ \_\_\_\_\_ per common unit on an annualized basis for such year. We do not intend to maintain this priority distribution after \_\_\_\_\_. After \_\_\_\_\_, all the income (and accordingly distributions) of

the Group Partnerships will be allocated pro rata to holders of Group Partnership units in accordance with their respective percentage interests in the Group Partnerships.

The actual amount and timing of distributions on our common units will be subject to the discretion of our Managing Partner's board of directors, and we cannot assure you that we will in fact make distributions as intended. In particular, the amount and timing of distributions will depend upon a number of factors, including, among others, our available cash and current and anticipated cash needs; general economic and business conditions; our strategic plans and prospects; our results of operations and financial condition; our capital requirements; legal, contractual and regulatory restrictions on the payment of distributions by us or our subsidiaries and such other factors as the board of directors of our Managing Partner considers relevant. In addition, under Section 17-607 of the Delaware Limited Partnership Act, we will not be permitted to make a distribution if, after giving effect to the distribution, our liabilities would exceed the fair value of our assets. To the extent that we enter into one or more credit facilities from time to time, the terms of such facilities may also limit our ability to make distributions to unitholders under certain circumstances.

If the general partners of the Group Partnerships determine that distributions from the Group Partnerships would otherwise be insufficient to cover the tax liabilities of a holder of a Group Partnership unit, the partnership agreement of each Group Partnership will provide for tax distributions to the holders of Group Partnership units. Generally, these tax distributions will be computed based on our estimate of the net taxable income of the relevant Group Partnership allocable to a holder of a Group Partnership unit multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. federal, state and local income tax rate prescribed for an individual or corporate resident in New York, New York (taking into account the non-deductibility of certain expenses and the character of the income). If we had completed the Reorganization Transactions and this offering on January 1, 2006, the assumed effective tax rate for the tax year ended December 31, 2006 would have been approximately 46%. A portion of any such tax distributions received by us, net of amounts used by our subsidiaries to pay their tax liability, will be distributed to our unitholders. Such amounts are generally expected to be sufficient to permit our U.S. unitholders to fund their estimated U.S. tax obligations (including any federal, state and local income taxes) with respect to their distributive shares of net income or gain, after taking into account any withholding tax imposed on us. We cannot assure you that, for any particular unitholder, such distributions will be sufficient to pay the unitholder's actual U.S. or non-U.S. tax liability.

Historically, we typically have made cash distributions to our existing owners when we received significant distributions from our funds. In addition, we have historically made cash distributions to our senior principals annually in connection with the payment to us of management and other fees. These distributions were not made pursuant to any agreement. For the fiscal years ended December 31, 2005 and 2006 and the six months ended June 30, 2007, we made cash and in-kind distributions of \$680.8 million, \$1.1 billion and \$414.2 million, respectively, to our existing owners. Prior to this offering, we intend to make one or more cash and in-kind distributions to certain of our existing owners representing substantially all of the cash-on-hand and certain personal property of the management company for our private equity funds. If the offering had occurred on June 30, 2007, we estimate that the aggregate amount of such distributions would have been \$           million. However, the actual amount of such distributions will depend on the amount of the management company's cash-on-hand at the time of the offering.



## CAPITALIZATION

The following table presents our combined cash and cash equivalents and capitalization as of June 30, 2007:

on an actual basis; and

on a pro forma basis giving effect to the Reorganization Transactions, this offering, our use of the proceeds from this offering and the other transactions described under "Unaudited Pro Forma Financial Information."

You should read this information together with the information included elsewhere in this prospectus, including the information set forth under "Organizational Structure," "Use of Proceeds," "Unaudited Pro Forma Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our predecessor combined financial statements and related notes thereto.

	June 30, 2007	
	Actual	Pro Forma(1)
	(\$ in thousands)	
Cash and cash equivalents	\$ 107,244	\$
Cash and cash equivalents held at consolidated entities	1,392,028	
Restricted cash and cash equivalents	112,273	
Total cash, cash equivalents and restricted cash	\$ 1,611,545	\$
Debt obligations	\$ 447,515	\$
Due to affiliates	54,786	
Accounts payable, accrued expenses and other liabilities	416,685	
Total liabilities	918,986	
Non-controlling interests in consolidated entities	23,257,856	
Principals' interests in consolidated entities		
Partners' capital	2,013,680	
Accumulated other comprehensive income	7,200	
Total partners' capital	2,020,880	
Total capitalization	\$ 26,197,722	\$

- (1) A \$1.00 increase or decrease in the assumed initial public offering price of \$ per common unit, based on the midpoint of the price range indicated on the cover page of this prospectus, would increase or decrease cash and cash equivalents, total cash, cash equivalents and restricted cash, partners' capital, total partners' capital and total capitalization by \$ million, \$ million, \$ million \$ million and \$ million, respectively, assuming the number of common units offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and estimated expenses payable by us.

**DILUTION**

If you invest in our common units, your interest will be diluted to the extent of the difference between the initial public offering price per common unit and the pro forma net tangible book value per common unit after this offering. Dilution results from the fact that the offering price per common unit is substantially in excess of the book value per common unit attributable to existing equity holders.

Our pro forma net tangible book value as of June 30, 2007 was approximately \$ , or \$ per common unit. Pro forma net tangible book value represents the amount of total tangible assets less total liabilities, after giving effect to the Reorganization Transactions, and pro forma net tangible book value per common unit represents pro forma net tangible book value divided by the number of common units outstanding, after giving effect to the Reorganization Transactions and assuming that all holders of Group Partnership units (other than our intermediate holding company) exchanged their Group Partnership units for newly-issued common units on a one-for-one basis.

After giving effect to the Reorganization Transactions and the sale of common units in this offering at an assumed initial public offering price of \$ per common unit, representing the midpoint of the price range on the cover of this prospectus, our pro forma net tangible book value would have been \$ , or \$ per common unit. This represents an immediate increase in net tangible book value of \$ per common unit to existing equity holders and an immediate dilution in net tangible book value of \$ per common unit to new investors.

The following table illustrates this dilution on a per common unit basis assuming the underwriters do not exercise their option to purchase additional common units.

Assumed initial public offering price per common unit	\$
Pro forma net tangible book value per common unit as of June 30, 2007	\$
Increase in pro forma net tangible book value per common unit attributable to new investors	<u>          </u>
Pro forma net tangible book value per common unit after the offering	<u>          </u>
Dilution in pro forma net tangible book value per common unit to new investors	<u>          </u>

The following table summarizes, on the same pro forma basis as of June 30, 2007, the total number of common units purchased from us, the total cash consideration paid to us and the average price per common unit paid by existing equity holders and by new investors purchasing common units in this offering, assuming that all of the holders of Group Partnership units (other than our intermediate holding company) exchanged their Group Partnership units for newly-issued common units on a one-for-one basis.

	Common Units Purchased		Total Consideration		Average Price Per Common Unit
	Number	Percent	Amount	Percent	
Existing equity holders					
New investors					
Total					

**ORGANIZATIONAL STRUCTURE**

The following diagram illustrates the ownership and organizational structure that we will have immediately after the completion of the Reorganization Transactions and this offering.



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**Notes:**

(1) Except for KKR Management Holdings Corp., all entities are taxable as partnerships for U.S. federal income tax purposes. KKR Management Holdings Corp. will be taxable as a corporation for U.S. federal income tax purposes. For a discussion of pending legislation that may preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes, see "Risk Factors Risks Related to Our Business Legislation has been introduced that would, if enacted, preclude us from qualifying as a partnership for U.S. federal income tax purposes. If this or any similar legislation or regulation were to be enacted and apply to us, we would incur a material increase in our tax liability that could result in a reduction in the value of our common units."

(2) Following the Reorganization Transactions, minority investors will retain the following economic interests in some of the entities that comprise the KKR Group:

certain minority investors will receive % of the capital invested by or on behalf of the general partners of our private equity funds before the completion of the offering and any profit thereon;

certain minority investors will receive % of the net income earned by our management and capital markets companies and % of the carried interest received by the general partners of our funds for a specified period of time; and

certain minority investors will receive 35% of the net income earned by the management company for our credit strategy funds.

By their terms, the economic interests held by certain of these minority investors generally are expected to decrease over time, thereby increasing the interests of the Group Partnerships in the entities that comprise the KKR Group. See "Organizational Structure Group Partnerships," "Unaudited Pro Forma Information," and "Management's Discussion and Analysis of Financial Condition and Results of Operations Overview Impact of the Reorganization Transactions, this Offering and Related Transactions."

(3) In connection with the Reorganization Transactions, the Group Partnerships will not acquire any interests in the 1996 Fund or the general partners of the 1996 Fund, and will acquire only an economic (but not controlling) interest in the general partner of the KKR Private Equity Investors master fund. The management companies for our funds, the general partners of the 1996 Fund and subsequently formed private equity funds, the general partners of two of the three entities that constitute the KKR Strategic Capital Funds and the consolidated subsidiaries of the foregoing comprise the KKR Group, our predecessor for accounting purposes. See "Organizational Structure The KKR Group."

(4) The KKR Strategic Capital Funds are comprised of three private credit strategy funds. Two of the three side-by-side funds in the KKR Strategic Capital Funds we manage have been consolidated by the KKR Group. Although we receive management and incentive fees for managing the assets held by the third side-by-side fund in the KKR Strategic Capital Funds, we do not hold any economic or voting interests in it.

**The KKR Group**

Prior to the Reorganization Transactions, our business was comprised of certain consolidated and combined entities under the common control of our senior principals, and under the common ownership of our principals and our other existing owners. These entities, which we refer to as the KKR Group, consist of:

the management companies for our funds;

the general partners of the 1996 Fund and our subsequently formed private equity funds;

the general partners of two of the three side-by-side funds that constitute the KKR Strategic Capital Funds; and



the consolidated subsidiaries of the foregoing.

The KKR Group is considered our predecessor for accounting purposes and its combined financial statements will be our historical financial statements following the Reorganization Transactions and this offering. Because the legal entities that comprise the KKR Group are under the common control of our senior principals and will continue to be under their common control following the completion of the Reorganization Transactions and this offering, we will account for the Reorganization Transactions and this offering as a transfer of interests under common control. You should note, however, that we will not acquire all of the interests in the KKR Group in connection with the Reorganization Transactions and, accordingly, that the combined financial statements of the KKR Group may not be indicative of the results of operations and financial condition that we will have following the completion of this offering. See " Group Partnerships," "Unaudited Pro Forma Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

## **Our Partnership**

We were formed as a Delaware limited partnership on June 25, 2007 to act as a holding company for the Group Partnerships following the completion of the Reorganization Transactions. We will directly or indirectly serve as sole general partner of each of the Group Partnerships, which will provide us with control over their business and affairs. In addition, we will use the net proceeds that we receive from this offering to directly or indirectly acquire a number of Group Partnership units that is equal to our outstanding common units, which will entitle us to share ratably (along with our principals through KKR Holdings) in the assets, liabilities, profits, losses and distributions of the Group Partnerships. Assuming that the underwriters do not exercise their option to purchase additional common units from us, we will directly and indirectly own an aggregate of % of the outstanding Group Partnership units upon the completion of this offering assuming the midpoint of the price range indicated on the cover page of this prospectus. We will account for the portion of outstanding Group Partnership units that we do not own as principals' interests in our consolidated financials statements.

KKR Holdings will initially own all of the outstanding Group Partnership units that we do not acquire in connection with the offering. It will also hold an equivalent amount of special voting units in our partnership, which will entitle it to cast an equivalent number of votes on any matters that may be submitted to a vote of our unitholders. We will enter into an exchange agreement with KKR Holdings in connection with the Reorganization Transactions pursuant to which KKR Holdings or certain of the transferees of its Group Partnership units may up to four times each year (subject to the terms of the exchange agreement) exchange Group Partnership units held by them (together with corresponding special voting units) for our common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications and compliance with other applicable transfer restrictions. We have not yet determined how any such future exchanges will be accounted for in our consolidated financial statements. To the extent that Group Partnership units held by KKR Holdings or its transferees are exchanged for our common units, our interests in the Group Partnerships will be correspondingly increased. Any common units received upon such an exchange will be subject to any restrictions that were applicable to the exchanged Group Partnership units, including any applicable transfer restrictions.

After the completion of this offering, our Managing Partner intends to cause the Group Partnerships to make distributions on their outstanding Group Partnership units in amounts that are sufficient to allow us to fund any distributions that we make on our common units. See "Distribution Policy." To the extent that we receive any distributions on the Group Partnership units that we hold, KKR Holdings and any other holder of Group Partnership units will be entitled to receive pro rata distributions on their Group Partnership units, except that we will be entitled to priority distributions of income through as described under "Distribution Policy."

## Our Managing Partner

As is commonly the case with limited partnerships, our partnership agreement provides for the management of our business and affairs by a general partner rather than a board of directors. Our Managing Partner, which serves as our sole general partner, has a board of directors that is co-chaired by our founders Henry Kravis and George Roberts and officers that are appointed by its board. Upon completion of this offering, we expect our Managing Partner's board to consist of a majority of independent directors and to have an audit committee and a conflicts committee composed entirely of independent directors. Our Managing Partner will not have an economic interest in our partnership, except for one common unit. Messrs. Kravis and Roberts will serve as Co-Chief Executive Officers of our Managing Partner.

Our unitholders do not hold securities of our Managing Partner and are not entitled to vote in the election of its directors or other matters affecting its governance. Accordingly, only those persons holding limited liability company interests in our Managing Partner will be entitled to vote in the election or removal of its directors, on proposed amendments to its charter documents or on other matters that require approval of its equity holders. Our Managing Partner's outstanding limited liability company interests consist of Class A shares, which are entitled to vote on the election and removal of directors and all other matters that have not been delegated to the board of directors or reserved for the vote of Class B shareholders, and Class B shares, which are entitled to vote only with respect to the manner in which our subsidiaries vote any voting interests that they hold in the general partners of our foreign funds. All of our Managing Partner's outstanding Class A shares and Class B shares will be held by our senior principals upon the completion of the Reorganization Transactions and this offering. See "Management Managing Partner Board Structure and Practices Election and Removal of Directors" and "Security Ownership Our Managing Partner."

## Group Partnerships

Following the Reorganization Transactions, the Group Partnerships will consist of the following components of our business:

controlling and economic interests in our management companies, allowing us to control our management companies and their respective subsidiaries (including the entities through which we conduct capital markets activities) as well as share ratably in the management, monitoring, transaction and other potential fees paid by all of our funds, portfolio companies and investment targets and other amounts paid by our credit strategy funds;

controlling and economic interests in the general partners of our traditional private equity funds (other than the 1996 Fund and our earlier funds, as the general partners of those funds are not expected to receive meaningful proceeds from further realizations), which will allow us to control those entities and share ratably in the carried interest received from those funds as well as any returns on investments made by or on behalf of those general partners after the completion of the offering; and

an economic (but not controlling) interest in the general partner of the KKR Private Equity Investors master fund, which will allow us to share ratably in the carried interest paid by that fund.

In addition to the principals' interests that will result from KKR Holdings' ownership of Group Partnership units, certain minority investors who have been or are involved in our business also will retain economic interests in some or all of the above entities following the completion of the Reorganization



Transactions. Those retained interests, which will be accounted for as "non-controlling interests in consolidated entities," will consist of:

economic interests in the general partners of our private equity funds that will entitle minority investors to % of the capital invested by or on behalf of those general partners before the completion of the offering and any profit thereon;

interests in our management and capital markets companies and the general partners of our funds that will entitle minority investors to % of the net profits of those companies and % of the carried interest received from those general partners with respect to the funds' investments for a specified period of time; and

a 35% interest in the management company for our credit strategy funds that will allocate to minority investors their allocable share of the management company's net income.

The minority investors consist of certain of our current and former principals who acquired these interests in connection with their activities as investment professionals, as well as existing members of our firm who are engaged primarily in making credit investments. Some of the minority investors who retain economic interests in the general partners of our consolidated private equity funds will hold those interests through KKR Holdings.

The Group Partnerships will not acquire any interests in the 1987 Fund, the 1993 Fund or the 1996 Fund (as the general partners of those private equity funds are not expected to receive meaningful proceeds from further realizations) or the KKR Private Equity Investors feeder fund or control over the KKR Private Equity Investors master fund, although they will acquire an economic interest in the general partner of the KKR Private Equity Investors master fund. In accordance with GAAP, we have included the 1996 Fund and the KKR Private Equity Investors master fund in our predecessor combined financial statements, because both funds were under the common control of our senior principals and were significant to our operations during the periods for which historical financial information has been presented in this prospectus. Because we will not control the 1996 fund and the KKR Private Equity Investors master fund following the completion of the offering, we will not consolidate them in our financial statements for future periods, although we will account for our economic interest in the KKR Private Equity Investors master fund under the equity method of accounting. For information concerning the pro forma impact that the elimination or deconsolidation of these entities would have had on our historical predecessor combined financial statements, please see "Unaudited Pro Forma Financial Information."

#### **Tax Receivable Agreement**

The acquisition by our intermediate holding company of Group Partnership units from KKR Holdings or transferees of its Group Partnership units from time to time pursuant to the exchange agreement is expected to result in an increase in our intermediate holding company's share of the tax basis of the tangible and intangible assets of KKR Management Holdings L.P., primarily attributable to a portion of the goodwill inherent in our business, that would not otherwise have been available. This increase in tax basis may increase (for tax purposes) depreciation and amortization and therefore reduce the amount of tax our intermediate holding company would otherwise be required to pay in the future. This increase in tax basis may also decrease gain (or increase loss) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets. We will enter into a tax receivable agreement with KKR Holdings requiring our intermediate holding company to pay to KKR Holdings or transferees of its Group Partnership units 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the intermediate holding company actually realizes (or is deemed to realize, in the case of an early termination payment by our intermediate holding company or a change of control) as a result of this increase in tax basis, as well as 85% of the amount of any such savings the intermediate holding company

actually realizes (or is deemed to realize) as a result of increases in tax basis that arise due to future payments under the agreement. Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase, our existing owners will not reimburse us for any payments previously made under the tax receivable agreement if such tax basis increase were successfully challenged by the IRS. See "Certain Relationships and Related Party Transactions Tax Receivable Agreement." In the event that other of our current or future subsidiaries become taxable as corporations and acquire Group Partnership units in the future, or if we become taxable as a corporation for U.S. federal income tax purposes, we expect that each will become subject to a tax receivable agreement with substantially similar terms.

#### Other Tax Matters

As discussed in "Material U.S. Federal Tax Consequences," under existing laws and regulations our partnership will be treated as a partnership and not as a corporation for U.S. federal income tax purposes. An entity that is treated as a partnership for U.S. federal income tax purposes is not a taxable entity and incurs no U.S. federal income tax liability. Instead, each partner is required to take into account its allocable share of items of income, gain, loss and deduction of the partnership in computing its U.S. federal income tax liability, regardless of whether cash distributions are made. Distributions of cash by a partnership to a partner are generally not taxable unless the amount of cash distributed to a partner is in excess of the partner's adjusted basis in its partner interest. However, our partnership agreement does not restrict our ability to take actions that may result in us being treated as an entity taxable as a corporation for U.S. federal (and applicable state) income tax purposes. See "Material U.S. Federal Tax Consequences" for a summary discussing certain U.S. federal tax considerations related to the purchase, ownership and disposition of our common units as of the date of this prospectus. Also see "Risk Factors Risks Related to Our Business Legislation has been introduced that would, if enacted, preclude us from qualifying as a partnership for U.S. federal income tax purposes. If this or any similar legislation or regulation were to be enacted and apply to us, we would incur a material increase in our tax liability that could result in a reduction in the value of our common units."

We believe that the Group Partnerships will also be treated as partnerships and not as corporations for U.S. federal income tax purposes. Accordingly, the holders of Group Partnership units, including our intermediate holding company, will incur U.S. federal, state and local income taxes on their proportionate share of any net taxable income of the Group Partnerships. Subject to the priority distribution rights, net profits and net losses of a Group Partnership will generally be allocated to its partners (including our partnership and our intermediate holding company) pro rata in accordance with the percentages of their respective partner interests. Because we will directly and indirectly own an aggregate of % of the outstanding Group Partnership units upon completion of this offering, our partnership will initially be indirectly allocated % of the net profits and net losses of the Group Partnerships, subject to priority distribution rights in favor of our partnership and our intermediate holding company through as described under "Distribution Policy." The remaining net profits and net losses will be allocated to the other holders of Group Partnership units, which will initially consist of KKR Holdings. These percentages are subject to change, including upon an exchange of Group Partnership units for our common units and upon issuance of additional common units by our partnership.

If the general partners of the Group Partnerships determine that distributions from the Group Partnerships would otherwise be insufficient to cover the tax liabilities of a holder of a Group Partnership unit, the partnership agreement of each Group Partnership will provide for cash distributions, which we refer to as tax distributions, to the holders of Group Partnership units. Generally, these tax distributions will be computed based on our estimate of the net taxable income of the relevant partnership allocable to a holder of a Group Partnership unit multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. federal, state and local income tax rate prescribed for an individual or corporate resident in New York, New York (taking into account the non-deductibility of certain expenses and the character of the income). If we had completed the Reorganization Transactions and this offering on

January 1, 2006, the assumed effective tax rate for the year ended December 31, 2006 would have been approximately 46%. A portion of any such tax distributions received by us, net of amounts used by our subsidiaries to pay their tax liability, will be distributed to our unitholders. Such amounts are generally expected to be sufficient to permit our U.S. unitholders to fund their estimated U.S. tax obligations (including any federal, state and local income taxes) with respect to their distributive shares of net income or gain, after taking into account any withholding tax imposed on us. We cannot assure you that, for any particular unitholder, such distributions will be sufficient to pay the unitholder's actual U.S. or non-U.S. tax liability.

#### **KKR Holdings**

Our principals and certain former personnel will hold equity interests in our business through KKR Holdings, which will hold the Group Partnership units not held by us. As a result, those individuals will receive financial benefits from our business in the form of distributions and payments received from KKR Holdings and the appreciation in the value of the Group Partnership units that KKR Holdings owns. The Group Partnership units held by KKR Holdings will be subject to applicable transfer restrictions, and will not be exchangeable for our common units before .

#### **IPO Date Equity Awards**

At the time of this offering, we intend to grant to our employees who are not principals an aggregate of            restricted common units under our 2007 Equity Incentive Plan, which restricted common units will be allocated based on each employee's seniority. We will settle the restricted common units granted to these employees in the form of unrestricted common units or in cash. Holders of restricted common units will not be entitled to any voting rights or distributions with respect to their restricted common units. See "Management IPO Date Equity Awards."

**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The unaudited pro forma financial information contained in this prospectus is subject to completion due to the fact that information relating to the Reorganization Transactions and this offering currently is not determinable. We intend to complete this pro forma financial information, including amounts relating to the pro forma adjustments set forth in the accompanying unaudited condensed pro forma statement of financial condition and unaudited condensed pro forma statements of income, as and when we update this prospectus and such information becomes available.*

The following unaudited condensed pro forma statements of income for the year ended December 31, 2006 and six months ended June 30, 2007 and the unaudited condensed pro forma statement of financial condition as of June 30, 2007 are based upon the historical combined financial statements of the KKR Group, our accounting predecessor, included elsewhere in this prospectus. In addition, the following pro forma measure of economic net income for the year ended December 31, 2006 and the six months ended June 30, 2007, which represents a supplemental measure used by management to make operating decisions, assess performance and allocate resources, is based upon historical measures included elsewhere in this prospectus. These pro forma financial statements and supplemental financial measure present our consolidated results of operations and financial position giving pro forma effect to the Reorganization Transactions, this offering and the other transactions described below as if such transactions had been completed as of January 1, 2006 with respect to the unaudited condensed pro forma statements of income and as of June 30, 2007 with respect to the unaudited pro forma statement of financial condition. You should read this information together with "Organizational Structure," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical predecessor combined financial statements and related notes included elsewhere in this prospectus.

The KKR Group is considered our predecessor for accounting purposes and its combined financial statements will be our historical financial statements following the completion of the Reorganization Transactions and this offering. Because the legal entities that comprise the KKR Group are under the common control of our senior principals and will be under the common control of our senior principals following the completion of the Reorganization Transactions and this offering, we will account for the Reorganization Transactions as a transfer of interests under common control. Accordingly, we will carry forward into our consolidated financial statements the value of assets, liabilities and non-controlling interests in the combined entities recognized in the KKR Group's combined financial statements, except as described below.

The pro forma adjustments described under "Reorganization Adjustments" principally give effect to:

the deconsolidation of both the 1996 Fund (a private equity fund whose general partners are not expected to receive meaningful proceeds from further realizations) and the fund's general partners, because the Group Partnerships will not acquire an interest in those general partners in connection with the Reorganization Transactions;

the deconsolidation of both the KKR Private Equity Investors master fund, our private equity-oriented permanent capital fund, and the master fund's general partner and the accounting for the Group Partnerships' interest in the master fund general partner instead under the equity method of accounting (which accounting treatment will not impact our consolidated net income or partners' capital), because the Group Partnerships will acquire an economic (but not controlling) partner interest in the master fund general partner;

the inclusion of non-controlling interests in consolidated entities representing the economic interests that certain minority investors will retain in the general partners of our private equity funds following the acquisition of general partner interests in those entities by the Group Partnerships, which economic interests will allocate to certain minority investors % of the

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capital invested by or on behalf of those general partners before the completion of the offering and any profits thereon; and

the inclusion of non-controlling interests in consolidated entities representing the economic interests that certain minority investors will retain in our management and capital markets companies and the general partners of our funds following the acquisition of general partner or controlling interests in those entities by the Group Partnerships, which economic interests will allocate to certain minority investors % of the net profits earned by those companies and % of the carried interest received by those general partners with respect to the funds' investments, in each case for a specified period of time.

The pro forma adjustments described under "Other Adjustments" principally give effect to:

the issuance of common units in this offering at an assumed initial public offering price of \$ per common unit, representing the midpoint of the price range indicated on the front cover of this prospectus, and the use of proceeds therefrom as described under "Use of Proceeds;"

the inclusion of principals' interests representing the Group Partnership units that KKR Holdings will hold in the Group Partnerships, which principals' interests will allocate to KKR Holdings % of the equity in the Group Partnerships upon completion of this offering, assuming the underwriters do not exercise their option to purchase additional common units from us;

one or more cash and in-kind distributions that we intend to make to certain of our existing owners prior to the completion of the offering, which distributions will consist of substantially all of the cash-on-hand and certain personal property of the management company for our private equity funds;

our recognition of non-cash employee compensation charges associated with the vesting of interests in KKR Holdings that are held by our principals, which non-cash charges will be offset in full by corresponding credits to our income statement attributable to principals' interests in income of consolidated entities and other income and will not impact our income before taxes or net income;

our recognition of cash and non-cash employee compensation charges associated with grants of restricted common units under our 2007 Equity Incentive Plan at the time of this offering; and

a provision for corporate income taxes on the income of our intermediate holding company, which will indirectly hold our interests in the management companies for our funds and our capital markets companies and will be taxable as a corporation for U.S. federal income tax purposes.

As a public company, our costs for such items as insurance, accounting and legal advice may increase. We will also incur costs which we have not previously incurred for director fees, additional investor relations expenses, expenses for compliance with the Sarbanes-Oxley Act and new rules implemented by the SEC and the New York Stock Exchange, and various other costs associated with being a public company. We have not made any pro forma adjustments relating to these costs, because estimates of those expenses are not objectively determinable.

This unaudited pro forma financial information is included for informational purposes only and does not purport to reflect the results of operations or financial position that would have occurred had the above transactions occurred on the dates indicated or had we operated as a public company during the periods presented or for any future period or date. In addition, the pro forma adjustments described herein are based on available information and upon assumptions that management believes are reasonable in order to reflect, on a pro forma basis, the impact of the above transactions on the historical financial information of the KKR Group. You are cautioned not to place undue reliance on this unaudited pro forma financial information.

## Unaudited Pro Forma Condensed Statement of Financial Condition

As of June 30, 2007

	KKR Group Combined Historical	Reorganization Adjustments	KKR Group after the Reorganization Adjustments	Other Adjustments	KKR & Co. L.P. Consolidated Pro Forma
			(\$ in thousands)		
<b>Assets</b>					
Cash and cash equivalents	\$ 107,244				
Cash and cash equivalents held at consolidated entities	1,392,028				
Restricted cash and cash equivalents	112,273				
Investments, at fair value	24,371,900				
Due from affiliates	60,712				
Other assets	153,565				
Total assets	\$ 26,197,722				
<b>Liabilities and partners' capital</b>					
Debt obligations	\$ 447,515				
Due to affiliates	54,786				
Accounts payable, accrued expenses and other liabilities	416,685				
Total liabilities	918,986				
<b>Commitments and contingencies</b>					
Non-controlling interests in consolidated entities	23,257,856				
Principals' interests in consolidated entities					
<b>Partners' capital</b>					
Partners' capital	2,013,680				
Accumulated other comprehensive income	7,200				
Total partners' capital	2,020,880				
Total liabilities and partners' capital	\$ 26,197,722				

**Unaudited Pro Forma Condensed Consolidated Statement of Income**  
**Year Ended December 31, 2006**

	<b>KKR Group Combined Historical</b>	<b>Reorganization Adjustments</b>	<b>KKR Group after the Reorganization Adjustments</b>	<b>Other Adjustments</b>	<b>KKR &amp; Co. L.P. Consolidated Pro Forma</b>
			(\$ in thousands)		
<b>Revenues</b>					
Fee income	\$ 410,329				
<b>Expenses</b>					
Employee compensation and benefits	131,667				
Occupancy and related charges	19,295				
General, administrative and other	78,154				
Fund expenses	38,350				
Total expenses	267,466				
<b>Investment Income</b>					
Net gains from investment activities	3,105,523				
Dividend income	714,069				
Interest income	210,872				
Interest expense	(29,542)				
Total investment income	4,000,922				
Income before non-controlling and principals' interests in income of consolidated entities and income taxes	4,143,785				
Non-controlling interests in income of consolidated entities	3,039,677				
Principals' interests in income of consolidated entities					
Income before taxes	1,104,108				
Income taxes	4,163				
Net income	\$ 1,099,945				
<b>Net Income Per Common Unit</b>					
Basic					
Diluted					
<b>Weighted Average Common Units</b>					
Basic					
Diluted					

**Unaudited Pro Forma Condensed Consolidated Statement of Income**  
**Six Months Ended June 30, 2007**

	<b>KKR Group Combined Historical</b>	<b>Reorganization Adjustments</b>	<b>KKR Group after the Reorganization Adjustments</b>	<b>Other Adjustments</b>	<b>KKR &amp; Co. L.P. Consolidated Pro Forma</b>
			<i>(\$ in thousands)</i>		
<b>Revenues</b>					
Fee income	\$ 115,380				
<b>Expenses</b>					
Employee compensation and benefits	50,581				
Occupancy and related charges	9,909				
General, administrative and other	59,506				
Fund expenses	35,821				
Total expenses	155,817				
<b>Investment Income</b>					
Net gains from investment activities	3,147,328				
Dividend income	133,160				
Interest income	133,549				
Interest expense	(40,486)				
Total investment income	3,373,551				
Income before non-controlling and principals' interests in income of consolidated entities and income taxes	3,333,114				
Non-controlling interests in income of consolidated entities	2,661,912				
Principals' interests in income of consolidated entities					
Income before taxes	671,202				
Income taxes	3,806				
Net income	\$ 667,396				
<b>Net Income Per Common Unit</b>					
Basic					
Diluted					
<b>Weighted Average Common Units</b>					
Basic					
Diluted					



**Notes to Unaudited Pro Forma Condensed Financial Information**

**1. Reorganization Adjustments.**

The Reorganization Adjustments present the effects of the elimination of the financial results of non-contributed entities and the reorganization of our business into a holding company structure as described under "Organizational Structure."

(a)

The adjustments reflect the elimination of the consolidated financial results of the general partners of the 1996 Fund because the Group Partnerships will not acquire an interest in those general partners in connection with the Reorganization Transactions. In addition, the adjustments reflect the deconsolidation of the KKR Private Equity Investors master fund and its general partner and the accounting for the Group Partnerships' interest in the master fund general partner instead under the equity method of accounting, because the Group Partnerships will acquire an economic (but not controlling) partner interest in the master fund general partner in connection with the Reorganization Transactions. The above general partners are entitled to carried interests that entitle them to a percentage of the net profits generated on the funds' investments, subject to certain requirements. The above funds pay management fees to us in exchange for providing them with management and other services.

The 1996 Fund general partners consolidate the 1996 Fund, and the KKR Private Equity Investors master fund general partner consolidates the KKR Private Equity Investors master fund, under EITF 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights," or EITF 04-5, notwithstanding the fact that they hold only minority economic interests in those funds, as a result of their substantive, controlling general partner interests. Those consolidated funds have been combined in the historical combined financial statements of the KKR Group for the periods presented in this prospectus. When funds are consolidated, the KKR Group's combined financial statements reflect the assets, liabilities, revenues, expenses and cash flows of the consolidated funds on a gross basis, and the majority of the economic interests in the consolidated funds, which are held by third-party investors, are reflected as non-controlling interests. All inter-company transactions are eliminated in consolidation.

The elimination of the 1996 Fund general partners' consolidated financial results resulted in a \$ decrease in partners' capital as of June 30, 2007, representing the excess of eliminated assets of \$ over eliminated liabilities of \$ and eliminated non-controlling interests of \$. For the year ended December 31, 2006 and the six months ended June 30, 2007, the elimination of the 1996 Fund general partners' consolidated results resulted in the recognition of \$ million and \$ million, respectively, of fee income from management fees paid by the 1996 Fund that had been eliminated in consolidation as inter-company transactions as well as eliminations of \$ and \$ of expenses, \$ and \$ of investment income and \$ and \$ of non-controlling interests in income from consolidated entities, respectively, because those items will no longer be reflected in our consolidated financial statements following the completion of the Reorganization Transactions. The foregoing adjustments resulted in reductions in income before taxes of \$ and \$ and reductions in net income of \$ and \$ for the year ended December 31, 2006 and the six months ended June 30, 2007, respectively.

The deconsolidation of the KKR Private Equity Investors master fund and its general partner and the accounting for the Group Partnerships' interest in the master fund general partner instead under the equity method of accounting did not impact partners' capital as of June 30, 2007, because the elimination of previously consolidated assets was offset by the elimination of a corresponding amount of liabilities and non-controlling interests. The economic interest that the Group Partnerships will hold in the master fund general partner upon the completion of the Reorganization Transactions will

be accounted for as an investment in our consolidated statement of financial condition. That interest will allocate to the Group Partnerships % of the carried interest received by the master fund general partner pursuant to its carried interests once the fund's capitalization costs have been recouped in accordance with the fund's governing instruments. Because the fund's capitalization costs had not been recouped as of June 30, 2007, the master fund general partner would not be entitled to receive any amounts pursuant to this interest in the event of a termination of the master fund. The investment has therefore been reflected at a value of zero.

For the year ended December 31, 2006 and the six months ended June 30, 2007, the deconsolidation of the KKR Private Equity Investors master fund and its general partner and the accounting for the Group Partnerships' interest in the master fund general partner instead under the equity method of accounting resulted in the recognition of \$ million and \$ million, respectively, of fee income from management fees paid by the fund that had been eliminated in consolidation as inter-company transactions as well as eliminations of \$ and \$ of expenses, \$ and \$ of investment income and \$ and \$ of non-controlling interests of fund investors in income from consolidated entities, respectively, because those items will no longer be reflected in our financial statements following the deconsolidation of the master fund general partner. For the year ended December 31, 2006 and the six months ended June 30, 2007, no expense or investment income was allocable to the economic interest that the Group Partnerships will have in the master fund general partner upon the completion of the Reorganization Transactions and this offering.

(b)

The adjustments reflect the inclusion of non-controlling interests in consolidated entities representing the economic interests that certain minority investors will retain in the general partners of our private equity funds that will be consolidated by the Group Partnerships, which economic interests will allocate to certain minority investors % of the capital invested by or on behalf of those general partners before the completion of the offering and any profits thereon. As of June 30, 2007, these non-controlling interests were valued at \$ and reduced partners' capital by a corresponding amount. For the year ended December 31, 2006 and the six months ended June 30, 2007, the inclusion of non-controlling interests resulted in net charges accounted for as non-controlling interests in income of consolidated subsidiaries of \$ and \$, respectively, representing amounts of expenses and investment income attributable to the non-controlling interests. The foregoing adjustments resulted in reductions in income before taxes of \$ and \$ and reductions in net income of \$ and \$ for the year ended December 31, 2006 and the six months ended June 30, 2007, respectively.

(c)

The adjustments reflect the inclusion of non-controlling interests in consolidated entities representing the economic interests that certain minority investors will retain in our management and capital markets companies and general partners of our consolidated funds following the acquisition of interests in those entities by the Group Partnerships, which economic interests will allocate to certain minority investors % of the net profits earned by those companies and % of the carried interest received by those general partners with respect to the funds' investments, in each case, for a specified period of time. As of June 30, 2007, these non-controlling interests were recorded at \$ and reduced partners' capital by a corresponding amount. For the year ended December 31, 2006 and the six months ended June 30, 2007, the inclusion of non-controlling interests resulted in net charges accounted for as non-controlling interests in income of consolidated subsidiaries of \$ and \$, respectively, representing amounts of fee income, expenses and investment income attributable to the non-controlling interests. The foregoing adjustments resulted in reductions in income before taxes of \$ and \$ and reductions in net income of \$ and \$ for the year ended December 31, 2006 and the six months ended June 30, 2007, respectively.

## 2. Other Adjustments

The Other Adjustments present the effects of the other transactions that will be entered into in connection with the Reorganization Transactions, this offering and the other transactions described in this section.

(d) The adjustments reflect the receipt of \$ of net proceeds from the issuance of common units in this offering at an assumed initial offering price of \$ per common unit, representing the midpoint of the price range indicated on the front cover of this prospectus, after deducting \$ of estimated underwriting discounts and offering expenses. We intend to contribute the net proceeds that we receive from this offering to the Group Partnerships in exchange for newly issued Group Partnership units, which will use the proceeds that they receive from us to grow our existing business, to expand into new related businesses and for other general corporate purposes. The issuance of common units described above resulted in a \$ net increase in cash and cash equivalents and a \$ net increase in partners' capital as of June 30, 2007.

(e) The adjustments reflect our use of \$ of assumed net proceeds from the issuance of common units in this offering to acquire newly issued Group Partnership units from the Group Partnerships. Assuming that the underwriters do not exercise their option to purchase additional common units from us, we will directly and indirectly own % of the outstanding Group Partnership units upon the completion of this offering and the balance of the outstanding Group Partnership units will be owned by KKR Holdings and reflected in our consolidated financial statements as principals' interests. As of June 30, 2007, these non-controlling interests were recorded at \$ and reduced partners' capital by a corresponding amount. For the year ended December 31, 2006 and the six months ended June 30, 2007, the inclusion of principals' interests resulted in net charges accounted for as principals' interests in income of consolidated entities of \$ and \$ , respectively, representing amounts of fee income, expenses and investment income attributable to the principals' interests. The foregoing adjustments resulted in reductions in income before taxes of \$ and \$ and reductions in net income of \$ and \$ for the year ended December 31, 2006 and the six months ended June 30, 2007, respectively.

We will enter into an exchange agreement with KKR Holdings in connection with the Reorganization Transactions pursuant to which KKR Holdings or certain transferees of its Group Partnership units may up to four times each year (subject to the terms of the exchange agreement) exchange Group Partnership units held by them (together with corresponding special voting units) for our common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. The Group Partnership units are also subject to transfer restrictions, and will therefore not be exchangeable before . We have not yet determined the manner in which such future exchanges will be accounted for in our consolidated financial statements.

(f) The adjustments reflect the effect of one or more cash and in-kind distributions to certain of our existing owners representing substantially all of the cash-on-hand and certain personal property of the management company for our private equity funds in an assumed aggregate amount of \$ million as of June 30, 2007. The actual amount of such distributions will depend on the amount of the management company's cash on hand at the time of the offering.

(g) The adjustments reflect the impact of the vesting of interests in KKR Holdings and the vesting of restricted common units issued under our 2007 Equity Incentive Plan on our income.

Our principals and certain former personnel will hold equity interests in our business through KKR Holdings, which will hold the Group Partnership units not directly or indirectly held by us. As a result, those individuals will receive financial benefits from our business in the form of distributions and payments received from KKR Holdings and the appreciation in the value of the Group Partnership units that KKR Holdings owns. A portion of the equity interests held by our principals in KKR

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Holdings are subject to vesting. We will be required to record periodic non-cash employee compensation charges over time with respect to the vesting of interests in KKR Holdings that are held by our principals. When incurred, however, those non-cash charges will be offset in full by corresponding credits in our statements of income attributable to principals' interests in income of consolidated entities and other income and, as a result, will not impact our income before taxes, our net income or amounts that are available for distribution to our unitholders.

In addition, at the time of this offering, we will grant to our employees who are not principals an aggregate of            unvested restricted common units under our 2007 Equity Incentive Plan. We may settle these restricted common units with unrestricted common units or in cash. The vesting of these restricted common units will result in cash and non-cash charges as the restricted common units vest.

The following table summarizes the pro forma effects of the above items on the KKR Group's combined statements of income for the year ended December 31, 2006 and the six months ended June 30, 2007.

	<u>Year Ended December 31, 2006</u>	<u>Six Months Ended June 30, 2007</u>
<i>(\$ in thousands)</i>		
Historical employee compensation and benefits expense	\$ 131,667	\$ 50,581
Addition of non-cash charges relating to vesting of interests in KKR Holdings(1)		
Addition of cash and non-cash charges relating to vesting of restricted common units issued to other employees(2)		
Total change in employee compensation and benefits expense		
Employee compensation and benefits expense attributable to principals' interests in income of consolidated entities	( )	( )
Other income	( )	( )
Change in income before taxes		

(1) Upon completion of the Reorganization Transactions and this offering, our principals will hold an aggregate of            interests in KKR Holdings, of which            will be vested and            will be unvested. The unvested interests will vest over periods ranging in duration from            to            years. We intend to reflect the vesting of unvested interests in KKR Holdings as non-cash employee compensation charges in accordance with Statement of Financial Accounting Standards No. 123(R), Share-Based Payment.

(2) At the time of this offering, we will grant our employees            unvested restricted common units that may be settled with unrestricted common units and            unvested restricted common units that may be settled with cash. We will account for awards that may be settled with unrestricted common units as equity awards with the fair value of the award determined at the service inception date, which will be concurrent with the completion of this offering. We will account for awards that may be settled in cash as a liability at each reporting date subsequent to the service inception date, which will be concurrent with the completion of this offering. The fair value of these awards will be charged to compensation expense over the applicable service periods. The amounts presented above have been derived based upon an assumed initial offering price of            per common unit, representing the midpoint of the price range indicated on the front cover of this prospectus, multiplied by the number of restricted common units to be granted, expensed over the assumed service periods, which range from            to            years. In addition, the calculation of the expense assumes a forfeiture rate of            %, which is based upon historical turnover rates.

(h)

We have historically operated as a group of partnerships for U.S. federal income tax purposes and, in the case of certain entities located outside the United States, corporate entities for foreign income tax purposes. Because most of the entities in our consolidated group are taxed as partnerships, our income is generally allocated to, and the resulting tax liability is generally borne by, our partners and we generally are not taxed at the entity level. Accordingly, income tax provisions shown on our historical combined statements of income of \$            million for the year ended December 31, 2006 and \$            million for the six months ended June 30, 2007 were primarily attributable to the New York City unincorporated business tax and foreign income taxes imposed on certain entities located outside the United States.

Following the Reorganization Transactions and this offering, the Group Partnerships and their subsidiaries will continue to operate as partnerships for U.S. federal income tax purposes and, in the case of certain entities located outside the United States, corporate entities for foreign income tax purposes. Accordingly, those entities will continue to be subject to New York City unincorporated business taxes or foreign income taxes. In addition, our intermediate holding company will be subject to additional entity-level taxes that will be reflected in our consolidated financial statements. For a discussion of pending legislation that may preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes, see "Risk Factors Risks Related to Our Business Legislation has been introduced that would, if enacted, preclude us from qualifying as a partnership for U.S. federal income tax purposes. If this or any similar legislation or regulation were to be enacted and apply to us, we would incur a material increase in our tax liability that could result in a reduction in the value of our common units."

In calculating the pro forma income tax provision for the periods presented, the following assumptions were made:

The amount of net income before taxes was attributed to the entities subject to corporate taxes (income of \$            million for the year ended December 31, 2006 and income of \$            million for the six months ended June 30, 2007) with the remainder attributed to the entities not subject to corporate income taxes. Net income was attributed to these entities based on income or losses of the subsidiaries of the entities. Please see "Material U.S. Federal Tax Considerations" for a discussion of the different tax requirements of our subsidiaries.

Income before taxes attributed to entities subject to corporate tax was adjusted to add back expenses of \$            million for the year ended December 31, 2006 and \$            million for the six months ended June 30, 2007, which are not deductible for corporate income tax purposes. Such expenses relate primarily to compensation charges recognized for book purposes that will not be deductible for tax.

The resulting balances of \$            million for the year ended December 31, 2006 and \$            million for the six months ended June 30, 2007 were then multiplied by a blended statutory tax rate of            % and

such amounts were added to the estimated foreign jurisdiction tax provisions to arrive at the aggregate tax provisions of \$            million for the year ended December 31, 2006 and \$            million for the six month period ended June 30, 2007. The blended statutory rate reflects statutory rate of            % for federal taxes and the blended state rate (net of federal benefit) of            %.

The amount of the adjustment reflects the difference between the actual tax provision for the historical organizational structure and the estimated tax provision that would have resulted had the Reorganization Transactions and the offering been effected on January 1, 2006.

**3. Determination of Earnings Per Common Unit**

(i)

For the purposes of the pro forma net income per common unit computation, the weighted average common units outstanding, basic and diluted, were calculated in the following manner.

	Year Ended December 31, 2006	Six Months Ended June 30, 2007
	Basic and Diluted	Basic and Diluted
Common units to be outstanding immediately following the completion of the Reorganization Transactions and this offering		
Restricted common units to be outstanding immediately following the completion of the Reorganization Transactions and this offering		
Group Partnership units to be outstanding immediately following the completion of the Reorganization Transactions and this offering(1)		
<b>Weighted average common units outstanding</b>		

(1)

We will enter into an exchange agreement with KKR Holdings in connection with the Reorganization Transactions pursuant to which KKR Holdings or transferees of its Group Partnership units may up to four times each year (subject to the terms of the exchange agreement) exchange Group Partnership units held by them (together with corresponding special voting units) for our common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications and compliance with other applicable transfer restrictions. Group Partnership units are not included in the calculation of weighted average common units outstanding because to do so would have been anti-dilutive for the periods presented. If these Group Partnership units were to be exchanged for common units, net income available to holders of common units would increase due to the elimination of the principals' interests associated with the Group Partnership units (offset by the associated tax effect) by a greater proportion than the corresponding increase in weighted average common units outstanding. As a result, diluted net income per common unit calculated assuming the exchange of all exchangeable Group Partnership units for common units would be greater than basic net income per common unit. We have not yet determined how any such future exchanges will be accounted for in our consolidated financial statements.

(j)

Pro forma basic and diluted net income per common unit were computed in the following manner.

	Year Ended December 31, 2006	Six Months Ended June 30, 2007
	Basic and Diluted	Basic and Diluted
Net income available to holders of common units	\$	\$
Weighted average common units outstanding		
<b>Net income per common unit</b>		

Our special voting units are not entitled to receive distributions from our partnership. Those units do not share in our earnings and no earnings are allocable to that class. Accordingly, pro forma basic and diluted net income per special voting unit has not been presented.

**Economic Net Income**

Economic net income represents net income excluding the impact of income taxes and the impact of non-cash employee compensation charges associated with equity interests in our business and charges

relating to the amortization of intangible assets. Adjustments relating to income tax expense and amortization are customary in the calculation of supplemental measures of performance. In addition, we believe that the exclusion of non-cash compensation expense provides investors with a more meaningful indication of our performance as this non-cash charge relates to the equity portion of our capital structure and not our core operating performance. We believe such adjustments are meaningful because they are indicators of our core operating results and our management uses them to evaluate our business and allocate resources.

We find economic net income to be useful as a measure for understanding the performance of our operations from period to period and although not every company in our industry defines these metrics in precisely the same way that we do, we believe that this metric, as we use it, facilitates comparisons with other companies in our industry. While we use segment economic net income to evaluate the performance of our business segments, consolidated economic net income is also utilized by management in evaluating our performance as a whole as well as for compensation and other purposes. We also believe that analysts and investors use economic net income as a supplemental measure to evaluate our company's overall operating performance. However, economic net income has material limitations as an analytical tool and you should not consider this in isolation, or as a substitute for analysis of our results as reported under GAAP.

The items we eliminate in calculating economic net income are significant to our business: (i) income tax expense represents a necessary element of our costs and our ability to generate revenue because ongoing revenue generation is expected to result in future income tax expense; (ii) amortization may be a necessary element of our costs following the reorganization; and (iii) non-cash compensation expense is expected to be a recurring component of our costs and we may be able to incur lower cash compensation costs to the extent that we grant non-cash compensation. Furthermore, any measure that eliminates compensation costs and the carrying costs associated with assets on our balance sheet has material limitations as a performance measure. In light of the foregoing limitations, we do not rely solely on economic net income as a performance measure and also consider our GAAP results. Economic net income is not a measurement of our financial performance under GAAP and should not be considered as an alternative to net income or any other measures prepared in accordance with GAAP. Because economic net income is not calculated in the same manner by all companies, it may not be comparable to other similarly titled measures used by other companies.

Because our historical combined financial statements do not include any non-cash employee compensation charges or charges relating to the amortization of intangible assets, economic net income is the equivalent of income before taxes for the historical periods presented. However, amounts of pro forma economic net income for the year ended December 31, 2006 and the six months ended June 30, 2007 include the impact of non-cash employee compensation charges described in Note (g) above and, accordingly, are not equivalent to pro forma income before taxes. The following table presents the adjustments to pro forma net income used to derive pro forma economic net income for the year ended December 31, 2006 and the six months ended June 30, 2007.

	Year Ended December 31, 2006	Six Months Ended June 30, 2007
Pro forma net income	\$	\$
Adjustment for income tax		
Pro forma income before taxes		
Adjustment for non-cash employee compensation expense		
Adjustment for amortization expense		
Pro forma economic net income		



**SELECTED HISTORICAL FINANCIAL AND OTHER DATA**

The following tables set forth the selected historical combined financial data of the KKR Group as of and for the years ended December 31, 2002, 2003, 2004, 2005 and 2006 and as of June 30, 2007 and for the six months ended June 30, 2006 and 2007. We derived the selected historical combined data of the KKR Group as of December 31, 2005 and 2006 and for the years ended December 31, 2004, 2005 and 2006 from the audited predecessor combined financial statements included elsewhere in this prospectus. We derived the selected historical combined data of the KKR Group as of June 30, 2007 and for the six months ended June 30, 2006 and 2007 from the unaudited predecessor combined financial statements included elsewhere in this prospectus. We derived the selected historical combined data of the KKR Group as of December 31, 2002, 2003 and 2004 and for the years ended December 31, 2002 and 2003 from our unaudited predecessor combined financial statements which are not included in this prospectus. The information presented in the following tables reflects the restatement of the KKR Group's financial results for the periods indicated below. See Note 13 to the predecessor combined financial statements included in this prospectus. Our unaudited predecessor combined financial statements have been prepared on substantially the same basis as our audited predecessor combined financial statements and include all adjustments that we consider necessary for a fair presentation of our combined financial position and results of operations for all periods presented. We will not acquire all of the interests in the KKR Group in connection with the Reorganization Transactions and, accordingly, the combined financial statements of the KKR Group may not be indicative of the results of operations and financial condition that we will have following the completion of this offering. You should read the following data together with the "Organizational Structure," "Unaudited Pro Forma Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the predecessor combined financial statements and related notes included elsewhere in this prospectus.

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	Year Ended December 31,					Six Months Ended June 30,	
	2002	2003	2004	2005	2006	2006	2007
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(\$ in thousands)	
	(\$ in thousands)						
<b>Income Statement Data:</b>							
<b>Revenues</b>							
Fee income	\$ 67,850	\$ 50,516	\$ 183,462	\$ 232,945	\$ 410,329	\$ 155,087	\$ 115,380
<b>Expenses</b>							
Employee compensation and benefits	38,510	46,724	69,956	79,643	131,667	39,723	50,581
Occupancy and related charges	8,013	8,858	10,688	13,534	19,295	11,010	9,909
General, administrative and other	27,315	35,315	36,931	54,336	78,154	37,086	59,506
Fund expenses	7,340	26,024	16,470	20,778	38,350	14,550	35,821
Total expenses	81,178	116,921	134,045	168,291	267,466	102,369	155,817
<b>Investment Income</b>							
Net gains from investment activities	(189,813)	2,325,294	3,026,396	2,984,504	3,105,523	1,709,246	3,147,328
Dividend income	129	32,285	14,611	729,926	714,069	250,876	133,160
Interest income	11,730	36,807	54,060	27,166	210,872	48,586	133,549
Interest expense	(299)	(234)	(524)	(697)	(29,542)	(8,150)	(40,486)
Total investment income (loss)	(178,253)	2,394,152	3,094,543	3,740,899	4,000,922	2,000,558	3,373,551
Income (loss) before non-controlling interests in income of consolidated entities and income taxes	(191,581)	2,327,747	3,143,960	3,805,553	4,143,785	2,053,276	3,333,114
Non-controlling interests in income of consolidated entities	(290,022)	1,863,355	2,358,458	2,870,035	3,039,677	1,522,697	2,661,912
Income before taxes	98,441	464,392	785,502	935,518	1,104,108	530,579	671,202
Income taxes	1,745	2,425	6,265	2,900	4,163	1,554	3,806
Net income	\$ 96,696	\$ 461,967	\$ 779,237	\$ 932,618	\$ 1,099,945	\$ 529,025	\$ 667,396
<b>Statement of Financial Condition (period end):</b>							
Total assets	\$ 7,379,763	\$ 8,142,353	\$ 9,701,478	\$ 13,369,412	\$ 23,292,783	\$ 26,197,722	
Total liabilities	19,243	124,339	313,672	418,778	1,281,923	918,986	
	6,766,895	7,289,218	8,352,342	11,518,013	20,318,440	23,257,856	

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	Year Ended December 31,					Six Months Ended June 30,
Non-controlling interests in consolidated entities						
Total partners' capital	593,625	728,796	1,035,464	1,432,621	1,692,420	2,020,880

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis should be read in conjunction with the predecessor combined financial statements and the related notes included elsewhere in this prospectus. The historical combined financial data discussed below reflects the historical results and financial position of the KKR Group, which is considered our predecessor for accounting purposes. While the historical combined financial statements of the KKR Group will be our historical financial statements following the completion of this offering, the data does not give effect to the Reorganization Transactions or this offering and is not necessarily representative of our future results and financial condition. See "Organizational Structure" and "Unaudited Pro Forma Financial Information." In addition, this discussion and analysis contains forward-looking statements and involves numerous risks and uncertainties, including those described under "Risk Factors" and "Forward-Looking Statements." Actual results may differ materially from those contained in any forward-looking statements.*

### Overview

Founded in 1976, we are a leading global alternative asset manager. Our more than 400 employees, including more than 150 investment professionals, are led by our founders, Henry Kravis and George Roberts, who are pioneers of the leveraged buyout industry. Our history of landmark achievements in private equity includes the first leveraged buyout in excess of \$1 billion, several of the largest leveraged buyouts announced worldwide to date, the first buyout of a public company by tender offer and the largest leveraged buyouts completed or announced in each of the United States, the Netherlands, Denmark, India, Australia, Turkey, Singapore and France. We have continued our history of innovation by establishing new debt and public equity strategies that leverage the power of our brand and the intellectual capital in our private equity business.

Today, through our offices in New York, Menlo Park, San Francisco, London, Paris, Hong Kong and Tokyo, we sponsor and manage funds that make investments worldwide in private equity and debt transactions on behalf of third-party investors and our firm. We also manage substantial investments in public equity. During our 31-year history, we have raised 16 funds and received approximately \$59.7 billion of capital and capital commitments from investors. We have grown our assets under management significantly, from approximately \$18.3 billion as of December 31, 2002 to approximately \$54.4 billion as of June 30, 2007, representing a compounded annual growth rate of 27.4%. Of our total assets under management, approximately \$7.0 billion is permanent capital, which is not required to be returned to investors and is able to be re-deployed as investments are realized.

As a global alternative asset manager, we earn ongoing management fees for providing management and other services to our private equity and credit strategy funds as well as transaction, monitoring and other potential fees in connection with our investments. We also earn investment income from investing our own capital alongside fund investors and from our carried interest in fund investments, which provides us with a disproportionate share of the funds' investment gains generated on third-party capital invested by our private equity funds. We are also selectively pursuing opportunities to develop new investment structures and products that we believe will help us increase the amount of managed capital that we are able to commit to individual transactions, grow our assets under management and capture additional income streams.

### Business Segments

For management reporting purposes, we operate through two reportable business segments: private equity and credit.

#### *Private Equity*

Through our private equity segment, we sponsor and manage a number of traditional private equity funds and a private equity-oriented permanent capital fund that make primarily control-oriented investments in connection with leveraged buyouts and other similar investment opportunities. Our private equity funds focus

on investing in large capitalization companies, which we believe allows us to invest in industry-leading franchises with global operations, attract world class management teams, deploy large amounts of capital in individual transactions and optimize amounts of income that we earn on a per transaction basis. Our private equity segment had \$45.1 billion of assets under management as of June 30, 2007 and generated approximately \$1.1 billion and \$645.8 million of economic net income during the year ended December 31, 2006 and the six months ended June 30, 2007, respectively. Though our private equity funds focus on investments in equity, they may also make a small percentage of their investments in debt and other asset classes and the results of such investments are included in the results of our private equity segment.

#### *Credit*

We believe the intellectual capital of our people, our integrated global investment platform and our ability to effectively adapt our investment strategies to market conditions allow us to capitalize on investment opportunities at every level of a company's capital structure. Commencing in 2004, we began to actively pursue debt investments as a separate asset class and, through our credit segment, we now sponsor and manage a group of private and publicly traded credit strategy funds that invest primarily in corporate debt investments and manage structured finance vehicles. Our credit strategy funds currently consist of KFN, a New York Stock Exchange listed finance company, and the KKR Strategic Capital Funds, consisting of three side-by-side private credit strategy funds. As of June 30, 2007, our credit strategy funds had \$2.8 billion of capital, including \$1.6 billion of permanent capital, and our credit strategy funds currently manage \$6.5 billion of structured finance vehicles. During the year ended December 31, 2006 and the six months ended June 30, 2007, our credit segment generated \$34.5 million and \$25.4 million of economic net income, respectively. Though our credit strategy funds focus on investments in debt, these funds may also make a small percentage of their investments in equity and other asset classes and the results of such investments are included in the results of our credit segment.

#### *Business Environment*

As a global alternative asset manager, we are affected by financial and economic conditions in the United States, Europe, Asia and elsewhere in the world. The diversity of our operations and product lines has allowed us to generate attractive returns in different business climates. Generally, business conditions characterized by low inflation, low or declining interest rates and strong equity markets provide a positive environment for us to generate attractive returns on existing investments. We also benefit, however, from periods of market volatility and disruption which allow us to use our large capital base and our experience with troubled companies and distressed securities to make investments at attractive prices and on favorable terms.

#### *Market Conditions*

Our ability to grow our revenue and net income depends on our ability to continue to attract capital and investors, secure investment opportunities, obtain financing for transactions, consummate investments and deliver attractive investment returns. These factors are impacted by a number of market conditions, including:

***The strength and competitive dynamics of the alternative asset management industry, including the amount of capital invested in, and withdrawn from, alternative investments.*** Our share of the capital that is allocated to alternative assets depends on the strength of our investment performance relative to the investment performance of our competitors. The amount of capital that we attract and our investment returns directly affect the level of our assets under management, which in turn affects the fees, carried interest and other amounts that we are able to earn in connection with our asset management activities.

***The strength and liquidity of debt markets.*** Our private equity funds use debt financing to fund portfolio company acquisitions. Our credit strategy funds make significant investments in debt instruments and use varying degrees of leverage in order to enhance investment returns and to fund working capital requirements. As a result, our business generally benefits from strong and liquid debt markets that

support our funds' investment activities, although periods of market volatility and disruption may create attractive investment opportunities. Recently, the cost of financing leveraged buyout transactions in the public capital markets has increased significantly, which may adversely impact the returns of our leveraged buyout transactions and our ability to finance future transactions.

***The strength and liquidity of equity markets.*** Strong equity market conditions enable our private equity funds to increase the value of and to effect realizations of their portfolio company investments. Equity market conditions also affect the carried interest that we receive. In addition, recent general increases in stock market prices have made it more difficult to find businesses that may be acquired at attractive prices and have resulted in higher purchase prices for portfolio companies, which has increased the amount of equity and debt financing that is required to complete an acquisition.

***Market volatility.*** Volatility within the debt and equity markets increases both the opportunities and risks within our segments and directly affects the performance of our funds. Similarly, fluctuations in interest rates and foreign currency exchange rates, if not suitably hedged, may affect the performance of our funds. Historical trends in these markets are not necessarily indicative of our future performance.

We believe market conditions during recent years have created a favorable environment for our two reportable business segments and our business as a whole. In particular:

The U.S. economy has grown rapidly and the U.S. capital markets have seen increased activity and rising market indices during recent years, creating a favorable environment for making private equity investments and growing and realizing value from such investments, as well as for the expansion of our credit activities. We have also successfully identified and capitalized on opportunities to expand into Europe, Asia and elsewhere where trends have been favorable for investment, and we continue to identify what we believe to be attractive opportunities in new markets globally.

Institutions and other investors have increased their capital allocations to the alternative asset management industry. As a leader in this industry, we have been and expect to continue to be able to attract a significant amount of new capital for our funds. In addition, we believe that strong capital flows to the alternative asset sector have played, and will continue to play, an important role in our new business initiatives, including our capital markets initiative.

The U.S. and other debt markets have been particularly strong during recent years, contributing to our ability to finance portfolio company acquisitions at attractive rates, at attractive leverage ratios and on attractive terms. In addition, historically low interest rates and tight credit spreads during recent years have enhanced the ability of our credit strategy funds to employ leverage to increase investment returns. Recently, however, the cost of financing leveraged buyout transactions by issuing high-yield debt securities in the public capital markets has increased significantly. Increases in rates and spreads could have a negative impact on our returns as the incremental cash flow required to service debt would reduce cash flow available to investors in our funds and could lead to higher equity contribution requirements by our fund investors to effect future transactions. A reduction in leverage ratios or more restrictive covenants and other credit terms could also negatively impact our business.

The allocation of capital to the alternative asset management industry depends in part on the performance of alternative assets relative to other asset classes. The primary markets in which we conduct our business have experienced relatively steady growth. The performance of our funds has continued to exceed various traditional benchmarks of market performance enabling us to raise increasingly larger pools of capital.

The market conditions discussed above have been generally favorable to our performance over the periods presented. Future market conditions may not continue to be as favorable and could adversely affect our business. For a more detailed description of the manner in which economic and financial market conditions may materially affect our results of operations and financial condition, see "Risk Factors Risks Related to Our Business."

***Legal and Regulatory Environment***

Members of the U.S. Congress have introduced legislation that would, if enacted, preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes under the rules governing publicly traded partnerships and would require that we be treated as a corporation for U.S. federal income tax purposes. Separately, members of the U.S. Congress have introduced legislation that would, if enacted, treat income received for performing investment management services as ordinary income received for the performance of services, which would have a similar effect. If any of these pieces of legislation or any similar legislation or regulation were to be enacted and apply to us, we would incur a material increase in our tax liability, which could result in a reduction in the value of our common units. See "Risk Factors Risks Related to Our Business Legislation has been introduced that would, if enacted, preclude us from qualifying as a partnership for U.S. federal income tax purposes. If this or any similar legislation or regulation were to be enacted and apply to us, we would incur a material increase in our tax liability that could result in a reduction in the value of our common units."

***Becoming a Public Company***

As a privately owned firm, we have consistently approached the management of our business and our investments with the goal of creating and realizing value over the long term. Both in building and expanding our business and in determining the types of investments to make, we have focused on the best outcomes for our business and fund investors measured over a period of years rather than on short-term financial performance. Our long-term approach encourages us to continue to build value in all of our portfolio companies, including those with a long period remaining before producing distributable cash flow. However, our results of operations are affected by the timing of our investments and changes in the value of our investments, each of which may vary significantly in the short term.

We nonetheless intend to maintain our long-term focus after we become a public company even though this approach may lead to significant and unpredictable variations in our results from period to period. In addition, while a significant portion of the management and monitoring fees paid by our funds and portfolio companies are earned pursuant to multi-year contracts, other amounts that we earn, such as transaction fees and carried interest, are subject to significant variability based on transaction volume and size, as well as investment performance. We do not intend to permit the short-term perspectives of some public market investors to influence our investment, operational or strategic decisions, our duties or commitments to our fund investors or our focus on creating long-term value for our unitholders.

***Impact of the Reorganization Transactions, this Offering and Related Transactions***

The KKR Group is considered our predecessor for accounting purposes and its combined financial statements will be our historical financial statements following the completion of the Reorganization Transactions and this offering. This historical combined financial data does not give effect to the Reorganization Transactions, the completion of this offering or other related transactions. Because the legal entities that comprise the KKR Group are under the common control of our senior principals and will be under the common control of our senior principals following the completion of the Reorganization Transactions, we will account for the Reorganization Transactions and this offering as a transfer of interests under common control. Accordingly, we will carry forward into our combined financial statements the value of assets, liabilities and non-controlling interests in the combined entities recognized in the KKR Group's historical combined financial statements, except as described below.

While the combined financial statements of the KKR Group will be our historical financial statements following the completion of the Reorganization Transactions and this offering, our financial statements for future periods will differ from the financial statements of the KKR Group in many significant respects. In particular, following the completion of the Reorganization Transactions and this offering:

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we will deconsolidate both the 1996 Fund and the fund's general partners, because the Group Partnerships will not acquire an interest in those general partners in connection with the Reorganization Transactions;

we will deconsolidate both the KKR Private Equity Investors master fund and the master fund's general partner and account for the Group Partnerships' interest in the master fund general partner instead under the equity method of accounting (which accounting treatment will not impact our consolidated net income or partners' capital), because the Group Partnerships will acquire an economic (but not controlling) partner interest in the master fund general partner;

we will include non-controlling interests in consolidated entities representing the economic interests that our existing owners will retain in the general partners of our consolidated private equity funds following the acquisition of general partner interests in those entities by the Group Partnerships, which economic interests will allocate to the existing owners % of the capital invested by or on behalf of those general partners before the completion of the offering and any profits thereon;

we will include non-controlling interests in consolidated entities representing the economic interests that certain minority investors will retain in our management and capital markets companies and the general partners of our consolidated funds following the acquisition of general partner or controlling interests in those entities by the Group Partnerships, which economic interests will allocate to certain minority investors % of the net profits earned by those companies and % of the carried interest received by those general partners with respect to the funds' investments, in each case for a specified period of time;

we will issue common units in this offering at an assumed initial public offering price of \$ per common unit, representing the midpoint of the price range indicated on the front cover of this prospectus, which issuance will increase our partners' capital;

we will include principals' interests representing the Group Partnership units that KKR Holdings will hold in the Group Partnerships, which principals' interests will allocate to KKR Holdings % of the equity in the Group Partnerships upon completion of this offering, assuming the underwriters do not exercise their option to purchase additional common units from us;

we will make one or more cash and in-kind distributions to certain of our existing owners prior to the completion of the offering, which distributions will consist of substantially all of the cash-on-hand and certain personal property of the management company for our private equity funds;

we will recognize non-cash employee compensation charges associated with the vesting of interests in KKR Holdings that are held by our principals, which non-cash charges will be offset in full by corresponding credits to our income statement attributable to principals' interests in consolidated entities and other income and will not impact our income before taxes, net income or partners' capital;

we will recognize employee compensation charges associated with the vesting of grants of restricted common units and other awards under our 2007 Equity Incentive Plan; and

we will record a provision for corporate income taxes on the income of our intermediate holding company, which will indirectly hold our interest in the management companies for our funds and our capital markets companies and will be taxable as a corporation for U.S. federal income tax purposes.

Due to the differences described above, the predecessor combined financial statements and related historical data included in this prospectus are not necessarily representative of our future results of operations and financial condition. To provide additional information illustrating the impact that the changes described above will have on our results of operations and financial condition, we have presented





elsewhere in this prospectus unaudited pro forma financial information for the year ended December 31, 2006 and as of and for the six months ended June 30, 2007. The pro forma data give effect to the Reorganization Transactions, this offering and related transactions as if such transactions had occurred on January 1, 2006 for purposes of the unaudited pro forma statement of income data and as of June 30, 2007 for purposes of the unaudited pro forma statement of financial condition. Such information has been presented for informational purposes only and does not purport to present the results of operations or financial condition that we would have achieved if those transactions had occurred on such dates or that we may achieve in the future. See "Unaudited Pro Forma Financial Information."

## **Basis of Financial Presentation**

### ***Combined Results***

#### *Impact of the Consolidation of Our Funds on Our Financial Presentation*

In accordance with GAAP, a substantial number of our funds are consolidated in our predecessor combined financial statements notwithstanding the fact we hold only a minority economic interest in those funds. In particular, we have consolidated (i) those entities in which our predecessor, through the ownership interests of our senior principals, has majority ownership and had control over significant operating, financial and investing decisions of the entities and (ii) those funds, which we refer to as our consolidated funds, in which our predecessor, through the ownership interests of our senior principals, held a general partner or managing member interest, which gave our predecessor substantive controlling rights over such funds. With respect to our consolidated funds, we generally have operational discretion and control over the funds and fund investors do not hold any substantive rights that would enable them to impact the funds' ongoing governance and operating activities.

As noted above, in connection with the Reorganization Transactions and this offering, we will deconsolidate the 1996 Fund and the KKR Private Equity Investors master fund, but will continue to consolidate the other funds that are currently consolidated in our combined financial statements. Those consolidated funds consist of the European Fund, the Millennium Fund, the European Fund II, the 2006 Fund and two of the three side-by-side funds that constitute the KKR Strategic Capital Funds. See "Unaudited Pro Forma Financial Information." In addition, because we expect to continue to maintain a controlling interest in funds that we sponsor and manage, we expect to consolidate additional funds in future periods, including our recently formed Asian Fund, which held its final closing in the third quarter of 2007.

When we consolidate a fund, our combined financial statements reflect the assets, liabilities, revenues, expenses and cash flows of the consolidated fund on a gross basis. The majority of the economic interests in the consolidated fund, which are held by third-party investors, are reflected as non-controlling interests in our combined financial statements. Substantially all of the management fees and certain other amounts that we earn from the consolidated fund are eliminated in combination. However, because those amounts are earned from non-controlling interest holders, our allocable share of the net income from the consolidated fund is increased by the amounts eliminated. Accordingly, the consolidation of a fund does not have a net effect on the amounts of income before taxes, net income or partners' capital that we report. The consolidation does, however, significantly impact other aspects of our financial statement presentation, because the assets, liabilities, income and expense of the consolidated funds are reflected on a gross basis while the allocable share of those amounts that are attributable to non-controlling interest holders are reflected as single line items on our statement of financial condition (non-controlling interests in consolidated entities) and in our statement of income (non-controlling interests in income of consolidated entities).

### ***Segment Results***

We present the results of our two reportable business segments in accordance with Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." This standard is based on a management approach, which requires segment presentation based on internal organization and the internal financial reporting used by management to make operating decisions, assess performance and allocate resources. Our management makes operating decisions, assesses performance and allocates resources based on financial and operating data and measures that are presented without giving effect to the consolidation of any of the funds that we manage. As a result, unlike the reporting in our predecessor combined financial statements, our segment reporting does not give effect to the consolidation of our funds. The deconsolidation of our funds in our segment reporting results in the inclusion in fee income of management fees that would otherwise be eliminated in consolidation, the elimination of investment income and expense that is attributable to non-controlling interests held by third-party fund investors and the elimination of corresponding charges and credits that we account for as non-controlling interests in the income of consolidated entities. See " Combined Results Impact of the Consolidation of Our Funds on Our Financial Presentation" and " Key Operating and Performance Measures Segment Operating and Performance Earnings."

### **Key Financial Measures**

#### ***Revenues***

##### *Fee Income*

Our combined fee income consists primarily of transaction and monitoring fees that we receive from our portfolio companies and the management and incentive fees that we receive directly from our unconsolidated funds, including both the base management fees and incentive fees that are paid by our unconsolidated credit strategy funds. These fees are based upon the contractual terms of the management and other agreements that we enter into with the applicable funds and portfolio companies. For a description of these management and other agreements, see "Business."

Our combined fee income does not include the management fees that we charge our consolidated funds, because those fees are eliminated in consolidation as transactions between consolidated entities. However, because those management fees are earned from, and funded by, third-party fund investors who hold non-controlling interests in the consolidated funds, our allocable share of the net income from the consolidated funds is increased by the amount of the management fees that are eliminated in consolidation. Accordingly, while the consolidation of our funds impacts the amount of fee income that we recognize on a combined basis, it does not affect the ultimate amount of income before taxes, net income, or partners' capital that we recognize in our combined financial statements.

#### ***Expenses***

##### *Employee Compensation and Benefits Expense*

Our employee compensation and benefits expense historically has consisted primarily of the cash salaries and bonuses that we have paid personnel who are not senior principals. Because our compensation arrangements with those individuals have involved a significant performance-based bonus component, our employee compensation and benefits expense has increased as our net income has grown. Our employee compensation and benefits expense has also grown in recent years as a result of the expansion of our business, which has increased the number of our salaried employees. Our employee compensation and benefits expense is not borne by fund investors and is not offset by credits attributable to our fund investors' non-controlling interests in our consolidated funds.

Unlike our other personnel, our senior principals historically have not been paid any cash salaries or bonuses for their services to us. Instead, these individuals have relied on cash distributions that they have

received on their equity interests in our business. Because those cash distributions have been paid to senior principals in their capacities as owners of our business, the distributions have been accounted for as distributions of partners' capital rather than employee compensation and benefits expense and, accordingly, we have not reflected those amounts as employee compensation and benefits expense in our statements of income.

Our principals will hold equity interests in our business through KKR Holdings, which will hold the Group Partnership units not held by us. As a result, those individuals will receive financial benefits from our business in the form of distributions and payments received from KKR Holdings and the appreciation in the value of the Group Partnership units that KKR Holdings owns. The Group Partnership units held by KKR Holdings will be subject to applicable transfer restrictions, and will not be exchangeable for our common units before .

A portion of the equity interests held by our principals in KKR Holdings are subject to vesting. We will be required to record periodic non-cash employee compensation charges over time with respect to the vesting of interests in KKR Holdings that are held by our principals. When incurred, however, those non-cash charges will be offset in full by corresponding credits in our statements of income attributable to principals' interests in income of consolidated entities and other income and, as a result, will not impact our income before taxes, our net income or amounts that are available for distribution to our unitholders. See " Principals' Interests in the Income of Consolidated Entities" and "Unaudited Pro Forma Financial Information."

At the time of this offering, we intend to grant to our employees who are not principals an aggregate of restricted common units under our 2007 Equity Incentive Plan as described under "Management 2007 Equity Incentive Plan." We will record periodic employee compensation charges in our statements of income associated with the grants and vesting of these awards, as well as any future awards that we may grant under our 2007 Equity Incentive Plan.

#### *General, Administrative and Other Expense*

Our general, administrative and other expense consists primarily of professional fees paid to legal advisors, accountants, senior advisors and consultants; insurance costs; travel and related expenses; communications and information services; depreciation and amortization charges and other general and operating expenses. These expenses have increased in recent years due to fees paid to our senior advisors that are based in part on returns generated by our investments, which have increased significantly during recent periods, as well as increases in overhead resulting from the expansion and growth of our business. A substantial portion of our general, administrative and other expense is not borne by fund investors and is not offset by credits attributable to our fund investors' non-controlling interests in our consolidated funds.

As a public company our costs for such items as insurance, accounting and legal advice are expected to increase. We will also incur costs which we have not previously incurred for director fees, investor relations expenses, expenses for compliance with the Sarbanes-Oxley Act and rules of the Securities and Exchange Commission and the New York Stock Exchange, and various other costs associated with being a public company.

#### *Fund Expenses*

Our fund expenses consist primarily of costs that we incur in connection with potential investments that do not result in completed transactions (such as travel expenses, professional fees and research costs), costs incurred in connection with the placement of limited partner interests in our private equity funds and costs relating to holding our annual investor conference.

***Investment Income***

We recognize investment income with respect to our carried interests in investments of our private equity funds, the capital invested by or on behalf of the general partners of our private equity funds and the non-controlling interests that third party fund investors hold in our consolidated funds. Grants of restricted equity interests in our publicly listed credit strategy fund, KFN, are not included as investment income. When the equity interests vest, however, we include the interests as investments on our statement of financial condition and thereafter recognize investment income or loss with respect to changes in their fair value and any dividends or distributions paid thereon. See "Business Credit KFN."

***Net Gains from Investment Activities***

Our net gains from investment activities consist primarily of the unrealized and realized gains and losses on investments that are made by our funds. Unrealized gains or losses result from changes in the fair value of these investments during a period. Upon disposition of an investment, previously recognized unrealized gains or losses are reversed and an offsetting realized gain or loss is recognized in the current period. While this reversal does not affect the amount of net gains that we recognize from investment activities, it does impact the cash flows that we record.

When determining the fair values of investments, we use the last reported market price as of the statement of financial condition date for investments that have readily available market prices. When an investment does not have a readily available market price, the fair value of the investment represents the value, as determined by us in good faith, at which the investment could be sold in an orderly disposition over a reasonable period of time between willing parties other than in a forced or liquidation sale. There is no single standard for determining fair value in good faith and in many cases fair value is best expressed as a range of fair values from which a single estimate may be derived. When making fair value determinations, we typically use a market multiples approach that considers a specified financial measure (such as EBITDA) or a discounted cash flow or liquidation analysis. We also consider a range of additional factors that we deem relevant, including the price at which the investment was acquired, the nature of the investment (such as whether it is a controlling interest), local market conditions, market prices for comparable securities and financing transactions and internal models that consider the current and expected operating performance and cash flows of the company in which the investment was made.

A significant portion of our funds' investments consists of private equity investments that do not have readily observable market prices and, accordingly, have been valued by us in good faith using the valuation methodologies described above. With regard to our valuations of those investments, since December 31, 2005, on a quarterly basis, Duff & Phelps, LLC, an independent valuation firm, has provided us with third-party assistance, which consisted of limited procedures that we identified and asked them to perform, as described under "Private Equity Valuations and Related Data." Our determinations of the fair values of these investments may differ materially from the values that would have resulted if readily available market prices had existed. Additional external factors may cause those values, and the values of investments for which readily observable market prices exist, to increase or decrease over time, which may create volatility in our net income and the amounts of assets and partners' capital that we report from time to time. See "Risk Factors Risks Relating to the Investments We Manage Valuation methodologies for certain assets in our funds can be subject to significant subjectivity and the fair value of assets established pursuant to such methodologies may never be realized, which could result in significant losses for our funds" and " Critical Accounting Policies Fair Value of Investments."

*Dividend Income*

Our dividend income consists primarily of the dividends and distributions that our private equity funds receive from the portfolio companies in which they invest. Typically, our private equity funds recognize dividend income primarily in connection with dispositions of operations by portfolio companies and other significant portfolio company transactions. Our dividend income has increased substantially in recent periods as a result of distributions by our portfolio companies following such dispositions or other transactions.

*Interest Income*

Our interest income consists primarily of interest that is paid on the fixed income instruments in which our consolidated funds invest and, to a lesser extent, interest payments that our private equity funds are paid when they provide bridge financing to a portfolio company in connection with a portfolio company acquisition. See "Private Equity Valuations and Related Data Bridge Financing Provided by Private Equity Funds." Our interest income has increased substantially in recent periods as a result of interest earned from cash management activities carried out by our private equity-oriented permanent capital fund, which began operations in May 2006 and made significant fixed income investments in connection with its cash management activities.

*Interest Expense*

Our interest expense consists primarily of interest that is payable by our funds or their general partners in connection with indebtedness that they incur to finance investments. A significant portion of our interest expense relates to long-term indebtedness that is used by our credit strategy funds to leverage their investments. The balance of this expense consists of short-term borrowings that are used by the general partners of our private equity funds and indebtedness that is used by our private equity-oriented permanent capital fund to leverage its investments in public companies. Given the degree of leverage in the capital structures of our portfolio companies (which leverage is not reflected in our combined financial statements), our private equity funds do not incur debt at the fund level.

*Impact of the Consolidation of Our Funds on the Presentation of Investment Income*

Due to the consolidation of a majority of our funds, the amount of our funds' investment income that is allocable to our carried interests and capital investments is not readily shown in our combined financial statements. Instead, the portion of investment income that is allocable to us, after allocating amounts to non-controlling interests, is reflected in our net income. Because the substantial majority of our funds are consolidated and because we hold only a minority economic interest in our funds' investments, our allocable share of our funds' investment income is significantly less than the total amount of investment income presented in our predecessor combined financial statements.

*Income Taxes*

We have historically operated as a group of partnerships for U.S. federal income tax purposes and, in the case of certain entities located outside the United States, corporate entities for foreign income tax purposes. Because most of the entities in our consolidated group are taxed as partnerships, our income is generally allocated to, and the resulting tax liability is generally borne by, our principals and we generally are not taxed at the entity level. The income taxes included in our predecessor combined financial statements are attributable to the New York City unincorporated business tax and foreign income taxes imposed on certain entities located outside the United States.

Following the Reorganization Transactions and this offering, the Group Partnerships and their subsidiaries will continue to operate as partnerships for U.S. federal income tax purposes and, in the case of certain entities located outside the United States, corporate entities for foreign income tax purposes.

Accordingly, those entities will continue to be subject to New York City unincorporated business taxes or foreign income taxes, as the case may be. In addition, our intermediate holding company will be subject to additional entity-level taxes that will be reflected in our combined financial statements.

*Non-Controlling Interests in the Income of Consolidated Entities*

Non-controlling interests in the income of consolidated entities represent the ownership interests that unaffiliated third parties hold in entities that are consolidated in our financial statements. The allocable share of income and expense attributable to those interests is accounted for as non-controlling interests in the income of consolidated entities.

Historically, the amount of non-controlling interests in consolidated entities that we have recognized has been substantial and has resulted in significant charges and credits in our statements of income. As of June 30, 2007, non-controlling interests in consolidated entities represented approximately 89% of our combined total assets and consisted primarily of:

economic interests that fund investors held in our consolidated funds, which economic interests allocated to the fund investors approximately 89% of our combined total assets as of June 30, 2007 and resulted in approximately \$2.7 billion and \$1.5 billion of net charges in our statements of income during the six months ended June 30, 2007 and 2006, respectively; and

an interest in the management company for our credit strategy funds that currently allocates 35% of the net income of that management company to other members of that management company.

We expect to continue to recognize substantial non-controlling interests in the income of consolidated entities following the completion of the Reorganization Transactions and this offering and anticipate that those non-controlling interests will continue to give rise to significant charges and credits in our statements of income. In particular, non-controlling interests in the income of consolidated entities are expected to consist primarily of:

economic interests that fund investors hold in our consolidated funds (which will exclude the 1996 Fund and the KKR Private Equity Investors master fund as a result of the deconsolidation of those funds as described under "Basis of Financial Presentation Combined Results");

the 35% interest that other members of the management company of our credit strategy funds will hold in the management company for our credit strategy funds as described above;

economic interests in the general partners of our consolidated private equity funds that will entitle our existing owners to 100% of the capital invested by or on behalf of those general partners before the completion of this offering and any profits thereon; and

interests in our management and capital markets companies and the general partners of our consolidated funds that will entitle certain minority investors to % of the net income earned by those companies and % of the carried interest received by the general partners, in each case with respect to the funds' investments for a specified period of time.

*Principals' Interests in the Income of Consolidated Entities*

In addition to the non-controlling interests in consolidated entities described above, our principals will retain substantial economic interests in our business following the completion of this offering through KKR Holdings' ownership of Group Partnership units. Assuming that the underwriters do not exercise their option to purchase additional common units from us, these interests will represent approximately % of our total assets that are not allocable to holders of non-controlling interests upon completion of the offering. We will account for these interests in the same manner that we account for non-controlling interests in consolidated entities that are held by unaffiliated third parties, except that our principals'





interests will be classified separately for financial reporting purposes in order to provide investors with a more meaningful financial presentation. See "Unaudited Pro Forma Financial Information."

### **Key Operating and Performance Measures**

The alternative asset management business is complex and unusual in its ability to support rapid growth without requiring substantial capital investment. However, there may also be volatility associated with the net income and cash flow of alternative asset managers as a result of changes in market conditions and other factors described in this prospectus. In order to assess and monitor the effectiveness of our value creation strategies and operating performance, we have developed and use the following supplemental operating metrics. As a public company, we expect to continue to use these supplemental operating and performance metrics, in addition to traditional financing measures, because we believe that the supplemental measures represent the best measures of the productivity of our investment activities.

### ***Assets Under Management***

Our assets under management represent the assets with respect to which we are entitled to receive a fee or carried interest. We calculate the amount of assets under management as of any date as the sum of: (i) the fair value of the investments of our traditional private equity funds and our carry-paying co-investment vehicles plus the capital that we are entitled to call from investors in our traditional private equity funds with respect to their unfunded capital commitments; (ii) the NAV of KKR Private Equity Investors and the KKR Strategic Capital Funds; (iii) the equity of KFN; and (iv) the capital raised by structured finance vehicles that we manage. As a result of raising new funds with sizeable capital commitments and increases in the NAV of our permanent capital funds and their retained profits, our assets under management have increased significantly over the periods discussed below.

Increases in assets under management relating to our unconsolidated funds will generally result in increases in our fee income, as the amount of the management fees that we receive from these funds is calculated based on the amount of these assets. Similarly, increases in assets under management relating to our consolidated funds will generally result in increases in our allocable share of the net income from these consolidated funds. To the extent that increases in assets under management consist of permanent capital, the related increases in fee income would be expected to continue during future periods. With respect to our traditional private equity funds, management fees are calculated based on the amount of capital committed to a fund during the investment period (typically the first six years of a fund's life) and thereafter on the cost basis of the fund's investments, which causes the fees to be reduced over time as investments are liquidated. As of June 30, 2007, approximately 55.6% of our assets under management relating to our traditional private equity funds were associated with funds whose management fees were calculated based on capital commitments.

### ***Segment Operating and Performance Measures***

#### ***Fee Related Earnings***

Fee related earnings is a profit measure that is reported by our two reportable business segments. Management uses fee related earnings as a supplemental non-GAAP measure of operating performance. The difference between fee related earnings and income before taxes presented in accordance with GAAP is that fee related earnings represent income before taxes adjusted to: (i) exclude the expenses of consolidated funds; (ii) include management fees earned from consolidated funds that were eliminated in consolidation; (iii) exclude investment income; and (iv) exclude non-controlling interests in income of consolidated entities. We believe such adjustments are meaningful because management makes operating decisions and assesses the performance of our business based on financial and operating metrics and data that are presented without the consolidation of any of our investment funds.

Our current operations are managed based in part on our reported levels of fee related earnings, which consist primarily of the management, transaction and monitoring fees that we earn as the sponsor of our private equity funds and our allocable share of the management and incentive fees that we earn as the sponsor of our credit strategy funds. It has been and remains a key objective of our firm to maximize our fee related earnings, because those amounts directly affect our net income. As a public entity, we will continue to focus on growing our fee earnings and use segment fee related earnings levels to make operating decisions and assess the performance of our business, because those amounts will directly affect the returns to our investors.

#### *Segment Economic Net Income*

Segment economic net income is a key performance measure used by management when making operating decisions, assessing operating performance and allocating resources. Economic net income represents net income excluding the impact of income taxes, the impact of non-cash employee compensation charges and the impact of amortization of intangible assets. Because our predecessor combined financial statements do not include any non-cash employee benefits and compensation charges, economic net income is the equivalent of income before taxes for the historical periods presented. See "Unaudited Pro Forma Financial Information."

#### *Private Equity Dollars Invested*

Private equity dollars invested is the aggregate amount of capital invested by our private equity funds and carry-paying co-investment vehicles in private equity transactions during a reporting period. Such amounts include both capital contributed by fund investors and co-investment vehicles with respect to which we are entitled to a carried interest and capital contributed by us as the general partner of a private equity fund with respect to which we are entitled to profits generated on the invested capital. We use private equity dollars invested as a measure of the productivity of our investment activities and as an indicator of potential returns that we may realize in future periods from our current private equity investments. From our inception through June 30, 2007, our first ten traditional private equity funds (representing all of our private equity funds that have invested at least 30 months) achieved returns equal to 2.8x the amount of private equity dollars invested.

#### **Combined Results of Operations**

The following is a discussion of our predecessor combined results of operations for the years ended December 31, 2004, 2005 and 2006 and the six months ended June 30, 2006 and 2007. You should read this discussion in conjunction with the information included under "Basis of Financial Presentation Combined Results" and the predecessor combined financial statements and related notes included elsewhere in this prospectus. For a more detailed discussion of the factors that affected the results of operations of our two business segments in these periods, see "Segment Analysis."

As set forth below, we restated our combined income statements for the years ended December 31, 2004, 2005 and 2006. The information presented in the following discussion of our predecessor's results has been adjusted to reflect the restatement of our predecessor financial results, which is more fully described in Note 13 to the predecessor combined financial statements included in this prospectus. In addition, subsequent to the issuance of our condensed combined financial statements as of and for the three months ended March 31, 2007, we determined that certain adjustments should be made with respect to our accounting for management fees earned from our funds and our presentation of non-cash distributions, and, as a result, we restated these financial statements and certain footnote information. We have included our condensed combined financial statements as of and for the three month period ended March 31, 2007, as restated, in this prospectus.

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The following tables set forth information regarding our combined results of operations for the years ended December 31, 2004, 2005 and 2006 and for the six months ended June 30, 2006 and 2007.

	Year Ended December 31,			Six Months Ended June 30,	
	2004 (Restated)	2005 (Restated)	2006 (Restated)	2006	2007
	(\$ in thousands)			(\$ in thousands)	
<b>Revenues</b>					
Fee income	\$ 183,462	\$ 232,945	\$ 410,329	\$ 155,087	\$ 115,380
<b>Expenses</b>					
Employee compensation and benefits	69,956	79,643	131,667	39,723	50,581
Occupancy and related charges	10,688	13,534	19,295	11,010	9,909
General, administrative and other	36,931	54,336	78,154	37,086	59,506
Fund expenses	16,470	20,778	38,350	14,550	35,821
Total expenses	134,045	168,291	267,466	102,369	155,817
<b>Investment Income</b>					
Net gains from investment activities	3,026,396	2,984,504	3,105,523	1,709,246	3,147,328
Dividend income	14,611	729,926	714,069	250,876	133,160
Interest income	54,060	27,166	210,872	48,586	133,549
Interest expense	(524)	(697)	(29,542)	(8,150)	(40,486)
Total investment income	3,094,543	3,740,899	4,000,922	2,000,558	3,373,551
Income before non-controlling interests in income of consolidated entities and income taxes	3,143,960	3,805,553	4,143,785	2,053,276	3,333,114
Non-controlling interests in income of consolidated entities	2,358,458	2,870,035	3,039,677	1,522,697	2,661,912
Income before taxes	785,502	935,518	1,104,108	530,579	671,202
Income taxes	6,265	2,900	4,163	1,554	3,806
Net income	\$ 779,237	\$ 932,618	\$ 1,099,945	\$ 529,025	\$ 667,396
Assets under management (period end)	\$ 15,147,300	\$ 23,350,700	\$ 43,873,400	\$ 27,624,300	\$ 54,443,300

**Fee Income**

Fee income was \$115.4 million for the six months ended June 30, 2007, a decrease of \$39.7 million, or 25.6%, from the six months ended June 30, 2006. The decrease was primarily due to a \$56.5 million decrease in transaction fees earned in our private equity segment, resulting from transaction fee-generating investments during the first six months of 2007 having a combined total transaction value of \$6.0 billion representing three investments. Our transaction fee-generating investments during the first six months of 2006 had a total transaction value of

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\$45.3 billion representing four investments. The effect of the decrease in transaction fees was offset, in part, by a \$7.5 million increase in management fees relating to the formation of the KKR Strategic Capital Funds in the fourth quarter of 2006, as well as an increase in incentive fees of \$10.4 million related to the receipt of KFN incentive fees beginning late in the second quarter of 2006 as well as KFN's improved performance through June 30, 2007. As of June 30, 2007, we had announced eleven pending private equity transactions, all of which have since closed.

*Expenses*

Expenses were \$155.8 million for the six months ended June 30, 2007, an increase of \$53.4 million, or 52.2%, from the six months ended June 30, 2006. The increase was primarily due to a \$22.4 million increase in general, administrative and other expenses resulting from the growth of our business, including the opening of our Tokyo office and the formation of our private-equity oriented permanent capital fund in the second quarter of 2006, as well as increases in professional fees and travel and entertainment expenses. In addition, employee compensation and benefits increased \$10.9 million resulting from the hiring of more than 100 employees after June 30, 2006 and higher incentive compensation reflecting our improved financial performance. Fund expenses also increased \$21.3 million as a result of a \$12.0 million increase in expenses incurred in our private equity segment in connection with the placement of limited partner interests in newly formed funds as well as an increase in transaction related expenses of \$10.8 million that was attributable to unconsummated transactions during the period. Total transaction related expenses attributable to unconsummated transactions amounted to \$21.0 million and \$10.2 million for the six months ended June 30, 2007 and 2006, respectively.

*Net Gains from Investment Activities*

Net gains from investment activities were \$3.1 billion for the six months ended June 30, 2007, an increase of \$1.4 billion, or 84.1%, from the six months ended June 30, 2006. These gains were comprised of \$0.6 billion of realized gains and \$2.5 billion of net changes in unrealized gains and losses on investments. The increase was primarily attributable to unrealized appreciation in the value of more than 20 private equity investments partially offset by a decline in value of four private equity investments across a variety of industries within our portfolio. While we recognized \$0.6 billion of realized gains from the sale of private equity investments, which positively impacted our cash flow during the six months ended June 30, 2007, a corresponding amount of unrealized gains on those investments had been recognized in prior periods resulting in no net impact on net gains from investment activities for the current period from these realizations. Substantially all of our realized gains related to our private equity investments.

*Dividend Income*

Dividend income was \$133.2 million for the six months ended June 30, 2007, a decrease of \$117.7 million, or 46.9%, from the six months ended June 30, 2006. Our dividends are generally earned in connection with sales of significant operations or other restructuring transactions undertaken by our portfolio companies that result in available cash that is distributed to our private equity funds. During the six months ended June 30, 2007, we received \$109.3 million of dividends from five portfolio companies and an aggregate of \$23.9 million of comparatively smaller dividends from five portfolio companies. During the six months ended June 30, 2006, we received \$242.5 million of dividends from five portfolio companies and an aggregate of \$8.4 million of comparatively smaller dividends from three portfolio companies.

*Interest Income*

Interest income was \$133.5 million for the six months ended June 30, 2007, an increase of \$85.0 million, or 174.9%, from the six months ended June 30, 2006. The increase primarily reflects a \$61.0 million increase in interest income earned in our credit segment that was attributable to the formation of the KKR Strategic Capital Funds in the fourth quarter of 2006, as well as a \$28.2 million increase in interest earned from cash management activities carried out by our private equity-oriented permanent capital fund as a result of its formation in the second quarter of 2006.

*Interest Expense*

Interest expense was \$40.5 million for the six months ended June 30, 2007, an increase of \$32.3 million from the six months ended June 30, 2006. The increase was primarily due to the formation of the KKR Strategic Capital Funds, which utilized additional leverage to enhance returns, in the fourth quarter of 2006.

*Non-Controlling Interests in Income of Consolidated Entities*

Non-controlling interests in income of consolidated entities were \$2.7 billion for the six months ended June 30, 2007, an increase of \$1.1 billion, or 74.8%, from the six months ended June 30, 2006. The increase primarily reflects an increase in the total investment income that was allocable to non-controlling interests, which increase was driven by the overall changes in the components of investment income described above.

*Income before Taxes*

Due to the factors described above, income before taxes was \$671.2 million for the six months ended June 30, 2007, an increase of \$140.6 million, or 26.5%, from the six months ended June 30, 2006.

*Assets Under Management*

Assets under management in our private equity segment were \$45.1 billion as of June 30, 2007, an increase of \$21.2 billion, or 88.7%, from June 30, 2006. The increase was due primarily to our formation of the 2006 Fund, which had received \$16.6 billion of capital commitments from fund investors as of June 30, 2007, the formation of the Asian Fund, which received \$4.0 billion of capital commitments from fund investors as of June 30, 2007 and a \$4.2 billion net increase in the value of the investments of our traditional private equity funds, which offset \$3.6 billion of distributions from those funds comprised of \$2.7 billion of realized gain and \$0.9 billion of original cost. Assets under management in our credit segment were \$9.4 billion as of June 30, 2007, an increase of \$5.6 billion, or 151%, from June 30, 2006. The increase was due primarily to \$4.5 billion of additional capital raised by structured finance vehicles and our formation of the KKR Strategic Capital Funds, which raised an additional \$1.2 billion of capital.

*Year Ended December 31, 2006 Compared to Year Ended December 31, 2005*

*Fee Income*

Fee income was \$410.3 million for the year ended December 31, 2006, an increase of \$177.4 million, or 76.1%, from the year ended December 31, 2005. The increase was primarily due to a \$122.8 million increase in the transaction fees earned in our private equity segment, which resulted from an increase in total completed transaction value from \$31.6 billion for the year ended December 31, 2005 to \$104.3 billion for the year ended December 31, 2006. Additionally, monitoring fees increased \$23.7 million in our private equity segment, which was attributable to monitoring fees received from three additional portfolio companies as well as an increase in the average monitoring fee paid. Our fee income was also positively affected by an \$8.9 million increase in management and incentive fees following the formation of the KKR Strategic Capital Funds in the third quarter of 2006, as well as a \$21.9 million increase in management fees and incentive fees from KFN, which resulted from its favorable operating performance.

*Expenses*

Expenses were \$267.5 million for the year ended December 31, 2006, an increase of \$99.2 million, or 58.9%, from the year ended December 31, 2005. The increase was primarily due to a \$52.0 million increase in employee compensation and benefits, which was attributable to an increase in the amount of incentive compensation paid to existing personnel reflecting our favorable financial performance and the hiring of 112 additional personnel to support the growth of our business segments. General, administrative and other expenses increased \$23.8 million, primarily as a result of our continued geographical expansion, which included the opening of our Tokyo office and a full year of operations for our Hong Kong office during the year ended December 31, 2006. Additionally, fund expenses increased \$17.6 million primarily as a result of an increase in transaction related expenses that were attributable to unconsummated transactions during the period. Total transaction related expenses attributable to unconsummated transactions amounted to \$28.1 million and \$16.0 million for the years ended December 31, 2006 and 2005, respectively.

*Net Gains from Investment Activities*

Net gains from investment activities were \$3.1 billion for the year ended December 31, 2006, an increase of \$121.0 million, or 4.1%, from the year ended December 31, 2005. These gains were comprised of \$3.2 billion of realized gains and \$(0.1) billion of net changes in unrealized gains and losses on investments. The increase was primarily attributable to unrealized appreciation in the value of 22 private equity investments across a variety of industries within our portfolio. While we recognized \$3.2 billion of realized gains from the sale of private equity investments that positively impacted our cash flow during the year ended December 31, 2006 a corresponding amount of unrealized gains on those investments had been recognized in prior periods resulting in no net impact on income for the current period from these realizations. Substantially all of our realized gains related to our private equity investments.

*Dividend Income*

Dividend income was \$714.1 million for the year ended December 31, 2006, a decrease of \$15.9 million, or 2.2%, from the year ended December 31, 2005. During the year ended December 31, 2006, we received an aggregate of \$546 million of dividends from three portfolio companies and an aggregate of \$168.1 million of comparatively smaller dividends from five portfolio companies. During the year ended December 31, 2005, we received an aggregate of \$479 million of dividends from two portfolio companies and \$251 million of comparatively smaller dividends from two portfolio companies.

*Interest Income*

Interest income was \$210.9 million for the year ended December 31, 2006, an increase of \$183.7 million from the year ended December 31, 2005. The increase primarily reflects \$143.3 million of interest earned from cash management activities carried out by our private equity-oriented permanent capital fund, which began operations in May 2006, and to a lesser extent a \$25.2 million increase in interest income earned in our credit segment that was attributable to an increase in the amount of assets under management.

*Interest Expense*

Interest expense was \$29.5 million for the year ended December 31, 2006, compared to less than \$1 million for the year ended December 31, 2005. The increase was primarily due to an increase in the amount of assets under management in our credit segment, which utilized additional leverage to enhance returns.

*Non-Controlling Interests in Income of Consolidated Entities*

Non-controlling interests in income of consolidated entities were \$3.0 billion for the year ended December 31, 2006, an increase of \$169.6 million, or 5.9%, from the year ended December 31, 2005. The increase primarily reflects an increase in the total investment income that was allocable to non-controlling interests, which increase was driven by the overall changes in the components of investment income described above.

*Income before Taxes*

Due to the factors described above, income before taxes was \$1.1 billion for the year ended December 31, 2006, an increase of \$168.6 million, or 18.0%, from the year ended December 31, 2005.

*Assets Under Management*

Our assets under management were \$43.9 billion as of December 31, 2006, an increase of \$20.5 billion, or 87.9%, from December 31, 2005. The increase was due primarily to our formation of the 2006 Fund, which received \$16.1 billion of capital commitments from fund investors, and KKR Private Equity Investors, which had \$5.0 billion of permanent capital as of December 31, 2006, and the formation of the KKR Strategic Capital Funds, which received \$0.5 billion of capital commitments from investors.

Additionally, the total capital of structured finance vehicles that we manage increased by \$1.0 billion. Our assets under management were also positively affected during the period by a \$3.2 billion net increase in the value of the investments of our traditional private equity funds, which offset \$5.3 billion of distributions from those funds comprised of \$4.0 billion of realized gain and \$1.3 billion of original cost.

***Year Ended December 31, 2005 Compared to Year Ended December 31, 2004***

*Fee Income*

Fee income was \$232.9 million for the year ended December 31, 2005, an increase of \$49.5 million, or 27.0%, from the year ended December 31, 2004. The increase was partially due to a \$22.5 million increase in the monitoring fees earned in our private equity segment, which resulted from an increase in the monitoring fees paid by certain portfolio companies during the period. Our reported fee income was also positively affected by an approximately \$31.2 million increase in the base management and incentive fees earned in our credit segment, which was due to the formation of KFN during 2004.

*Expenses*

Expenses were \$168.3 million for the year ended December 31, 2005, an increase of \$34.2 million, or 25.5%, from the year ended December 31, 2004. The increase was partially due to a \$9.7 million increase in employee compensation and benefits, which was attributable to an increase in the amount of incentive compensation paid to existing personnel reflecting our favorable financial performance and the hiring of 55 additional personnel to support the growth of our business segments. General, administrative and other expenses increased \$17.4 million primarily as a result of our continued geographical expansion which included the opening of our Paris and Hong Kong offices during the year ended December 31, 2005. Additionally, fund expenses increased \$4.3 million as a result of an increase in transaction related expenses that were attributable to unconsummated transactions during the period. Total transaction related expenses attributable to unconsummated transactions amounted to \$16.0 million and \$11.0 million for the years ended December 31, 2005 and 2004, respectively.

*Net Gains from Investment Activities*

Net gains from investment activities were \$3.0 billion for the year ended December 31, 2005, a decrease of \$41.9 million, or 1.4%, from the year ended December 31, 2004. These gains were comprised of \$1.6 billion of realized gains and \$1.4 billion of net changes in unrealized gains and losses on investments. The decrease in net gains from investment activities was due partially to the fact that a significant number of the investments that we held during the year ended December 31, 2005 had only recently been made and, accordingly, were still carried at cost. While we recognized approximately \$1.6 billion of realized gains from the sale of private equity investments that positively impacted our cash flow during the year ended December 31, 2005, a corresponding amount of unrealized gains on those investments had been recognized in prior periods resulting in no net impact on our income for the current period from these realizations. Substantially all of our realized gains related to our private equity investments.

*Dividend Income*

Dividend income was \$729.9 million for the year ended December 31, 2005, an increase of \$715.3 million from \$14.6 million for the year ended December 31, 2004. The increase in the amount of dividend income was due to an increase in dividends received from portfolio companies in our private equity segment. During the year ended December 31, 2005, we received an aggregate of \$479 million of dividends from two portfolio companies and an aggregate of \$251 million of comparatively smaller dividends from two portfolio companies. During the year ended December 31, 2004, we received an aggregate of \$10.8 million of dividends from one portfolio company and an aggregate of \$3.8 million of comparatively smaller dividends from two portfolio companies.



*Interest Income*

Interest income was \$27.2 million for the year ended December 31, 2005, a decrease of \$26.9 million, or 49.7%, from the year ended December 31, 2004. The decrease reflects a reduction in interest received from portfolio companies in our private equity segment that was attributable to a reduction in bridge financing provided by our private equity funds.

*Interest Expense*

We did not record a significant amount of interest expense during the years ended December 31, 2004 or 2005.

*Non-Controlling Interests in Income of Consolidated Entities*

Non-controlling interests in income of consolidated entities were \$2.9 billion for the year ended December 31, 2005, an increase of \$511.6 million, or 21.7%, from the year ended December 31, 2004. The increase primarily reflects an increase in the total investment income allocable to non-controlling interests, which increase was driven by the overall changes in the components of investment income described above.

*Income before Taxes*

Due to the factors described above, income before taxes was \$935.5 million for the year ended December 31, 2005, an increase of \$150.0 million, or 19.1%, from the year ended December 31, 2004.

*Assets under Management*

Our assets under management were \$23.4 billion as of December 31, 2005, an increase of \$8.2 billion, or 54.2%, from December 31, 2004. The increase was due primarily to our formation of the European Fund II, which received \$5.7 billion of capital commitments from fund investors, and a \$3.4 billion increase in the value of the investments of our traditional private equity funds, which offset \$3.6 billion of distributions from those funds comprised of \$2.6 billion of realized gain and \$1.0 billion of original cost. Our assets under management were also positively affected during the period by the initial public offering of KFN, which raised \$0.8 billion of additional permanent capital for our credit segment, and \$2.0 billion of capital raised by structured finance vehicles that we manage.

**Segment Analysis**

The following is a discussion of the results of our two reportable business segments for the years ended December 31, 2004, 2005 and 2006 and the six months ended June 30, 2006 and 2007. You should read this discussion in conjunction with the information included under "Basis of Financial Presentation - Segment Results" and the predecessor combined financial statements and related notes included elsewhere in this prospectus.

*Private Equity Segment*

The following tables set forth information regarding the results of operations and certain key operating metrics for our private equity segment for the years ended December 31, 2004, 2005 and 2006 and the six months ended June 30, 2006 and 2007.

	Year Ended December 31,			Six Months Ended June 30,	
	2004 (Restated)	2005 (Restated)	2006 (Restated)	2006	2007
	(\$ in thousands)			(\$ in thousands)	
Fee income	\$ 178,659	\$ 196,093	\$ 354,321	\$ 121,637	\$ 145,182
Expenses	(119,744)	(139,098)	(214,277)	(82,616)	(132,673)
Fee related earnings	58,915	56,995	140,044	39,021	12,509
Investment income	723,700	861,976	929,518	480,517	633,338
Income before non-controlling interests in income of consolidated entities and income taxes	782,615	918,971	1,069,562	519,538	645,847
Non-controlling interests in income of consolidated entities					
Economic net income	\$ 782,615	\$ 918,971	\$ 1,069,562	\$ 519,538	\$ 645,847
Assets under management (period end)	\$ 14,391,300	\$ 19,696,600	\$ 38,722,700	\$ 23,889,500	\$ 45,078,300
Private equity dollars invested	\$ 2,065,603	\$ 2,913,427	\$ 6,661,698	\$ 2,074,700	\$ 1,786,600

*Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006**Fee Income*

Fee income in our private equity segment was \$145.2 million for the six months ended June 30, 2007, an increase of \$23.5 million, or 19.4%, from the six months ended June 30, 2006. The increase was primarily due to an increase in the management fees that we earned from our private equity funds of \$48.6 million, which resulted from the inclusion of management fees from the 2006 Fund that closed during the second half of 2006 as well as our private equity-oriented permanent capital fund which closed in the second quarter of 2006. The inclusion of these additional fees was offset by a \$26.3 million decrease in transaction fees, resulting from transaction fee-generating investments during the first six months of 2007 having a total completed transaction value of \$6.0 billion representing three investments. Our transaction fee-generating investments during the first six months of 2006 had a total completed transaction value of \$45.3 billion representing four investments. The remainder of the overall increase in fees resulted from an increase in monitoring fees resulting from higher average monitoring fees received.

*Expenses*

Expenses in our private equity segment were \$132.7 million for the six months ended June 30, 2007, an increase of \$50.1 million, or 60.6%, from the six months ended June 30, 2006. The increase was primarily due to a \$14.8 million increase in general, administrative and other expenses resulting from the growth of our business, including the opening of our Tokyo office and the formation of our private-equity oriented permanent capital fund in the second quarter of 2006, as well as increases in professional fees and travel and entertainment expenses. In

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addition, employee compensation and benefits increased \$12.2 million resulting from the hiring of more than 100 employees after June 30, 2006 and higher incentive compensation reflecting our improved financial performance. Lastly, fund expenses increased \$23.0 million primarily as a result of an increase in transaction related expenses of \$10.8 million that were attributable to unconsummated transactions during the period as well as a \$12.0 million increase in fund-related expenses,

which resulted primarily from expenses incurred in our private equity segment in connection with the placement of limited partner interests in newly formed funds.

*Fee Related Earnings*

Due to the factors described above, fee related earnings in our private equity segment were \$12.5 million for the six months ended June 30, 2007, a decrease of \$26.5 million, or 67.9%, from the six months ended June 30, 2006.

*Investment Income*

Investment income was \$633.3 million for the six months ended June 30, 2007, an increase of \$152.8 million, or 31.8%, from the six months ended June 30, 2006. Investment income was comprised of \$103.1 million of realized gains, \$505.5 million of net changes in unrealized gains and losses on investments, and \$24.7 million of dividends and interest. The increase was due primarily to the effect of increases in our allocated share of net gains from investment activities relating to appreciation in the fair value of more than 20 private equity investments, partially offset by a decline in value of four private equity investments across a variety of industries within our portfolio. These gains were offset by a decrease in our allocated share of dividends resulting from lower average dividends received during 2007. Carried interest represented \$539.6 million and \$363.7 million of total investment income for the six months ended June 30, 2007 and 2006, respectively.

*Economic Net Income*

Due to the factors described above, economic net income in our private equity segment was \$645.8 million for the six months ended June 30, 2007, an increase of \$126.3 million, or 24.3%, from the six months ended June 30, 2006.

*Assets Under Management*

Assets under management in our private equity segment were \$45.1 billion as of June 30, 2007, an increase of \$21.2 billion, or 88.7%, from June 30, 2006. The increase was due primarily to our formation of the 2006 Fund, which had received \$16.6 billion of capital commitments from fund investors as of June 30, 2007, the formation of the Asian Fund, which received \$4.0 billion of capital commitments from fund investors as of June 30, 2007, and a \$4.2 billion net increase in the value of the investments of our traditional private equity funds, which offset \$3.6 billion of distributions from those funds.

*Private Equity Dollars Invested*

Private equity dollars invested were \$1.8 billion for the six months ended June 30, 2007, a decrease of \$288.1 million, or 13.9%, from the six months ended June 30, 2006. The decrease reflected a reduction in the number of the companies that we acquired. As of June 30, 2007, our traditional private equity funds had \$20.9 billion of remaining unused capital commitments that could be called for investment in new private equity commitments.

*Year Ended December 31, 2006 Compared to Year Ended December 31, 2005*

*Fee Income*

Fee income in our private equity segment was \$354.3 million for the year ended December 31, 2006, an increase of \$158.2 million, or 80.7%, from the year ended December 31, 2005. The increase was partially due to a \$60.0 million increase in transaction fees, which resulted from an increase in total completed transaction value from \$31.6 billion for the year ended December 31, 2005 to \$104.3 billion for the year ended December 31, 2006. Our segment fee income was also positively affected by a \$89.7 million increase in the management fees earned from our private equity funds, which was due to an increase in the amount of assets under management resulting from the formation of the 2006 Fund during the year and

the fact that we received a full year of management fees from the European Fund II, which closed during the fourth quarter of 2005.

*Expenses*

Expenses in our private equity segment were \$214.3 million for the year ended December 31, 2006, an increase of \$75.2 million, or 54.0%, from the year ended December 31, 2005. The increase was primarily due to an increase of \$47.6 million in employee compensation and benefits, which was attributable to an increase in the amount of incentive compensation paid to existing personnel reflecting our favorable financial performance, and the hiring of 101 additional personnel to support the growth of our private equity segment and our continued geographical expansion. Other expense categories collectively increased by \$27.6 million as a result of the growth of our business, including the opening of our Tokyo office and a full year of operations for our Hong Kong office, as well as an increase in transaction related expenses resulting from unconsummated transactions during the period.

*Fee Related Earnings*

Due to the factors described above, fee related earnings in our private equity segment were \$140.0 million for the year ended December 31, 2006, an increase of \$83.0 million, or 145.7%, from the year ended December 31, 2005.

*Investment Income*

Investment income in our private equity segment was \$929.5 million for the year ended December 31, 2006, an increase of \$67.5 million, or 7.8%, from the year ended December 31, 2005. Investment income was comprised of \$743.9 million of realized gains, \$41.4 million of net changes in unrealized gains and losses on investments, and \$144.2 million of dividends and interest. The increase was due primarily to the effect of increases in our allocated share of gains from investment activities relating to appreciation in the fair value of 18 portfolio companies offset by our allocated share of mark-to-market adjustments on foreign exchange forward contracts. Carried interest represented \$719.3 million and \$701.2 million of total investment income for the years ended December 31, 2006 and 2005, respectively.

*Economic Net Income*

Due to the factors described above, economic net income in our private equity segment was \$1.1 billion for the year ended December 31, 2006, an increase of \$150.6 million, or 16.4%, from the year ended December 31, 2005.

*Assets Under Management*

Assets under management in our private equity segment were \$38.7 billion as of December 31, 2006, an increase of \$19.0 billion, or 96.6%, from December 31, 2005. The increase was due primarily to our formation of the 2006 Fund, which had received \$16.1 billion of capital commitments from fund investors as of December 31, 2006, and KKR Private Equity Investors, which provided us with an additional \$5.0 billion of permanent capital as of December 31, 2006, and a \$3.2 billion net increase in the value of the investments of our traditional private equity funds, which offset \$5.3 billion of distributions of realized gain from those funds.

*Private Equity Dollars Invested*

Private equity dollars invested were \$6.7 billion for the year ended December 31, 2006, an increase of \$3.7 billion, or 128.7%, from the year ended December 31, 2005. The increase reflected an increase in the average enterprise value of the companies that we acquired. As of December 31, 2006, our traditional private equity funds had \$17.6 billion of remaining unused capital commitments that could be called for investment in new private equity commitments, compared to \$7.3 billion of remaining capital commitments that were uncalled as of December 31, 2005.

*Year Ended December 31, 2005 Compared to Year Ended December 31, 2004*

*Fee Income*

Fee income in our private equity segment was \$196.1 million for the year ended December 31, 2005, an increase of \$17.4 million, or 9.8%, from the year ended December 31, 2004. The increase was primarily due to a \$16.2 million increase in the amount of management fees earned from our private equity funds, which was due to an increase in the amount of assets under management resulting from the formation of the European Fund II during the year.

*Expenses*

Expenses in our private equity segment were \$139.1 million for the year ended December 31, 2005, an increase of \$19.4 million, or 16.2%, from the year ended December 31, 2004. The increase was primarily due to an increase in general, administrative and other expenses of approximately \$14.4 million, which was attributable to the growth of our business, including the opening of our Paris and Hong Kong offices as well as an increase in transaction related expenses resulting from un consummated transactions during the period.

*Fee Related Earnings*

Due to the factors described above, fee related earnings in our private equity segment were \$57.0 million for the year ended December 31, 2005, a decrease of \$1.9 million, or 3.3%, from the year ended December 31, 2004.

*Investment Income*

Investment income in our private equity segment was \$862.0 million for the year ended December 31, 2005, an increase of \$138.3 million, or 19.1%, from the year ended December 31, 2004. Investment income was comprised of \$383.2 million of realized gains, \$308.5 million of net changes in unrealized gains and losses on investments, and \$170.3 million of dividends and interest. The increase was primarily due to the effect of an increase of \$157 million in our allocated share of dividend income, partially offset by our allocated share of decreases in gains from investment activities. Carried interest represented \$701.2 million and \$567.2 million of total investment income for the years ended December 31, 2005 and 2004, respectively.

*Economic Net Income*

Due to the factors described above, economic net income in our private equity segment was \$919.0 million for the year ended December 31, 2005, an increase of \$136.4 million, or 17.4%, from the year ended December 31, 2004.

*Assets Under Management*

Assets under management in our private equity segment were \$19.7 billion as of December 31, 2005, an increase of \$5.3 billion, or 36.9%, from December 31, 2004. The increase was due primarily to our formation of the European Fund II, which received \$5.5 billion of capital commitments from fund investors, and a \$3.4 billion increase in the value of the investments of our traditional private equity funds, which offset \$3.6 billion of distributions of realized gain from those funds.

*Private Equity Dollars Invested*

Private equity dollars invested were \$2.9 billion for the year ended December 31, 2005, an increase of \$0.8 billion, or 41.0%, from the year ended December 31, 2004. The increase reflected an increase in the average enterprise value of the companies that we acquired. As of December 31, 2005, our traditional private equity funds had \$7.3 billion of remaining unused capital commitments that could be called for investment in new private equity commitments, compared to \$4.8 billion of remaining capital commitments that were uncalled as of December 31, 2004.

**Credit Segment**

The following tables set forth information regarding the results of operations and certain key operating metrics for our credit segment for the years ended December 31, 2004, 2005 and 2006 and the six months ended June 30, 2006 and 2007.

	Year Ended December 31,			Six Months Ended June 30,	
	2004	2005	2006	2006	2007
	(\$ in thousands)			(\$ in thousands)	
Fee income	\$ 10,085	\$ 44,484	\$ 80,726	\$ 30,335	\$ 56,843
Expenses	(4,359)	(17,881)	(30,855)	(11,357)	(18,424)
Fee related earnings	5,726	26,603	49,871	18,978	38,419
Investment income		3,268	10,103	738	2,614
Income before non-controlling interests in income of consolidated entities and income taxes	5,726	29,871	59,974	19,716	41,033
Non-controlling interests in income of consolidated entities(1)	(2,839)	(13,324)	(25,428)	(8,675)	(15,678)
Economic net income	\$ 2,887	\$ 16,547	\$ 34,546	\$ 11,041	\$ 25,355
Assets under management (period end)	\$ 754,507	\$ 3,614,261	\$ 5,140,909	\$ 3,734,800	\$ 9,365,000

- (1) Non-controlling interests represent the minority interest that other members of the management company for our credit strategy funds have in that management company's net income.

**Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006****Fee Income**

Fee income in our credit segment was \$56.8 million for the six months ended June 30, 2007, an increase of \$26.5 million, or 87.4%, from the six months ended June 30, 2006. The increase was primarily due to increased management fees of \$9.8 million resulting from the formation of the KKR Strategic Capital Funds during the fourth quarter of 2006 and an increase in incentive fees of \$10.4 million resulting from the earning of KFN incentive fees beginning late in the second quarter of 2006 as well as KFN's improved performance through June 30, 2007 compared to the six months ended June 30, 2006. Recent disruptions in the credit markets may adversely impact the performance of the credit strategy funds that we manage, which would reduce our management fees because these fees are based in part on the net asset value of these funds.

**Expenses**

Expenses in our credit segment were \$18.4 million for the six months ended June 30, 2007, an increase of \$7.1 million, or 62.2%, from the six months ended June 30, 2006. The increase was primarily due to an increase in employee compensation and benefits of \$4.1 million, which was attributable to an increase in the amount of incentive compensation paid to existing personnel reflecting our favorable financial performance, and the hiring of eleven additional personnel to support the growth of our credit segment since June 30, 2006. In addition, general, administrative and other expenses increased \$3.8 million resulting primarily from the formation of the KKR Strategic Capital Funds during the fourth quarter of 2006.

*Fee Related Earnings*

Due to the factors described above, fee related earnings in our credit segment were \$38.4 million for the six months ended June 30, 2007, an increase of \$19.4 million, or 102.4%, from the six months ended June 30, 2006.



*Investment Income*

Investment income in our credit segment was \$2.6 million for the six months ended June 30, 2007, an increase of \$1.9 million from the six months ended June 30, 2006. The increase was due primarily to the the appreciation in the fair value of vested KFN options we receive as compensation for management services to that fund.

*Non-Controlling Interests in Income of Consolidated Entities*

Non-controlling interests in income of consolidated entities were \$15.7 million for the six months ended June 30, 2007, an increase of \$7.0 million, or 80.7%, from the six months ended June 30, 2006. The increase primarily reflects an increase in segment fee related earnings and investment income that were allocable to other members of the management company for our credit strategy funds.

*Economic Net Income*

Due to the factors described above, economic net income in our credit segment was \$25.4 million for the six months ended June 30, 2007, an increase of \$14.3 million, or 129.6%, from the six months ended June 30, 2006.

*Assets Under Management*

Assets under management in our credit segment were \$9.4 billion as of June 30, 2007, an increase of \$5.6 billion, or 150.7%, from June 30, 2006. The increase was due primarily to \$4.5 billion of additional capital raised by structured finance vehicles and our formation of the KKR Strategic Capital Funds, which raised an additional \$1.2 billion of capital.

***Year Ended December 31, 2006 Compared to Year Ended December 31, 2005***

*Fee Income*

Fee income in our credit segment was \$80.7 million for the year ended December 31, 2006, an increase of \$36.2 million, or 81.5%, from the year ended December 31, 2005. The increase was primarily due to a \$10.6 million increase in incentive and management fees resulting from the formation of the KKR Strategic Capital Funds during the year ended December 31, 2006 and increased incentive and management fees earned from KFN of \$25.6 million as a result of its favorable performance during the year.

*Expenses*

Expenses in our credit segment were \$30.9 million for the year ended December 31, 2006, an increase of \$13.0 million, or 72.6%, from the year ended December 31, 2005. The increase was primarily due to an increase in employee compensation and benefits of \$6.4 million, which was attributable to an increase in the amount of incentive compensation paid to existing personnel reflecting our favorable financial performance, and the hiring of eleven additional personnel to support the growth of our credit segment.

*Fee Related Earnings*

Due to the factors described above, fee related earnings in our credit segment were \$49.9 million for the year ended December 31, 2006, an increase of \$23.3 million, or 87.5%, from the year ended December 31, 2005.

*Investment Income*

Investment income in our credit segment was \$10.1 million for the year ended December 31, 2006, an increase of \$6.8 million from the year ended December 31, 2005. The increase was due primarily to the appreciation in the fair value of vested KFN shares we receive as compensation for management services to that fund.

*Economic Net Income*

Due to the factors described above, economic net income in our credit segment was \$34.5 million for the year ended December 31, 2006, an increase of \$18.0 million, or 108.8%, from the year ended December 31, 2005.

*Assets Under Management*

Assets under management in our credit segment were \$5.1 billion as of December 31, 2006, an increase of \$1.5 billion, or 42.2%, from December 31, 2005. The increase was due primarily to \$1.0 billion of additional capital raised by structured finance vehicles and our formation of the KKR Strategic Capital Funds, which raised an additional \$0.4 billion of capital.

***Year Ended December 31, 2005 Compared to Year Ended December 31, 2004***

*Fee Income*

Fee income in our credit segment was \$44.5 million for the year ended December 31, 2005, an increase of \$34.4 million from the year ended December 31, 2004. The increase was primarily due to increased management fees resulting from KFN commencing significant business activity during the year ended December 31, 2005.

*Expenses*

Expenses in our credit segment were \$17.9 million for the year ended December 31, 2004, an increase of \$13.5 million from the year ended December 31, 2004. The increase was primarily due to increases in employee compensation and benefits of \$10.0 million, which was attributable to an increase in the amount of incentive compensation paid to existing personnel reflecting our favorable financial performance and the hiring of thirty additional personnel to support the growth of our credit strategy segment.

*Fee Related Earnings*

Due to the factors described above, fee related earnings in our credit segment were \$26.6 million for the year ended December 31, 2005, an increase of \$20.9 million from the year ended December 31, 2004.

*Investment Income*

There was no significant investment income in our credit segment for the years ending December 31, 2004 or the year ended December 31, 2005.

*Economic Net Income*

Due to the factors described above, economic net income in our credit segment was \$16.5 million for the year ended December 31, 2005, an increase of \$13.7 million from the year ended December 31, 2004.

*Assets Under Management*

Assets under management in our credit segment were \$3.6 billion as of December 31, 2005, an increase of \$2.9 billion from December 31, 2004. The increase was due primarily to the initial public offering of KFN, which raised \$0.8 billion of additional permanent capital, and \$2.0 billion of additional capital that we raised in structured finance vehicles.

## Liquidity and Capital Resources

### *Historical Liquidity and Capital Resources*

We require capital to fund investments, grow our business and support our working capital requirements. Historically, we have funded investments using the capital resources of our existing owners, capital committed by our fund investors and indebtedness incurred by our credit strategy funds or our portfolio companies. We generally have used the capital resources of our existing owners and accumulated net income from our business activities to fund our working capital requirements and to support our new business and growth initiatives.

Our combined statements of cash flows include the cash flows of our consolidated funds despite the fact that we have only a minority economic interest in those funds. The assets of our consolidated funds, on a gross basis, are substantially larger than the assets of our business and, accordingly, have a substantial effect on the cash flows reflected in our combined statements of cash flows. The assets of our consolidated funds have grown significantly during the periods reflected in our combined financial statements due to an increase in the number and size of the funds that we have raised, the amount of capital that we have invested and the appreciation in the value of our funds' investments.

The growth in the assets of our consolidated funds has significantly increased their cash flows and, in turn, has been the primary cause of the increase in the gross cash flows that are reflected in our combined statements of cash flows. In particular, the primary cash flow activities of our consolidated funds involve: (i) raising capital from fund investors; (ii) using the capital of fund investors to make investments; (iii) financing certain investments with indebtedness; (iv) generating cash flows through the realization of investments; and (v) distributing cash flows from the realization of investments to fund investors. Because our consolidated funds are treated as investment companies for accounting purposes, these cash flow amounts are included in our cash flows from operations.

We have managed our historical liquidity and capital requirements by focusing on our cash flows before the consolidation of our funds and the effect of normal changes in assets and liabilities, which we anticipate will be settled for cash within one year. Our primary cash flow activities on a deconsolidated basis involve: (i) generating cash flow from operations; (ii) funding capital commitments that we make to our funds as general partners (which amounts are eliminated when we consolidate funds); (iii) generating income from investment activities; (iv) funding our growth and new business initiatives; and (v) distributing cash flow to our owners. Normal movements in our short-term assets and liabilities do not affect our distribution decisions given our current and historically available borrowing capability.

We use adjusted cash flow from operations as a supplemental non-GAAP measure to assess and manage our liquidity and amounts that we have available for distribution to our owners. See "Distribution Policy." Adjusted cash flow from operations is intended to reflect our actual cash flows on a deconsolidated basis and is equal to cash flow from operations presented in accordance with GAAP, adjusted to exclude cash flow relating to: (i) the investment activities of our consolidated funds; (ii) the realized and unrealized income attributable to non-controlling interests in consolidated funds; and (iii) changes in our operating assets and liabilities. We believe that adjusted cash flow from operations provides investors with useful information with respect to cash flows relating to our required capital investments and our ability to make annual cash distributions in accordance with our distribution policy. However, adjusted cash flow from operations should not be considered in isolation or as an alternative to cash flow from operations or income before taxes presented in accordance with GAAP.

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The following table presents a reconciliation of our adjusted cash flow from operations to our net cash (used in) provided by operating activities presented in accordance with GAAP for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2004 (Restated)	2005 (Restated)	2006 (Restated)	2006	2007
	(\$ in thousands)			(\$ in thousands)	
<b>Net Cash Provided By (Used In)</b>					
<b>Operating Activities</b>	\$ 1,799,767	\$ (106,448)	\$ (5,531,144)	\$ (4,594,172)	\$ (1,273,286)
Change in operating assets and liabilities	(124,626)	10,280	74,003	(7,655)	(185,055)
KKR Funds related investment activities	(1,577,741)	907,294	6,475,177	4,934,346	1,621,406
Net realized gains on investments	2,932,802	1,567,312	3,244,931	2,003,575	572,707
Change in unrealized gains (losses) on investments allocable to non-controlling interests	37,184	1,142,480	(143,243)	(254,651)	2,087,211
Non-controlling interests in income of consolidated entities	(2,358,458)	(2,870,035)	(3,039,677)	(1,522,697)	(2,661,912)
Other non-cash adjustments	13,899	7,023	16,063	9,957	18,915
<b>Adjusted cash flow from operations</b>	\$ 722,827	\$ 657,906	\$ 1,096,110	\$ 568,703	\$ 179,986

*Six Months Ended June 30, 2007 and 2006*

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

Our net cash flow (used in) operating activities was \$(1.3) billion and \$(4.6) billion during the six months ended June 30, 2007 and 2006, respectively. These amounts primarily included: (i) purchases of investments by our consolidated funds, net of proceeds from sales of investments, of \$(2.5) billion during the six months ended June 30, 2007 (net proceeds from sales of investments were de minimis for the six months ended June 30, 2006); (ii) net realized gains on investments of the consolidated funds of \$0.6 billion and \$2.0 billion during the six months ended June 30, 2007 and 2006, respectively; (iii) change in unrealized gains (losses) on investments allocable to us and non-controlling interests of \$(2.6) billion and \$0.3 billion during the six months ended June 30, 2007 and 2006, respectively; and (iv) non-controlling interests in income of consolidated entities of \$2.7 billion and \$1.5 billion during the six months ended June 30, 2007 and 2006, respectively. These amounts are reflected as operating activities in accordance with investment company accounting.

*Net Cash Flow Used in Investing Activities*

Our net cash flow used in investing activities was \$136.7 million and \$9.1 million during the six months ended June 30, 2007 and 2006, respectively. Our investing activities primarily consisted of changes in restricted cash and cash equivalents of \$127.6 million for the six months ended June 30, 2007.

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

Our net cash flow provided by financing activities was \$1.4 billion and \$4.6 billion during the six months ended June 30, 2007 and 2006, respectively. Our financing activities primarily included: (i) contributions made by, net of distributions made to, the investors in our consolidated funds, reflected in our historical combined financial statements as non-controlling interests in consolidated entities, of



\$0.6 billion and \$4.1 billion during the six months ended June 30, 2007 and 2006, respectively; (ii) net proceeds of borrowings of our consolidated funds of \$1.1 billion and \$1.0 billion for the six months ended June 30, 2007 and 2006, respectively; and (iii) distributions to, net of contributions by, our equity holders of \$(234.4) million and \$(458.4) million during the six months ended June 30, 2007 and 2006, respectively.

***Years Ended December 31, 2006, 2005 and 2004***

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

Our net cash flow provided by (used in) operating activities was \$(5.5) billion, \$(0.1) billion and \$1.8 billion during the years ended December 31, 2006, 2005, and 2004, respectively. These amounts primarily included: (i) purchases of investments by our consolidated funds, net of proceeds from sales of investments, of \$(4.4) billion, \$(0.8) billion and \$1.6 billion during the years ended December 31, 2006, 2005, and 2004, respectively; (ii) net realized gains on investments of the consolidated funds of \$3.2 billion, \$1.6 billion and \$2.9 billion during the years ended December 31, 2006, 2005 and 2004, respectively; (iii) change in unrealized gains (losses) on investments allocable to KKR Group and non-controlling interests of \$0.1 billion, \$(1.4) billion and \$(0.1) billion for the years ended December 31, 2006, 2005 and 2004, respectively; and (iv) non-controlling interests in income of consolidated entities of \$3.0 billion, \$2.9 billion and \$2.4 billion during the years ended December 31, 2006, 2005 and 2004, respectively. These amounts are reflected as operating activities in accordance with investment company accounting.

*Net Cash Flow Used in Investing Activities*

Our net cash flow used in investing activities was \$130.1 million, \$5.0 million and \$2.6 million during the years ended December 31, 2006, 2005, and 2004, respectively. Our investing activities included the purchases of furniture, fixtures, equipment and leasehold improvements, as well as changes in restricted cash and cash equivalents of \$108.3 million for the year ended December 31, 2006.

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

Our net cash flow provided by (used in) financing activities was \$5.7 billion, \$0.1 billion, and \$(1.7) billion during the years ended December 31, 2006, 2005, and 2004, respectively. Our financing activities primarily included: (i) contributions made by, net of distributions made to, the investors in our consolidated funds, reflected in our historical combined financial statements as non-controlling interests in consolidated entities, of \$5.8 billion, \$0.3 billion and \$(1.3) billion during the years ended December 31, 2006, 2005, and 2004, respectively; (ii) meeting net capital requirements of our consolidated funds of \$699.4 million, \$249.4 million, and \$0 for the years ended December 31, 2006, 2005 and 2004, respectively; and (iii) distributions to, net of contributions by, our equity holders of \$(796.4) million, \$(415.5) million and \$(442.2) million during the years ended December 31, 2006, 2005 and 2004, respectively.

***Future Sources of Cash and Liquidity Needs***

*Liquidity Needs*

We expect that our primary liquidity needs will consist of cash required to: (i) continue to grow our asset management business, including funding capital commitments that we make, as general partner, to our funds; (ii) finance our new business initiatives, including any net capital requirements of our capital markets companies; (iii) fund our cash operating expenses, including cash salaries and bonuses of employees; (iv) pay amounts that may become due under our tax receivable agreement with KKR Holdings; and (v) fund distributions to our unitholders and holders of Group Partnership units in accordance with our distribution policy. See "Distribution Policy." We believe that the sources of liquidity described below will be sufficient to fund our working capital requirements for the next 12 months.

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The following table presents our unfunded general partner capital commitments to our private equity funds as of June 30, 2007:

Private Equity Funds	Original Commitment	Unfunded Commitment
<i>(\$ in thousands)</i>		
Millennium Fund	\$ 150,000	\$ 2,767
European Fund II	121,271	35,133
2006 Fund	375,000	337,902
Asian Fund	100,000	100,000
<b>Total</b>	<b>\$ 746,271</b>	<b>\$ 475,802</b>

As described under "Business," the agreements governing our traditional private equity funds generally require the general partners of the funds to make minimum capital commitments to the funds, which usually range from 2% to 3% of a fund's total capital commitments at final closing. Historically these capital contributions have been funded with cash from operations that otherwise would be distributed to our principals and by our principals. Following the completion of this offering, we expect to fund any capital contributions that the general partners are required to make to a fund with future operating cash flows, and we will be entitled to receive our allocable share of the gain thereon.

In addition to the above capital commitments, we have entered into an investment agreement with KKR Private Equity Investors, our private equity oriented permanent capital fund, pursuant to which we have agreed to periodically acquire limited partner interests in the fund in an amount equal to 25% of the pre-tax distributions on the fund's investments that are allocated to us or our affiliates pursuant to a carried interest. As a result of the investment agreement, we expect to periodically acquire newly issued limited partner interests in the fund from time to time with a portion of the distributions that we receive from the fund.

The agreements governing our traditional private equity funds include clawback provisions that require the general partner of a fund to repay any excess amounts previously received in respect of its carried interest if, upon liquidation of the fund, the general partner has received carried interest distributions in excess of the amount to which it is entitled under the governing documents of the relevant fund. As of June 30, 2007, approximately \$1.0 billion of carried interest previously paid to the general partners of our traditional private equity funds remained subject to a potential future clawback obligation. However, based on the investment performance of our traditional private equity funds as of June 30, 2007, none of the general partners of those funds would have had to make any payment under such clawback obligation as of such date. If, as a result of poor performance of later investments in the life of one of our traditional private equity funds, the fund does not achieve overall profitability, the general partners of those funds could potentially be required to make a payment under such a clawback obligation.

At the time of formation of each of our traditional private equity funds, our senior principals, including Messrs. Kravis and Roberts, personally guaranteed, on a several basis and subject to a cap, the clawback obligation of the general partner of the relevant private equity fund. In connection with the Reorganization Transactions and this offering, we will enter into an agreement with each of our personnel who has entered into such a guarantee pursuant to which we will indemnify such person for any liabilities incurred with respect to the guarantee. See "Certain Relationships and Related Party Transactions - Guarantee of Contingent Obligations to Fund Partners; Indemnification."

In connection with the Reorganization Transactions and this offering, we will enter into an exchange agreement with KKR Holdings pursuant to which KKR Holdings or transferees of its Group Partnership units may up to four times each year (subject to the terms of the exchange agreement) exchange Group Partnership units (together with corresponding special voting units) for our common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. We will also enter into a tax receivable agreement with KKR Holdings or certain

transferees of its Group Partnership units pursuant to which our intermediate holding company will be required to pay 85% of the amount of cash savings, if any, in U.S. federal, state and local income taxes that it realizes as a result of increases in the tax basis of certain of the assets of our subsidiaries arising from any exchanges of Group Partnership units for our common units. See "Certain Relationships and Related Party Transactions Tax Receivable Agreement." This payment obligation will be an obligation of our subsidiaries and not of either Group Partnership. While the actual increase in tax basis and amount and timing of any payments under our tax receivable agreement will vary depending upon a number of factors, including the timing of exchanges, the price of our common units at the time of the exchange, the extent to which such exchanges are taxable and the amount and timing of our taxable income, we expect that as a result of the size of the increases in the tax basis of the tangible and intangible assets of the Group Partnerships, the payments that we may be required to make could be substantial. We do not currently anticipate that these payments will impact our liquidity needs, as they generally will be made only to the extent that our intermediate holding company actually realizes cash savings as a result of exchanges of Group Partnership units by our principals. However, our intermediate holding company's obligations under the tax receivable agreement would be effectively accelerated upon the occurrence of an early termination of the tax receivable agreement by our intermediate holding company or certain mergers, asset sales and other forms of business combinations or other changes of control. In these situations, our obligations under the tax receivable agreement could have a substantial negative impact on our liquidity.

We intend to make quarterly cash distributions to our unitholders in amounts that in the aggregate are expected to constitute substantially all of our adjusted cash flow from operations each year in excess of amounts determined by our Managing Partner to be necessary or appropriate to provide for the conduct of our business, to make appropriate investments in our business and our funds, to comply with applicable law, any of our debt instruments or other agreements or to provide for future distributions to our unitholders for any one or more of the ensuing four quarters. Our distribution policy reflects our belief that distributing substantially all of our adjusted cash flow from operations will provide transparency for our unitholders and impose on us an investment discipline with respect to the businesses and strategies that we pursue.

Adjusted cash flow from operations is intended to reflect the actual cash flow attributable to us and is equal to cash flow presented in accordance with GAAP, adjusted to exclude cash flow relating to: (i) the investment activities of our consolidated funds; (ii) the realized and unrealized income attributable to non-controlling interests in consolidated funds; and (iii) changes in our operating assets and liabilities. We expect that our first quarterly distribution will be paid in \_\_\_\_\_ in respect of the period from the completion of this offering through \_\_\_\_\_. Because we will not know what our available adjusted cash flow from operations will be for any year until the end of such year, we expect that our first three quarterly distributions in respect of any given year will generally be smaller than the final quarterly distribution in respect of such year.

#### *Sources of Cash*

Our initial source of cash will consist of the net proceeds that we receive from this offering. Based on the midpoint of the price range set forth on the cover page of this prospectus, we estimate that we will receive approximately \$ \_\_\_\_\_ of net proceeds from this offering after deducting estimated underwriting discounts and offering expenses, or \$ \_\_\_\_\_ if the underwriters exercise in full their option to purchase additional common units from us. We will also receive cash from time to time from: (i) our operating activities, including management, transaction and monitoring fees that we earn under the management and other agreements that we enter into with our funds and portfolio companies; (ii) gains on investments that are allocated to us in respect of our carried interests; and (iii) realized returns that are generated on investments that are made with capital invested by or on behalf of the general partners of our funds. We may also issue additional common units and other securities to investors with the objective of increasing our available capital.



In addition, as a public company, we intend to use leverage to create the most efficient capital structure for our partnership and our public unitholders. In furtherance of this objective, we intend to enter into a revolving credit facility with one or more financial institutions that we may draw down from time to time to optimize our capital structure. We may also borrow from other sources. We do not anticipate approaching significant levels of leverage during the first one or two years following this offering, because we believe that the net proceeds that we will receive from this offering will initially provide us with the principal source of financing for our business. This strategy may change, however, depending on our liquidity requirements.

### Contractual Obligations, Commitments and Contingencies

In the ordinary course of our business, we and our consolidated funds enter into contractual arrangements that may require future cash payments. The following table sets forth information relating to the anticipated future cash payments that were associated with those contractual obligations as of June 30, 2007.

Type of Contractual Obligations	Payments due by Period				
	<1 Year	1 to 3 Years	3 to 5 Years	>5 Years	Total
(\$ in millions)					
<b>Before Consolidation of Funds:</b>					
Capital commitments to traditional private equity funds(1)	\$ 475.8	\$	\$	\$	\$ 475.8
Lease obligations	14.9	28.6	24.9	48.3	116.7
<b>Total</b>	<b>\$ 490.7</b>	<b>\$ 28.6</b>	<b>\$ 24.9</b>	<b>\$ 48.3</b>	<b>\$ 592.5</b>
<b>After Consolidation of Funds:</b>					
Equity commitments(2)	\$ 11,227.9	\$	\$	\$	\$ 11,227.9
Lease obligations	14.9	28.6	24.9	48.3	116.7
Debt payment obligations(3)	97.5		350.0		447.5
<b>Total(4)</b>	<b>\$ 11,340.3</b>	<b>\$ 28.6</b>	<b>\$ 374.9</b>	<b>\$ 48.3</b>	<b>\$ 11,792.1</b>

(1) These capital commitments represent commitments by the general partners of our traditional private equity funds to contribute capital to fund a portion of the purchase price paid for each portfolio company investment made by the fund. Because these amounts are due on demand, they have been presented as falling due within one year. However, given the size of our funds' capital commitments and the rates at which our funds make investments, we expect that the capital commitments presented above will be called over a period of several years, if not longer. The amounts presented above do not, however, include amounts that may become due to KKR Private Equity Investors under our investment agreement with it, because those amounts will depend on the fund's returns and are not objectively determinable. See " Future Sources of Cash and Liquidity Needs Liquidity Needs."

(2) These equity commitments represent contractual commitments entered into by our private equity funds to fund a portion of the purchase price of unconsummated portfolio company investments. Our funds pay amounts due with respect to these commitments using capital contributed by fund investors and capital provided by us and, in the case of our larger transactions, with amounts funded by third-party co-investors or financial intermediaries to whom a portion of the equity commitment is syndicated. Whether and when the transactions regarding which we have entered into commitments will be consummated depends on a number of factors, some or all of which may be outside of our control, and we cannot assure you that any of these commitments will be funded. As a result, the equity commitments presented above do not necessarily reflect our fund's actual future cash outflows.

(3)

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Debt payment obligations include interest to be paid over the maturity of the related debt obligation, which has been calculated assuming no prepayments are made and the debt is held until its final

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maturity date. Future interest rates have been calculated using rates in effect as of June 30, 2007, including both variable and fixed rates provided for by the relevant debt agreements.

- (4) Our contractual obligations table does not give effect to the potential obligations described in the paragraphs below.

In the normal course of business, we also enter into contractual arrangements that contain a variety of representations and warranties and that include general indemnification obligations. Our maximum exposure under these arrangements is unknown due to the fact that the exposure would relate to claims that may be made against us in the future. Accordingly, no amounts have been included in our combined financial statements as of June 30, 2007 relating to indemnification obligations.

The instruments governing our traditional private equity funds include clawback provisions that require the general partner of a fund to repay any excess amounts previously received in respect of its carried interest if, upon liquidation of the fund, the general partner has received carried interest distributions in excess of the amount to which it is entitled under the governing documents of the relevant fund. As of June 30, 2007, \$1.0 billion of carried interest previously paid to the general partners of our traditional private equity funds remained subject to a potential future clawback obligation. Based on the investment performance of our traditional private equity funds as of June 30, 2007, none of the general partners of those funds had a clawback obligation as of such date. Accordingly, no provisions, reserves or other amounts have been included in our combined financial statements as of June 30, 2007 relating to clawback obligations.

### **Off Balance Sheet Arrangements**

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

### **Critical Accounting Policies**

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

### ***Fair Value of Investments***

Our consolidated funds are treated as investment companies under the AICPA Audit and Accounting Guide, "Investment Companies," for the purposes of GAAP and, as a result, reflect their investments on our predecessor combined statement of financial condition at fair value, with unrealized gains or losses resulting from changes in fair value reflected as a component of investment income in our predecessor combined statements of income. We have retained the specialized accounting of the our consolidated funds pursuant to EITF Issue No. 85-12, Retention of Specialized Accounting for Investments in Consolidation.

When determining fair values of investments, we use the last reported market price as of the statement of financial condition date for investments that have readily observable market prices. If no sales

occurred on such day, we use the "bid" price at the close of business on that date and, if sold short, the "asked" price at the close of business on that date day. Forward contracts are valued based on market rates or prices obtained from recognized financial data service providers. When an investment does not have a readily available market price, the fair value of the investment represents the value, as determined by us in good faith, at which the investment could be sold in an orderly disposition over a reasonable period of time between willing parties other than in a forced or liquidation sale.

There is no single standard for determining fair value in good faith and in many cases fair value is best expressed as a range of fair values from which a single estimate may be derived. When making fair value determinations, we typically use a market multiples approach that considers a specified observable financial measure (such as EBITDA) or a discounted cash flow or liquidation analysis. We also consider a range of additional factors that we deem relevant, including the price at which the investment was acquired, the nature of the investment (such as whether it is a controlling interest), local market conditions, market prices for comparable securities and financing transactions and models that consider the current and expected operating performance and cash flows of the company in which the investment was made. Fair values of investments that do not have readily observable market prices are based on the best information available in light of the circumstances and may incorporate or involve significant assumptions or judgments by management.

Approximately 32%, or \$7.6 billion, and 27%, or \$5.1 billion, of the value of the investments in our consolidated private equity funds were valued using quoted market prices, which have not been adjusted, as of June 30, 2007 and December 31, 2006, respectively.

Approximately 68%, or \$16.5 billion, and 73%, or \$14.2 billion, of the value of the investments in our consolidated private equity funds were valued in the absence of readily observable market prices as of June 30, 2007 and December 31, 2006, respectively. The majority of these investments were valued using internal models with significant unobservable market parameters and our determinations of the fair values of these investments may differ materially from the values that would have resulted if readily observable market prices had existed. Additional external factors may cause those values, and the values of investments for which readily observable market prices exist, to increase or decrease over time, which may create volatility in our earnings and the amounts of assets and partners' capital that we report from time to time.

Changes in the fair value of the investments of our consolidated private equity funds may impact our results of operations as follows:

The management fees that we are paid by our private equity-oriented permanent capital fund are based on the approximate net asset value of the fund, which in turn is impacted by the fair values of its investments. A change in the fair values of the fund's investments during a reporting period would affect the amount of management fees that are payable following the completion of the reporting period, but would not have an immediate impact on our results. We estimate that an immediate 10% decrease in the fair value of the fund's private equity investments as of June 30, 2007 would decrease the management fee that is payable by the fund by approximately \$3.4 million. The management fees paid by our traditional private equity funds are calculated based on the amount of capital committed to, or invested by, the funds and are not directly affected by changes in the fair value of the funds' investments.

The net gains from investment activities of our private equity funds are directly affected by changes in the fair values of the funds investments as described under " Key Financial Measures Investment Income Net Gains from Investment Activities." Based on the investments of our private equity funds as of June 30, 2007, we estimate that an immediate 10% decrease in the fair value of the funds' investments generally would result an a 10% immediate change in net gains from the funds' investment activities (including carried interest), regardless of whether the investment was valued using observable market prices or internal models with significant unobservable market

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parameters. However, we estimate the impact that the consequential decrease in investment income would have on our reported amounts of income before taxes and net income would be significantly less than the amount presented above, given that a substantial majority of the change in fair value would be absorbed by fund investors who hold non-controlling interests in the funds.

An aggregate of 26 of the private equity investments that we valued as of the valuation date (representing approximately \$16.5 bill