

Del Frisco's Restaurant Group, LLC  
Form S-1/A  
July 17, 2012

As filed with the Securities and Exchange Commission on July 17, 2012

Registration No. 333-179141

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Amendment No. 5**

**to**

**FORM S-1**

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

**DEL FRISCO S RESTAURANT GROUP, LLC**

(to be converted into Del Frisco s Restaurant Group, Inc.)

(Exact name of registrant as specified in its charter)

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

**5812**  
(Primary Standard Industrial  
Classification Code Number)  
**930 S. Kimball Ave., Suite 100**

**20-8453116**  
(I.R.S. Employer  
Identification Number)

**Southlake, TX 76092**

**(817) 601-3421**

(Address, including zip code, and telephone number,  
including area code, of registrant s principal executive offices)

**Mark S. Mednansky**

**Chief Executive Officer**

**Del Frisco s Restaurant Group, LLC**

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930 S. Kimball Ave., Suite 100

Southlake, TX 76092

(817) 601-3421

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

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:

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

CALCULATION OF REGISTRATION FEE

Table with 5 columns: Title of Each Class, Amount to be Registered(1), Proposed Maximum Offering Price Per Unit(2), Proposed Maximum Aggregate Offering Price(1)(2), Amount of Registration Fee. Row 1: Common Stock, no par value per share, 8,050,000, \$16.00, \$128,800,000, \$14,761(3)

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- (1) Includes 1,050,000 shares that the underwriters have the option to purchase. See Underwriting.
- (2) Estimated solely for the purpose of calculating the registration fee under Rule 457(a) of the Securities Act of 1933, as amended.
- (3) \$11,460 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.**

**EXPLANATORY NOTE**

Del Frisco's Restaurant Group, LLC, the registrant whose name appears on the cover of this registration statement, is a Delaware limited liability company. Immediately prior to the effectiveness of this registration statement, Del Frisco's Restaurant Group, LLC will be converted into a Delaware corporation and renamed Del Frisco's Restaurant Group, Inc. Shares of the common stock of Del Frisco's Restaurant Group, Inc. are being offered by the prospectus.











**Market and Industry Data and Forecasts**

Industry, market and demographic data appearing throughout this prospectus, including information relating to our relative position in the restaurant industry, the projected growth of sales in the U.S. restaurant industry, projected changes in food expenditures and projected changes in the U.S. population, are derived principally from publicly available information, industry publications, U.S. government data, data made available by market research firms, our own data and similar sources, which we believe to be reasonable. None of the independent industry publications used in this prospectus was prepared on our or our affiliates' behalf. Information in this prospectus concerning the average check at our restaurants is calculated on a per entrée basis and excludes tax and tip.

## PROSPECTUS SUMMARY

*This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information that may be important to you. You should carefully read this prospectus in its entirety before making an investment decision. In particular, you should read the section entitled "Risk Factors" and the consolidated and combined financial statements and notes related to those statements included elsewhere in this prospectus.*

*As used in this prospectus, unless the context otherwise indicates, the references to "DFRG," "Del Frisco's Restaurant Group," "our company," "the Company," "us," "we" and "our" refer to Del Frisco's Restaurant Group, LLC together with its subsidiaries prior to the reorganization date and Del Frisco's Restaurant Group, Inc. and its consolidated subsidiaries on and after the reorganization date. Unless otherwise indicated or the context otherwise requires, financial and operating data in this prospectus reflects the consolidated business and operations of Del Frisco's Restaurant Group, LLC and its wholly-owned subsidiaries prior to the reorganization date and Del Frisco's Restaurant Group, Inc. and its wholly-owned subsidiaries on and after the reorganization date.*

### **Our Company**

We develop, own and operate three contemporary, high-end, complementary restaurants: Del Frisco's Double Eagle Steak House, or Del Frisco's, Sullivan's Steakhouse, or Sullivan's, and Del Frisco's Grille, or the Grille. We are a leader in the full-service steakhouse industry based on average unit volume, or AUV, EBITDA margin and comparable restaurant sales growth. We currently operate 32 restaurants in 18 states. Each of our three restaurant concepts offers steaks as well as other menu selections, such as chops and fresh seafood. These menu selections are complemented by an extensive, award-winning wine list. Del Frisco's, Sullivan's and the Grille are positioned within the fine dining segment and are designed to appeal to both business and local dining customers. Our Del Frisco's restaurants are sited in urban locations to target customers seeking a destination dining experience while our Sullivan's and Grille restaurants are intended to appeal to a broader demographic, allowing them to be located either in urban areas or in close proximity to affluent residential neighborhoods. We believe our success reflects consistent execution across all aspects of the dining experience, from the formulation of proprietary recipes to the procurement and presentation of high quality menu items and delivery of a positive customer experience.

We generated revenues of \$201.6 million for the fiscal year ended December 27, 2011, representing 21.8% total revenue growth and 11.2% comparable restaurant sales growth over 2010. We recorded net income of \$9.0 million and adjusted EBITDA of \$36.8 million for 2011, representing 2.8% net income growth and 22.5% adjusted EBITDA growth over 2010. Our 2011 operating income and adjusted EBITDA margins were 11.0% and 18.2%, respectively. For the twelve weeks ended March 20, 2012, we generated revenues of \$53.7 million, representing 23.8% total revenue growth and 6.7% comparable restaurant sales growth over the twelve weeks ended March 22, 2011. We recorded net income of \$5.0 million and adjusted EBITDA of \$10.9 million for the twelve weeks ended March 20, 2012, representing 81.8% net income growth and 37.9% adjusted EBITDA growth over the twelve weeks ended March 22, 2011. Our operating income and adjusted EBITDA margins for the twelve weeks ended March 20, 2012 were 15.6% and 20.3%, respectively. For a reconciliation of adjusted EBITDA and adjusted EBITDA margin and a discussion of why we consider them useful, see Summary Historical Consolidated Financial and Operating Data.

*Del Frisco's Double Eagle Steak House*

We believe Del Frisco's is one of the premier steakhouse concepts in the United States. The Del Frisco's brand is defined by its menu, which includes USDA Prime grade, wet-aged steaks hand-cut at the time of order and a range of other high-quality offerings, including prime lamb, fresh seafood, and signature side dishes and desserts. It is also distinguished by its swarming service, whereby customers are served simultaneously by multiple servers. Each restaurant has a sommelier to guide diners through an extensive, award-winning wine list and our bartenders specialize in hand-shaken martinis and crafted cocktails. Del Frisco's restaurants target customers seeking a full-service, fine dining steakhouse experience. We believe the décor and ambiance, with both contemporary and classic designs, enhance our customers' experience and differentiate Del Frisco's from other upscale steakhouse concepts. We currently operate nine Del Frisco's steakhouses in seven states. These restaurants range in size from 11,000 to 24,000 square feet with seating capacity for at least 300 people. Annual AUVs per Del Frisco's restaurant were \$12.5 million for the fiscal year ended December 27, 2011. During the same period, the average check at Del Frisco's was \$100.

*Sullivan's Steakhouse*

Sullivan's was created in the mid-1990's as a complementary concept to Del Frisco's. The Sullivan's brand is defined by a fine dining experience at a more accessible price point, along with a vibrant atmosphere created by an open kitchen, live music and a bar area designed to be a center for social gathering and entertainment. Each Sullivan's features fine hand-selected aged steaks, fresh seafood and a broad list of custom cocktails, along with an extensive selection of award-winning wines. We currently operate 19 Sullivan's steakhouses in 15 states. These restaurants range in size from 7,000 to 11,000 feet with seating capacity for at least 250 people. Annual AUVs per current Sullivan's restaurant were \$4.4 million for the fiscal year ended December 27, 2011. During the same period, the average check at Sullivan's was \$59.

*Del Frisco's Grille*

We developed the Grille, our newest concept, to take advantage of the positioning of the Del Frisco's brand and to provide greater potential for expansion due to its smaller size, lower build out cost and more diverse menu. The Grille's menu is designed to appeal more broadly to both business and casual diners and features a variety of Del Frisco's prime aged steaks, top selling signature menu items and a broad selection of the same quality wines. The Grille also offers an assortment of relatively less expensive entrees, such as flatbread pizzas, sandwiches and salads, all prepared with the same signature flavors, high quality ingredients and presentation associated with the Del Frisco's brand. We believe the ambiance of the concept appeals to a wide range of customers seeking a less formal atmosphere for their dining occasions. Our first Grille opened in August 2011 at Rockefeller Center in New York City, and we opened additional locations in Dallas, Texas in November 2011, Phoenix, Arizona in June 2012 and Washington D.C. in July 2012. Additional Grille openings are planned over the next year and we anticipate they will range in size from 6,500 to 8,500 square feet with seating capacity for at least 200 people. We are targeting annual AUVs per Grille restaurant of between \$4.5 million and \$6.0 million with an average check of between \$45 and \$55.

**Our Business Strengths**

We believe the following are key strengths of our business and serve to differentiate us from our competitors:

***Multiple Top Performing Concepts with an Expanding National Platform.*** We are one of the nation's leading fine dining restaurant operators. We currently have 32 restaurants in 27 cities in

18 states in a wide variety of geographic and demographic markets. Our current locations that were operating throughout the fiscal year ended December 27, 2011 had AUVs of \$6.7 million per location across all concepts, \$12.5 million at our Del Frisco's locations (\$9.1 million excluding our New York location) and \$4.4 million at our Sullivan's locations. We believe our New York Del Frisco's location was the highest grossing restaurant in the steakhouse industry in 2010 and 2011. We base this belief on the fact that our New York location grossed more than the highest grossing restaurant in a 2010 report published by Restaurants & Institutions listing the top 100 grossing individual restaurants in 2009 excluding chains with more than five restaurants. See *Business Our Business Strengths Multiple Top Performing Concepts with an Expanding National Platform* for additional information regarding the basis for this belief. Further, we believe we appeal to landlords with desirable locations by offering three complementary concepts adaptable to a variety of areas and venues. In 2011, we expanded our national platform by opening a Del Frisco's in Boston, Massachusetts and our first two Grille restaurants in New York City and Dallas, Texas.

***Operating Model Driving Higher Margins.*** Our AUVs and high average check per person, combined with our operating efficiencies, enable us to achieve industry-leading operating margins based on 2011 public company data for U.S. based full-service dining restaurants that generate a majority of their revenues from restaurant operations and excluding companies with a majority of franchised operations. We believe that our success is driven by our consistent execution across all aspects of the dining experience, from the formulation of proprietary recipes to the procurement and presentation of high quality menu items and our focus on providing a positive customer experience. Our entrepreneurial culture and bonus incentives empower and motivate the general manager at each restaurant to act as the owner of his or her restaurant. These general managers meet weekly as a group with senior management to share best practices. Chefs and kitchen staff at each restaurant are responsible for maintaining and ordering their own food inventory, thereby increasing efficiency and reducing waste and the need for additional headcount at the corporate level. We believe we achieve significant cost, quality and availability advantages through centralized sourcing from our primary suppliers of beef, wine and other products. In fiscal 2011, our revenues were comprised 66% of food and 34% of alcohol. We had operating income and restaurant-level EBITDA margins of 11.0% and 23.7% and 15.6% and 25.2% in fiscal 2011 and the twelve weeks ended March 20, 2012, respectively.

***Fine Dining Concepts with Complementary Market Positions.*** Del Frisco's, Sullivan's and the Grille are fine dining concepts that share a focus on high quality food, individualized interior design and attentive service. The concepts were designed to coexist with one another, each maintaining its own identity and price point. Average checks at Del Frisco's and Sullivan's were \$100 and \$59, respectively, for the fiscal year ended December 27, 2011, and the targeted average check at the Grille is between \$45 and \$55. Currently, we operate multiple concepts in close proximity to each other in six of our markets. We believe our complementary positioning will continue to allow us to develop our concepts in a single metropolitan area without competing for customers. We have secured prominent locations for our restaurants and a number of unique sites not typically used for steakhouse locations, including a historic bank building, a redeveloped wharf and former retail space in Rockefeller Center. We believe the locations of our restaurants distinguish us from our competitors, add to the strength of our brands and help drive our AUVs. Furthermore, we believe many landlords and developers seek out our concepts to be restaurant anchors for their developments as our concepts are complementary to upscale national retailers with similar target demographics.

***Focus on Innovation.*** We have developed and created three concepts in the full-service steakhouse industry. As we have grown our concepts, we have evolved each to incorporate proprietary recipes with bold and flavorful seasonings that reflect our heritage in the Southern United States, extensive wine lists, prominent bar scenes and our swarming service. We have positioned the Del Frisco's brand as a contemporary alternative to the traditional fine dining steakhouse dining concept. We developed Sullivan's in the mid-1990's, featuring lower price points and live music to attract a broader clientele. The Grille, opened in 2011, leverages and broadens Del Frisco's appeal in a less formal and smaller format. We remain committed to evolving our existing concepts to remain relevant to a range of customers.

***High Quality Menu Offerings with a Focus on Social Experience and Customer Service.*** We believe we provide our customers with a true fine dining steakhouse experience by combining high quality food, atmosphere and service. We offer high quality cuisine across all menu items, with an emphasis on aged beef, fresh seafood and locally sourced ingredients. These offerings are complemented by an extensive, award-winning wine list and a broad cocktail selection. The dining experience is enhanced by our commitment to providing a social atmosphere and décor that includes carefully-selected artwork, private dining rooms and separate bar areas. To further enhance our customers' dining experience we have a staff of highly-trained employees who undergo an extensive training program and are evaluated regularly by management. These employees provide our swarming service, which creates frequent interactions with our customers.

***Experienced Executive and Restaurant Management Teams.*** Our executive team has extensive experience with an average of over 16 years in the restaurant industry, including significant tenure with our company as well as other high-end restaurant concepts. Our restaurant-level managers are also very experienced, with average tenure at Del Frisco's and Sullivan's of nine and four years, respectively, and additional experience at other fine dining establishments. Our management team, which includes senior management, regional managers and general managers, meets on a weekly basis to review financial and operating results as well as receive feedback from both senior management and their peers to collaborate on best practices. We believe this management process fosters a commitment to operational excellence focused on producing a positive customer experience and strong financial performance.

#### **Our Growth Strategy**

We believe there are significant opportunities to grow our business, strengthen our competitive position and enhance our concepts through the continued implementation of the following strategies:

***Pursue Disciplined New Unit Expansion.*** We believe our concepts have significant room to grow. We have an established growth pipeline and a disciplined strategy for opening new restaurants. Our growth strategy includes entering new markets and expanding our presence in existing markets. We believe our concepts' market positioning, broad range of average checks and menu offerings, coupled with the flexibility of our restaurant models across a range of trade areas and square footage layouts will allow us to expand each of our three concepts into a greater number of locations. We have successfully opened new restaurants in a number of diverse markets and we continued to grow in 2011, opening three new restaurants in Boston, New York City and Dallas. We target a cash-on-cash return beginning in the third operating year of at least 25% for new restaurants across all of our concepts. We believe there are opportunities to open three to five restaurants annually, generally composed of one Del Frisco's and two to four Sullivan's and/or Grilles, with new openings of our Grille concept likely serving

as the primary driver of new unit growth in the near term. In 2012, we have opened Grilles in Phoenix, Arizona and Washington D.C., and we expect to open two additional restaurants, including a Del Frisco's in Chicago, Illinois, and a Grille in Atlanta, Georgia. Beyond domestic new unit growth, although we have no current intention to do so, we believe our concepts have the potential for expansion in select international markets through franchising, licensing, Company-owned restaurants or a combination of the foregoing. While we do not have a specific global expansion strategy and we have no current intention to expand into international markets, we believe there is a long-term opportunity for our concepts beyond the U.S. market.

**Grow Our Existing Restaurant Sales.** Our concepts achieve strong sales and customer count growth, with comparable restaurant sales increasing by 12.1%, 12.3%, 11.8% and 9.5% for the four quarters of fiscal 2011 as compared to the respective prior year periods, and 6.7% for the twelve weeks ended March 20, 2012 versus the prior year period. The first quarter of 2012 marked our eighth consecutive quarter of comparable restaurant sales increases. We believe there are significant opportunities to continue to increase our sales and average check through maintaining our focus on tableside up-selling and salesmanship by our servers and by strategically adjusting menu prices and enhancing our concepts' brand awareness through increased marketing efforts. In addition, we are adding seating to select locations, which we believe will increase sales at these restaurants.

**Further Grow Our Private Dining Business.** We believe we are well-positioned to grow our private dining business due to our commitment to our customers' dining experience, our unique locations and our plans to invest in improving our private dining facilities at select locations. All of our restaurants can serve large and small groups for private dining events, including corporate events, sales meetings, presentations, charity events and private parties. We are focused on growing our private dining business as it typically has a higher average check per customer and higher overall margins than regular dining room business. Private dining represented approximately 14.1% of our total sales in the fiscal year ended December 27, 2011. We intend to drive growth by enhancing our private dining capacity and increasing awareness of our private dining services. To help drive this growth, we are creating additional private dining space at select locations by expanding or reconfiguring existing space. In addition, each location currently dedicates a staff member to increasing its private dining business. At the beginning of 2011, we hired a corporate-wide private dining executive who meets weekly with each restaurant's private dining coordinator regarding upcoming events and sales initiatives.

#### **Recent Developments**

Our estimated revenues for the twelve weeks ended June 12, 2012 are between \$51.1 million and \$51.3 million, representing an increase of between \$7.6 million and \$7.8 million, or 17.5% and 17.9%, from revenues of \$43.5 million for the twelve weeks ended June 14, 2011. Net income for the period is estimated to be between \$3.1 million and \$3.5 million, representing an increase of between \$2.1 million and \$2.5 million, or 210.0% and 250.0%, from net income of \$1.0 million for the twelve weeks ended June 14, 2011. The increase in revenues was primarily due to an additional 32 restaurant operating weeks related to the opening of one Del Frisco's and two Grille locations during 2011, as well as an increase of 4.0% in total comparable restaurant sales. Comparable restaurant sales increased 7.3% at Del Frisco's restaurants, following an increase of 13.2% for the prior year fiscal quarter ended June 14, 2011, and comparable restaurant sales increased 0.3% at Sullivan's restaurants, following an increase of 11.2% for the prior year fiscal quarter ended June 14, 2011. Our comparable restaurant base consisted of 28 restaurants at June 12, 2012. The increase in net income was primarily due to

higher revenues and an improved operating income margin driven by favorable year-over-year restaurant operating expenses as a percentage of revenue, lower management fees paid to a related party and lower general and administrative expenses.

Management prepared this estimated financial information in good faith based upon our internal reporting for the twelve weeks ended June 12, 2012. These estimates represent the most current information available to management, and we have not identified any unusual or unique events or trends that occurred during the period which might materially affect these estimates. The preliminary estimates provided above have not been subject to the completion of our normal quarterly closing process and review procedures, and final adjustments and other developments may arise between now and the time the financial results for this period are finalized. As a result, our actual financial results for the twelve weeks ended June 12, 2012 may be different from such preliminary estimates and those differences could be material. Our interim consolidated financial statements for the twelve weeks ended June 12, 2012 are not expected to be filed with the SEC until after this offering is completed.

### **Our Equity Sponsor**

Lone Star Fund V (U.S.), L.P., which we refer to in this prospectus, along with its affiliates and associates (excluding us and other companies that it or they own as a result of their investment activities), as Lone Star Fund, is a leading U.S. private equity firm. Since 1995, the principals of Lone Star Fund have organized private equity funds totaling approximately \$33.4 billion to invest globally in corporate secured and unsecured debt instruments, real estate-related assets and select corporate acquisitions. Lone Star Fund has affiliate offices in Dallas, New York, London, Tokyo, Dublin, Brussels, Luxembourg, Frankfurt, France, Montreal and Bermuda. Immediately prior to this offering, Lone Star Fund owned all of our outstanding equity interests, and it will own approximately 68.6% of our common stock immediately following the consummation of this offering, assuming no exercise of the underwriters' over-allotment option.

### **Conflicts of Interest**

Certain conflicts of interest may arise in connection with this offering. Specifically, Lone Star Fund, an affiliate of our sole stockholder, will beneficially own a majority of our outstanding common stock immediately after this offering. Therefore, we will be a controlled company and Lone Star Fund will have sufficient voting power to effectively control all matters submitted to our stockholders, including a merger, consolidation or other business combination. In addition, the interests of Lone Star Fund and its principals, members, directors, managers, partners, stockholders, officers, employees and other representatives, some of whom may serve as our directors, may not always coincide with our interests as a company or the interests of our other stockholders. Neither Lone Star Fund nor these individuals will have any duty to refrain from engaging in business that conflicts with ours or to communicate business opportunities to us. As a result, Lone Star Fund may from time to time acquire and hold interests in businesses that compete directly or indirectly with us or pursue acquisition opportunities that may be complementary to our business resulting in those acquisition opportunities not being available to us. See Risk Factors Risks Related to this Offering. We also guarantee five leases for affiliates of Lone Star Fund that are not controlled or managed by our company. At March 20, 2012, the maximum potential amount of future lease payments we could be required to make as a result of the guarantees was \$2.4 million. We also intend to use \$3.0 million of the proceeds from this offering to make a one-time payment to Lone Star Fund in consideration for the termination of our asset advisory agreement upon consummation of this offering. As a result, upon consummation of the offering, we will enter into a transition services

agreement with affiliates of Lone Star Fund pursuant to which we will be provided certain insurance management, legal and benefits administration services. See Certain Relationships and Related Party Transactions Relationships with Lone Star Fund and its Affiliates Termination of Asset Advisory Agreement. Finally, we expect that Mr. Mark S. Mednansky, our Chief Executive Officer, and Mr. Thomas J. Pennison, Jr., our Chief Financial Officer, will be paid a transaction bonus of approximately \$1,300,000 and \$650,000, respectively, by our parent company in connection with this offering, as discussed in greater detail under Executive Compensation Payments in Connection with the Offering Transaction Bonuses.

### Corporate Information

Our corporate headquarters is located at 930 S. Kimball Avenue, Suite 100, Southlake, TX 76092, and our telephone number is (817) 601-3421. Our website address is [www.dfrg.com](http://www.dfrg.com), and we also host [www.delfriscos.com](http://www.delfriscos.com), [www.sullivanssteakhouse.com](http://www.sullivanssteakhouse.com) and [www.delfriscosgrille.com](http://www.delfriscosgrille.com). Information contained on our websites or connected thereto does not constitute a part of this prospectus or the registration statement of which it forms a part. DEL FRISCO ™, SULLIVAN ™, DEL FRISCO S GRILLE and DEL FRISCO S RESTAURANT GROUP, and other trademarks or service marks of ours appearing in this prospectus are the property of Del Frisco's Restaurant Group, LLC. Other trademarks and service marks appearing in this prospectus are the property of their respective holders.

### Summary Risk Factors

An investment in our common stock involves various risks. You should consider carefully the risks discussed below and under Risk Factors before purchasing our common stock. If any of these risks actually occur, our business, financial condition or results of operations may be materially adversely affected. In such case, the trading price of our shares of common stock would likely decline and you may lose all or part of your investment. The following is a summary of some of the principal risks we face:

Changes in general economic conditions, including the recent economic downturn and its continuing effects, have adversely impacted our business and results of operations and may continue to do so.

If our restaurants are not able to compete successfully with other restaurants, our business and results of operations may be adversely affected.

Our future growth depends on our ability to open new restaurants and operate them profitably, and if we are unable to successfully execute this strategy, our results of operations could be adversely affected.

If we are unable to increase our sales or improve our margins at existing restaurants, our profitability and overall results of operations may be adversely affected.

The failure to successfully develop our new Grille concept may have a material adverse effect on our financial condition and results of operations.

Our growth, including the development of the Grille, may strain our infrastructure and resources, which could delay the opening of new restaurants and adversely affect our ability to manage our existing restaurants.

Our New York Del Frisco's location represents a significant portion of our revenues, and any significant downturn in its business or disruption in the operation of this location could harm our business, financial condition and results of operations.



Negative customer experiences or negative publicity surrounding our restaurants or other restaurants could adversely affect sales in one or more of our restaurants and make our brands less valuable.

Negative publicity relating to the consumption of beef, including in connection with food-borne illness, could result in reduced consumer demand for our menu offerings, which could reduce sales.

**The Offering**

Common stock offered by us	4,333,333 shares
Common stock offered by the selling stockholder	2,666,667 shares (or 3,716,667 shares if the underwriters exercise in full their over-allotment option)
Common stock to be outstanding immediately after this offering	22,328,000 shares
Use of proceeds	We estimate our net proceeds from this offering will be approximately \$57.2 million, based on the midpoint of the estimated initial public offering price range set forth on the cover page of this prospectus, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

We intend to use the net proceeds from this offering as follows:

\$50.0 million to repay outstanding borrowings under our credit facility, including accrued interest;

\$3.0 million to make a one-time payment to Lone Star Fund, an affiliate of our controlling stockholder, in consideration for the termination of our asset advisory agreement upon consummation of this offering as described under Certain Relationships and Related Party Transactions Termination of Asset Advisory Agreement; and

the remainder of the net proceeds for working capital and other general corporate purposes.

We will not receive any of the proceeds from the sale of shares of common stock by the selling stockholder. See Use of Proceeds, Principal and Selling Stockholders and Underwriting.

NASDAQ symbol	DFRG
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Risk factors	Investment in our common stock involves substantial risks. You should read this prospectus carefully, including the section entitled <u>Risk Factors</u> and the consolidated financial statements and the related notes to those statements included elsewhere in this prospectus before investing in our common stock.
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The number of shares of our common stock to be outstanding immediately after this offering as set forth above is based on the number of shares outstanding as of July 17, 2012



and excludes 2,232,800 shares reserved for issuance under our equity incentive plan (of which no options to purchase shares had been granted as of such date) of which we intend to grant options to purchase approximately 745,000 shares to our executive officers and certain director nominees under our equity incentive plan at the time of the pricing this offering with an exercise price equal to the initial public offering price.

Unless otherwise indicated, this prospectus:

assumes the completion of the reorganization, as a result of which all membership interests of Del Frisco's Restaurant Group, LLC will be converted into shares of common stock of Del Frisco's Restaurant Group, Inc.;

assumes an initial public offering price of \$15.00 per share, the midpoint of the estimated initial public offering price range, set forth on the cover page of this prospectus; and

assumes no exercise of the underwriters' option to purchase up to an additional 1,050,000 shares of our common stock.

### Summary Historical Consolidated Financial and Operating Data

The following table sets forth, for the periods and dates indicated, our summary historical consolidated financial and operating data. We have derived the summary income statement data for the fiscal years ended December 29, 2009, December 28, 2010 and December 27, 2011 from our audited consolidated financial statements, as restated, appearing elsewhere in this prospectus. We have derived the summary income statement data for each of the 12 weeks ended March 22, 2011 and March 20, 2012 and the summary balance sheet data as of March 20, 2012, as restated, from our unaudited interim consolidated financial statements appearing elsewhere in this prospectus. In the opinion of management, these unaudited interim consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of our financial position and operating results for these periods. Results from interim periods are not necessarily indicative of results that may be expected for the entire year and historical results are not indicative of the results to be expected in the future. The summary financial data presented below represent portions of our financial statements and are not complete. You should read this information in conjunction with

Use of Proceeds, Capitalization, Selected Consolidated and Combined Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes to those statements included elsewhere in this prospectus.

	December 29, 2009	Fiscal Year Ended(1) December 28, 2010	December 27, 2011	12 Weeks Ended March 22, 2011	12 Weeks Ended March 20, 2012
	(in thousands, except per share data)				
<b>Income Statement Data:</b>					
Revenues	\$ 160,177	\$ 165,575	\$ 201,629	\$ 43,352	\$ 53,678
Costs and expenses:					
Cost of sales	47,593	50,339	61,647	13,445	16,579
Restaurant operating expenses	69,209	73,601	87,928	18,901	22,673
Marketing and advertising costs	3,523	2,825	4,359	727	874
Pre-opening costs	493	798	3,018	354	70
General and administrative	8,236	7,512	10,640	2,190	2,646
Management and accounting fees paid to related party	2,878	3,345	3,399	469	744
Non-cash impairment charges			1,400		
Depreciation and amortization	6,422	6,624	7,146	1,525	1,713
Operating income	21,823	20,531	22,092	5,741	8,379
Other income (expense), net:					
Interest expense affiliates	(2,281)	(1,775)			
Interest expense other	(5,942)	(9,906)	(8,856)	(1,764)	(1,221)
Dissenting shareholders expense	(1,583)				
Other, net	36	(249)	(114)	2	(3)
Income from continuing operations before income taxes	12,053	8,601	13,122	3,979	7,155
Provision for (benefit from) income taxes	3,441	(129)	4,149	1,237	2,170
Net income	\$ 8,612	\$ 8,730	\$ 8,973	\$ 2,742	\$ 4,985
<b>Pro forma net income per common share(2):</b>					
Basic and diluted	\$ 0.39	\$ 0.39	\$ 0.40	\$ 0.12	\$ 0.22
<b>Shares used in computing pro forma net income per share(2):</b>					
Basic and diluted	22,328	22,328	22,328	22,328	22,328

	March 20, 2012	
	Actual	Pro Forma, As Adjusted(3)
	(in thousands)	
<b>Balance Sheet Data (at end of period):</b>		
Cash and cash equivalents(4)	\$ 8,672	\$ 14,325
Working capital(5)		

Investment Income (Loss)

Net Gains (Losses) from Investment Activities

1,919,825

1,972,180

Dividend Income

78,815

96,704

Interest Income

296,158

161,960

Interest Expense

(111,963

)

(34,731

)

Total Investment Income (Loss)

2,182,835

2,196,113

Income (Loss) Before Taxes

1,959,147

2,025,868

Income Taxes

16,138

21,702

Net Income (Loss)

1,943,009

2,004,166

Net Income (Loss) Attributable to Redeemable Noncontrolling Interests

1,933

10,637

Net Income (Loss) Attributable to Noncontrolling Interests and Appropriated Capital

1,670,569

1,783,488

Net Income (Loss) Attributable to KKR & Co. L.P.

\$

270,507

\$

210,041

Net Income (Loss) Attributable to KKR & Co. L.P. Per Common Unit

Basic  
\$  
0.62

\$  
0.72

Diluted  
\$  
0.57

\$  
0.65

Weighted Average Common Units Outstanding

Basic  
434,874,820

293,490,461

Diluted  
472,225,344

325,104,229

See notes to condensed consolidated financial statements.

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KKR &amp; CO. L.P.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(Amounts in Thousands)

	Three Months Ended March 31,	
	2015	2014
Net Income (Loss)	\$1,943,009	\$2,004,166
Other Comprehensive Income (Loss), Net of Tax:		
Foreign Currency Translation Adjustments	(22,426	) 5,343
Comprehensive Income (Loss)	1,920,583	2,009,509
Less: Comprehensive Income (Loss) Attributable to Redeemable Noncontrolling Interests	1,933	10,637
Less: Comprehensive Income (Loss) Attributable to Noncontrolling Interests and Appropriated Capital	1,659,564	1,787,760
Comprehensive Income (Loss) Attributable to KKR & Co. L.P.	\$259,086	\$211,112

See notes to condensed consolidated financial statements.

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KKR &amp; CO. L.P.

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

(Amounts in Thousands, Except Unit Data)

	KKR & Co. L.P.		Accumulated		Appropriated	Total	Redeemable
	Common Units	Partners' Capital	Other Comprehensive Income (Loss)	Noncontrolling Interests			
Balance at January 1, 2014	288,143,327	\$2,727,909	\$ (5,899 )	\$ 43,235,001	\$—	\$45,957,011	\$ 627,807
Net Income (Loss)		210,041		1,775,868	7,620	1,993,529	10,637
Other Comprehensive Income (Loss)-Foreign Currency Translation (Net of Tax)			1,071	4,184	88	5,343	
Exchange of KKR Holdings L.P. Units and Other Exchangeable Securities to KKR & Co. L.P. Common Units	11,011,561	144,795	(274 )	(144,521 )		—	
Tax Effects Resulting from Exchange of KKR Holdings L.P. Units and delivery of KKR & Co. L.P. Common Units		4,508	108			4,616	
Net Delivery of Common Units-Equity Incentive Plan	1,199,400	28,379				28,379	
Equity Based Compensation		39,353		38,175		77,528	
Acquisitions				56,495		56,495	
Capital Contributions				4,564,205		4,564,205	45,418
Capital Distributions		(138,308 )		(3,666,167 )		(3,804,475 )	(18,286 )
Balance at March 31, 2014	300,354,288	\$3,016,677	\$ (4,994 )	\$ 45,863,240	\$ 7,708	\$48,882,631	\$ 665,576

  

	KKR & Co. L.P.		Accumulated		Appropriated	Total	Redeemable
	Common Units	Partners' Capital	Other Comprehensive	Noncontrolling Interests			

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			Income (Loss)				
Balance at January 1, 2015	433,330,540	\$5,403,095	\$ (20,404 )	\$ 46,004,377	\$ 16,895	\$51,403,963	\$ 300,098
Net Income (Loss)		270,507		1,670,569		1,941,076	1,933
Other Comprehensive Income (Loss)- Foreign Currency Translation (Net of Tax)			(11,421 )	(11,005 )		(22,426 )	
Cumulative-effect adjustment from adoption of accounting guidance		(307 )			(16,895 )	(17,202 )	
Exchange of KKR Holdings L.P. Units and Other Securities to KKR & Co. L.P. Common Units	4,723,823	59,495	(405 )	(59,090 )		—	
Tax Effects Resulting from Exchange of KKR Holdings L.P. Units and delivery of KKR & Co. L.P. Common Units		198	76			274	
Equity Based Compensation		52,265		24,285		76,550	
Capital Contributions		0		1,880,114		1,880,114	2,485
Capital Distributions		(151,733 )		(3,256,240 )		(3,407,973 )	(1,347 )
Balance at March 31, 2015	438,054,363	\$5,633,520	\$ (32,154 )	\$ 46,253,010	\$ —	\$51,854,376	\$ 303,169

See notes to condensed consolidated financial statements.

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KKR &amp; CO. L.P.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in Thousands)

	Three Months Ended March 31,	
	2015	2014
Operating Activities		
Net Income (Loss)	\$1,943,009	\$2,004,166
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Equity Based Compensation	76,550	77,528
Net Realized (Gains) Losses on Investments	(1,805,787)	(750,627)
Change in Unrealized (Gains) Losses on Investments	(114,038)	(1,221,553)
Other Non-Cash Amounts	(41,658)	(16,433)
Cash Flows Due to Changes in Operating Assets and Liabilities:		
Change in Cash and Cash Equivalents Held at Consolidated Entities	(18,665)	(325,902)
Change in Due from / to Affiliates	32,340	(12,768)
Change in Other Assets	208,921	(49,654)
Change in Accounts Payable, Accrued Expenses and Other Liabilities	264,915	402,910
Investments Purchased	(5,656,487)	(10,400,657)
Proceeds from Sale of Investments and Principal Payments	6,054,272	9,389,630
Net Cash Provided (Used) by Operating Activities	943,372	(903,360)
Investing Activities		
Change in Restricted Cash and Cash Equivalents	49,629	(7,667)
Purchase of Furniture, Computer Hardware and Leasehold Improvements	(3,783)	(1,888)
Development of Oil and Natural Gas Properties	(42,791)	—
Proceeds from Sale of Oil and Natural Gas Properties	4,863	—
Net Cash Acquired (Paid for Acquisitions)	—	(58,922)
Net Cash Provided (Used) by Investing Activities	7,918	(68,477)
Financing Activities		
Distributions to Partners	(151,733)	(138,308)
Distributions to Redeemable Noncontrolling Interests	(1,347)	(18,286)
Contributions from Redeemable Noncontrolling Interests	2,485	45,418
Distributions to Noncontrolling Interests	(3,256,240)	(3,666,167)
Contributions from Noncontrolling Interests	1,880,114	4,564,205
Net Delivery of Common Units - Equity Incentive Plan	—	28,379
Proceeds from Debt Obligations	1,808,100	308,435
Repayment of Debt Obligations	(837,235)	(133,297)
Financing Costs Paid	(6,539)	—
Net Cash Provided (Used) by Financing Activities	(562,395)	990,379
Net Increase/(Decrease) in Cash and Cash Equivalents	388,895	18,542
Cash and Cash Equivalents, Beginning of Period	918,080	1,306,383
Cash and Cash Equivalents, End of Period	\$1,306,975	\$1,324,925

See notes to condensed consolidated financial statements.

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KKR &amp; CO. L.P.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued) (UNAUDITED)

(Amounts in Thousands)

	Three Months Ended March 31,	
	2015	2014
Supplemental Disclosures of Cash Flow Information		
Payments for Interest	\$100,334	\$40,143
Payments for Income Taxes	\$9,472	\$7,656
Supplemental Disclosures of Non-Cash Investing and Financing Activities		
Non-Cash Contributions of Equity Based Compensation	\$76,550	\$77,528
Cumulative effect adjustment from adoption of accounting guidance	\$(17,202)	) \$—
Debt Obligations-Foreign Exchange Gains (Losses), Translation and Other	\$(100,525)	) \$(7,356)
Tax Effects Resulting from Exchange of KKR Holdings L.P. Units and delivery of KKR & Co. L.P. Common Units	\$274	\$4,616
Net Assets Acquired		
Cash and Cash Equivalents Held at Consolidated Entities	\$—	\$150,302
Investments	\$—	\$1,247,079
Other Assets	\$—	\$109,557
Debt Obligations	\$—	\$1,150,551
Accounts Payable, Accrued Expenses and Other Liabilities	\$—	\$153,892

See notes to condensed consolidated financial statements.

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1. ORGANIZATION

KKR & Co. L.P. (NYSE: KKR), together with its consolidated subsidiaries (“KKR”), is a leading global investment firm that manages investments across multiple asset classes including private equity, energy, infrastructure, real estate, credit and hedge funds. KKR aims to generate attractive investment returns by following a patient and disciplined investment approach, employing world class people, and driving growth and value creation at the asset level. KKR invests its own capital alongside the capital it manages for fund investors and brings debt and equity investment opportunities to others through its capital markets business.

KKR & Co. L.P. was formed as a Delaware limited partnership on June 25, 2007 and its general partner is KKR Management LLC (the “Managing Partner”). KKR & Co. L.P. is the parent company of KKR Group Limited, which is the non-economic general partner of KKR Group Holdings L.P. (“Group Holdings”), and KKR & Co. L.P. is the sole limited partner of Group Holdings. Group Holdings holds a controlling economic interest in each of (i) KKR Management Holdings L.P. (“Management Holdings”) through KKR Management Holdings Corp., a Delaware corporation which is a domestic corporation for U.S. federal income tax purposes, (ii) KKR Fund Holdings L.P. (“Fund Holdings”) directly and through KKR Fund Holdings GP Limited, a Cayman Island limited company which is a disregarded entity for U.S. federal income tax purposes, and (iii) KKR International Holdings L.P. (“International Holdings”, and together with Management Holdings and Fund Holdings, the “KKR Group Partnerships”) directly and through KKR Fund Holdings GP Limited. Group Holdings also owns certain economic interests in Management Holdings through a wholly owned Delaware corporate subsidiary of KKR Management Holdings Corp. and certain economic interests in Fund Holdings through a Delaware partnership of which Group Holdings is the general partner with a 99% economic interest and KKR Management Holdings Corp. is a limited partner with a 1% economic interest. KKR & Co. L.P., through its indirect controlling economic interests in the KKR Group Partnerships, is the holding partnership for the KKR business.

KKR & Co. L.P. both indirectly controls the KKR Group Partnerships and indirectly holds Class A partner units in each KKR Group Partnership (collectively, “KKR Group Partnership Units”) representing economic interests in KKR’s business. The remaining KKR Group Partnership Units are held by KKR Holdings L.P. (“KKR Holdings”), which is not a subsidiary of KKR. As of March 31, 2015, KKR & Co. L.P. held approximately 54% of the KKR Group Partnership Units and principals through KKR Holdings held approximately 46% of the KKR Group Partnership Units. The percentage ownership in the KKR Group Partnerships will continue to change as KKR Holdings and/or principals exchange units in the KKR Group Partnerships for KKR & Co. L.P. common units or when KKR & Co. L.P. otherwise issues new KKR & Co. L.P. common units.

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of KKR & Co. L.P. have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and the instructions to Form 10-Q. The condensed consolidated financial statements (referred to hereafter as the “financial statements”), including these notes, are unaudited and exclude some of the disclosures required in annual financial statements. Management believes it has made all necessary adjustments (consisting of only normal recurring items) such that the condensed consolidated financial statements are presented fairly and that estimates made in preparing the condensed consolidated financial statements are reasonable and prudent. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. The December 31, 2014 condensed consolidated balance sheet data was derived from audited consolidated financial statements included in KKR’s Annual Report on Form 10-K for the year ended December 31, 2014, which include all disclosures required by GAAP. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in KKR & Co. L.P.’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”).

KKR & Co. L.P. consolidates the financial results of the KKR Group Partnerships and their consolidated subsidiaries, which include the accounts of KKR’s investment management and capital markets companies, the general partners of certain unconsolidated funds and vehicles, general partners of consolidated funds and their respective consolidated funds and certain other entities including certain CLOs. References in the accompanying financial statements to “principals” are to KKR’s senior employees and non-employee operating consultants who hold interests in KKR’s business through KKR Holdings, and references to “Senior Principals” are to KKR’s senior employees who hold interests in the Managing Partner entitling them to vote for the election of the Managing Partner’s directors.

#### Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of fees, expenses and investment income (loss) during the reporting periods. Such estimates include but are not limited to the valuation of investments and financial instruments. Actual results could differ from those estimates, and such differences could be material to the financial statements.

#### Principles of Consolidation

The types of entities KKR assesses for consolidation include (i) subsidiaries, including management companies, broker-dealers and general partners of investment funds that KKR manages, (ii) entities that have all the attributes of an investment company, like investment funds, (iii) CLOs and (iv) other entities, including entities that employ non-employee operating consultants. Each of these entities is assessed for consolidation on a case by case basis depending on the specific facts and circumstances surrounding that entity.

Pursuant to its consolidation policy, KKR first considers whether an entity is considered a VIE and therefore whether to apply the consolidation guidance under the VIE model. Entities that do not qualify as VIEs are generally assessed for consolidation as voting interest entities (“VOEs”) under the voting interest model.

The consolidation rules were revised effective January 1, 2010 which had the effect of changing the criteria for determining whether a reporting entity is the primary beneficiary of a VIE. However, the adoption of these new



consolidation rules was indefinitely deferred (the “Deferral”) for a reporting entity’s interests in certain entities. In particular, entities that have all the attributes of an investment company such as investment funds generally meet the conditions necessary for the Deferral. Entities that are securitization or asset-backed financing entities such as CLOs would generally not qualify for the Deferral. Accordingly, when making the assessment of whether an entity is a VIE, KKR considers whether the entity being assessed meets the conditions for the Deferral and therefore would be subject to the rules that existed prior to January 1, 2010. Under both sets of rules, VIEs for which KKR is determined to be the primary beneficiary are consolidated and such VIEs generally include certain CLO vehicles and entities that employ non-employee operating consultants.

An entity in which KKR holds a variable interest is a VIE if any one of the following conditions exist: (a) the total equity investment at risk is not sufficient to permit the legal entity to finance its activities without additional subordinated financial support, (b) the holders of equity investment at risk (as a group) lack either the direct or indirect ability through voting rights or similar rights to make decisions about a legal entity’s activities that have a significant effect on the success of the legal entity or

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the obligation to absorb the expected losses or right to receive the expected residual returns, or (c) the voting rights of some investors are disproportionate to their obligation to absorb the expected losses of the legal entity, their rights to receive the expected residual returns of the legal entity, or both and substantially all of the legal entity's activities either involve or are conducted on behalf of an investor with disproportionately few voting rights.

With respect to VIEs such as KKR's investment funds that qualify for the Deferral and therefore apply the previous consolidation rules, KKR is determined to be the primary beneficiary if its involvement, through holding interests directly or indirectly in the VIE or contractually through other variable interests (e.g., carried interest), would be expected to absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. In cases where two or more KKR related parties hold a variable interest in a VIE, and the aggregate variable interest held by those parties would, if held by a single party, identify that party as the primary beneficiary, then KKR is determined to be the primary beneficiary to the extent it is the party within the related party group that is most closely associated with the VIE.

Under the voting interest model, KKR consolidates those entities it controls through a majority voting interest or through other means, including those VOEs in which the general partner is presumed to have control. KKR does not consolidate those VOEs in which the presumption of control by the general partner has been overcome through either the granting of substantive rights to the unaffiliated fund investors to either dissolve the fund or remove the general partner ("kick-out rights") or the granting of substantive participating rights.

The consolidation assessment, including the determination as to whether an entity qualifies as a VIE or VOE depends on the facts and circumstances surrounding each entity and therefore certain of KKR's investment funds may qualify as VIEs whereas others may qualify as VOEs.

With respect to KKR's consolidated funds that are not CLOs, KKR meets the criteria for the Deferral and therefore applies the consolidation rules that existed prior to January 1, 2010. For these funds, KKR generally has operational discretion and control, and fund investors have no substantive rights to impact ongoing governance and operating activities of the fund, including the ability to remove the general partner, also known as kick-out rights. As a result, a fund should be consolidated unless KKR has a nominal level of equity at risk. To the extent that KKR commits a nominal amount of equity to a given fund and has no obligation to fund any future losses, the equity at risk to KKR is not considered substantive and the fund is typically considered a VIE. In these cases, the fund investors are generally deemed to be the primary beneficiaries, and KKR does not consolidate the fund. In cases when KKR's equity at risk is deemed to be substantive, the fund is generally considered to be a VOE and KKR generally consolidates the fund under the VOE model.

With respect to CLOs, which are generally VIEs, the criteria for the Deferral are not met and therefore KKR applies the consolidation rules issued on January 1, 2010. In its role as collateral manager, KKR generally has the power to direct the activities of the CLO entities that most significantly impact the economic performance of the entity. In some, but not all cases, KKR, through both its residual interest in the CLO and the potential to earn an incentive fee, may have variable interests that represent an obligation to absorb losses of, or a right to receive benefits from, the CLO that could potentially be significant to the CLO. In cases where KKR has both (a) the power to direct the activities of the CLO that most significantly impact the CLOs economic performance and (b) the obligation to absorb losses of the CLO or the right to receive benefits from the CLO that could potentially be significant to the CLO, KKR consolidates the CLO.

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

attributed to noncontrolling interests in the accompanying financial statements. All of the management fees and certain other amounts earned by KKR from those funds and CLOs are eliminated in consolidation. However, because the eliminated amounts are earned from and funded by noncontrolling interests, KKR's attributable share of the net income (loss) from those funds and CLOs is increased by the amounts eliminated. Accordingly, the elimination in consolidation of such amounts has no effect on net income (loss) attributable to KKR or KKR partners' capital.

KKR's funds are, for GAAP purposes, investment companies and therefore are not required to consolidate their investments in portfolio companies even if majority-owned and controlled. Rather, the consolidated funds and vehicles reflect their investments at fair value as described below in "Fair Value Measurements".

All intercompany transactions and balances have been eliminated.

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### Variable Interest Entities — Collateralized Loan Obligations

As of January 1, 2015, KKR has adopted the measurement alternative included in ASU 2014-13, “Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity” (“ASU 2014-13”), and has applied the amendments using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of January 1, 2015. Refer to the condensed consolidated statements of changes in equity.

Pursuant to ASU 2014-13, KKR measures both the financial assets and financial liabilities of the consolidated CLOs in its condensed consolidated financial statements using the more observable of the fair value of the financial assets and the fair value of the financial liabilities. KKR believes the fair value of the financial assets of the consolidated CLOs, which are Level II assets within the GAAP hierarchical levels, are more observable than the fair value of the financial liabilities of the consolidated CLOs, which are Level III liabilities. As a result, the financial assets of the consolidated CLOs are being measured at fair value and the financial liabilities are being measured in consolidation as: (1) the sum of the fair value of the financial assets and the carrying value of any nonfinancial assets that are incidental to the operations of the CLOs less (2) the sum of the fair value of any beneficial interests retained by the reporting entity (other than those that represent compensation for services) and KKR’s carrying value of any beneficial interests that represent compensation for services. The resulting amount is allocated to the individual financial liabilities (other than the beneficial interests retained by KKR) using a reasonable and consistent methodology. Under the measurement alternative, KKR’s condensed consolidated net income (loss) reflects KKR’s own economic interests in the consolidated CLOs including (i) changes in the fair value of the beneficial interests retained by KKR and (ii) beneficial interests that represent compensation for collateral management services.

Prior to the adoption of ASU 2014-13, KKR elected the fair value option for the assets and liabilities of the consolidated CLO vehicles. KKR accounted for the difference between the fair value of the assets and the fair value of the liabilities of the consolidated CLOs in Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations. This amount was attributed to KKR and third party beneficial interest holders based on each beneficial holder’s residual interest in the consolidated CLOs. The amount attributed to third party beneficial interest holders was reflected in the condensed consolidated statements of operations in Net Income (Loss) Attributable to Noncontrolling Interests and Appropriated Capital and in the condensed consolidated statements of financial condition in Appropriated Capital within Equity. The amount was recorded as Appropriated Capital since the other holders of the CLOs’ beneficial interests, not KKR, received the benefits or absorbed the losses associated with their proportionate share of the CLOs’ assets and liabilities.

### Business Combinations

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

### Oil and Natural Gas Properties

KKR proportionately consolidates working and royalty interests in oil and natural gas producing properties, which as a result of the acquisition of KKR Financial Holdings LLC (“KFN”) on April 30, 2014 became more significant.

Oil and natural gas producing activities are accounted for under the successful efforts method of accounting. Under this method, exploration costs, other than the costs of drilling exploratory wells, are charged to expense as incurred. Costs that are associated with the drilling of successful exploration wells are capitalized if proved reserves are found. Lease acquisition costs are capitalized when incurred. Costs associated with the drilling of exploratory wells that do not find proved reserves, geological and geophysical costs and costs of certain nonproducing leasehold costs are charged to expense as incurred.

Expenditures for repairs and maintenance, including workovers, are charged to expense as incurred.

The capitalized costs of producing oil and natural gas properties are depleted on a field-by-field basis using the units-of production method based on the ratio of current production to estimated total net proved oil, natural gas and natural gas liquid reserves. Proved developed reserves are used in computing depletion rates for drilling and development costs and total proved reserves are used for depletion rates of leasehold costs.

Estimated dismantlement and abandonment costs for oil and natural gas properties, net of salvage value, are capitalized at their estimated net present value and amortized on a unit-of-production basis over the remaining life of the related proved developed reserves.

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Whenever events or changes in circumstances indicate that the carrying amounts of oil and natural gas properties may not be recoverable, KKR evaluates the proved oil and natural gas properties and related equipment and facilities for impairment on a field-by-field basis. The determination of recoverability is made based upon estimated undiscounted future net cash flows. The amount of impairment loss, if any, is determined by comparing the fair value, as determined by a discounted cash flow analysis, with the carrying value of the related asset. Unproved oil and natural gas properties are assessed periodically and, at a minimum, annually on a property-by-property basis, and any impairment in value is recognized when incurred and is recorded in General, Administrative, and Other expense in the condensed consolidated statements of operations.

### Intangible Assets

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

### Goodwill

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

### Redeemable Noncontrolling Interests

Redeemable Noncontrolling Interests represent noncontrolling interests of certain investment vehicles and funds that are subject to periodic redemption by fund investors following the expiration of a specified period of time (typically between one and three years), or may be withdrawn subject to a redemption fee during the period when capital may not be otherwise withdrawn. Fund investors interests subject to redemption as described above are presented as Redeemable Noncontrolling Interests in the accompanying condensed consolidated statements of financial condition and presented as Net Income (Loss) Attributable to Redeemable Noncontrolling Interests in the accompanying condensed consolidated statements of operations.

When redeemable amounts become legally payable to fund investors, they are classified as a liability and included in Accounts Payable, Accrued Expenses and Other Liabilities in the accompanying condensed consolidated statements of financial condition. For all consolidated investment vehicles and funds in which redemption rights have not been granted, noncontrolling interests are presented within Equity in the accompanying condensed consolidated statements of financial condition as noncontrolling interests.

### Noncontrolling Interests

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

### Noncontrolling Interests in Consolidated Entities

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

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

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- (v) third parties in KKR's capital markets business;
- (vi) holders of exchangeable equity securities representing ownership interests in a subsidiary of a KKR Group Partnership issued in connection with the acquisition of Avoca; and
- (vii) holders of the 7.375% Series A LLC Preferred Shares of KFN whose rights are limited to the assets of KFN.

## Noncontrolling Interests held by KKR Holdings

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

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

	Three months ended March 31,	
	2015	2014
Balance at the beginning of the period	\$4,661,679	\$5,116,761
Net income (loss) attributable to noncontrolling interests held by KKR Holdings (a)	239,008	300,814
Other comprehensive income (loss), net of tax (b)	(11,077	) 2,469
Impact of the exchange of KKR Holdings units to KKR & Co. L.P. common units (c)	(58,140	) (144,521
Equity based compensation	20,517	35,150
Capital contributions	250	460
Capital distributions	(132,274	) (192,642
Balance at the end of the period	\$4,719,963	\$5,118,491

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

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

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

Net income (loss) attributable to KKR & Co. L.P. after allocation to noncontrolling interests held by KKR Holdings, with the exception of certain tax assets and liabilities that are directly allocable to KKR Management Holdings Corp., is attributed based on the percentage of the weighted average KKR Group Partnership Units held by KKR and KKR Holdings, each of which hold equity of the KKR Group Partnerships. However, primarily because of the (i) contribution of certain expenses borne entirely by KKR Holdings, (ii) the periodic exchange of KKR Holdings units for KKR & Co. L.P. common units pursuant to the exchange agreement and (iii) the contribution of certain expenses borne entirely by KKR associated with the KKR & Co. L.P. 2010 Equity Plan ("Equity Incentive Plan"), equity allocations shown in the condensed consolidated statement of changes in equity differ from their respective pro-rata ownership interests in KKR's net assets.

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

	Three months ended March 31,	
	2015	2014
Net income (loss)	\$1,943,009	\$2,004,166
Less: Net income (loss) attributable to Redeemable Noncontrolling Interests	1,933	10,637
	1,431,561	1,482,674



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Less: Net income (loss) attributable to Noncontrolling Interests in consolidated entities and appropriated capital

Plus: Income taxes attributable to KKR Management Holdings Corp.	6,053	10,947
Net income (loss) attributable to KKR & Co. L.P. and KKR Holdings	\$515,568	\$521,802

Net income (loss) attributable to noncontrolling interests held by KKR Holdings	\$239,008	\$300,814
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### Investments

Investments consist primarily of private equity, real assets, credit, investments of consolidated CLOs, and other investments. Investments are carried at their estimated fair values, with unrealized gains or losses resulting from changes in fair value reflected as a component of Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations. Investments denominated in currencies other than the U.S. dollar are valued based on the spot rate of the respective currency at the end of the reporting period with changes related to exchange rate movements reflected as a component of Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations. Security and loan transactions are recorded on a trade date basis. Further disclosure on investments is presented in Note 4, "Investments."

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

**Private Equity** —Consists primarily of equity investments in operating businesses.

**Real Assets** —Consists primarily of investments in (i) energy related assets, principally oil and natural gas producing properties held through consolidated investment vehicles, (ii) infrastructure assets, and (iii) real estate, principally residential and commercial real estate assets and businesses.

**Credit** —Consists primarily of investments in below investment grade corporate debt securities (primarily high yield bonds and syndicated bank loans), distressed and opportunistic debt and interests in unconsolidated CLOs.

**Investments of Consolidated CLOs** — Consists primarily of investments in below investment grade corporate debt securities (primarily high yield bonds and syndicated bank loans) held directly by the consolidated CLOs.

**Other** —Consists primarily of (i) investments in common stock, preferred stock, warrants and options of companies that are not private equity, real assets, credit and investments of consolidated CLOs as well as (ii) equity method investments.

### Equity Method

Equity method investments include (i) certain investments in private equity funds, real assets funds and credit funds, which are not consolidated, and (ii) certain investments in operating companies in which KKR is deemed to exert significant influence. Under the equity method of accounting, KKR's share of earnings (losses) from equity method investments is reflected as a component of Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations. Because the underlying investments of unconsolidated investment funds are reported at fair value, the carrying value of these equity method investments representing KKR's interests in unconsolidated funds approximates fair value. The carrying value of equity method investments in certain operating companies, which KKR is determined to exert significant influence, is determined based on the amounts invested by KKR, adjusted for the equity in earnings or losses of the investee allocated based on KKR's respective ownership percentage, less distributions. In some cases, KKR has elected the fair value option to account for certain of these equity method investments.

### Fair Value Measurements

Investments and other financial instruments are measured and carried at fair value. The majority of investments and other financial instruments are held by the consolidated funds and vehicles. KKR's funds are, for GAAP purposes, investment companies and reflect their investments and other financial instruments at fair value. KKR has retained the

specialized accounting for the consolidated funds and vehicles in consolidation. Accordingly, the unrealized gains and losses resulting from changes in fair value of the investments held by KKR's funds are reflected as a component of Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations.

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

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The carrying amounts of Other Assets, Accounts Payable, Accrued Expenses and Other Liabilities recognized on the condensed consolidated statements of financial condition (excluding fixed assets, goodwill, intangible assets, oil & gas assets, net, contingent consideration and certain debt obligations) approximate fair value due to their short term maturities. Further information on KKR's debt obligations are presented in Note 9, "Debt Obligations."

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

### Level I

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

### Level II

Inputs are other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level II inputs include quoted prices for similar instruments in active markets, and inputs other than quoted prices that are observable for the asset or liability. The type of investments and other financial instruments included in this category are credit investments, investments and debt obligations of consolidated CLOs (beginning on January 1, 2015), convertible debt securities indexed to publicly-listed securities, less liquid and restricted equity securities and certain over-the-counter derivatives such as foreign currency option and forward contracts.

### Level III

Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The types of assets and liabilities generally included in this category are private portfolio companies, real assets investments, credit investments and debt obligations of consolidated CLOs (prior to January 1, 2015) for which a sufficiently liquid trading market does not exist.

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

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

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

Investments and other financial instruments that have readily observable market prices (such as those traded on a securities exchange) are stated at the last quoted sales price as of the reporting date. KKR does not adjust the quoted price for these investments, even in situations where KKR holds a large position and a sale could reasonably affect the quoted price.

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Management's determination of fair value is based upon the best information available for a given circumstance and may incorporate assumptions that are management's best estimates after consideration of a variety of internal and external factors.

### Level II Valuation Methodologies

Financial assets and liabilities categorized as Level II consist primarily of credit investments, investments and debt obligations of consolidated CLOs, convertible debt securities indexed to publicly-listed securities, less liquid and restricted equity securities and certain over-the-counter derivatives such as foreign currency option and forward contracts.

**Credit investments and investments of consolidated CLOs:** These investments generally have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that KKR and others are willing to pay for an asset. Ask prices represent the lowest price that KKR and others are willing to accept for an asset. For financial assets and liabilities whose inputs are based on bid-ask prices obtained from third party pricing services, fair value may not always be a predetermined point in the bid-ask range. KKR's policy is generally to allow for mid-market pricing and adjusting to the point within the bid-ask range that meets KKR's best estimate of fair value.

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

**Restricted Equity Securities:** The valuation of certain equity securities is based on an observable price for an identical security adjusted for the effect of a restriction.

**Derivatives:** The valuation incorporates observable inputs comprising yield curves, foreign currency rates and credit spreads.

**CLO Debt Obligations:** Beginning on January 1, 2015 with the adoption of ASU 2014-13, KKR measures CLO debt obligations on the basis of the fair value of the financial assets of the CLO.

### Level III Valuation Methodologies

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

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

methodologies. However, when a definitive agreement has been executed to sell an investment, KKR generally considers a significant determinant of fair value to be the consideration to be received by KKR pursuant to the executed definitive agreement.

Upon completion of the valuations conducted using these methodologies, a weighting is ascribed to each method, and an illiquidity discount is typically applied where appropriate. The ultimate fair value recorded for a particular investment will generally be within a range suggested by the two methodologies, except that the value may be higher or lower than such range in the case of investments being sold pursuant to an executed definitive agreement.

When determining the weighting ascribed to each valuation methodology, KKR considers, among other factors, the availability of direct market comparables, the applicability of a discounted cash flow analysis, the expected hold period and manner of realization for the investment, and in the case of investments being sold pursuant to an executed definitive agreement, the probability of such sale being completed. These factors can result in different weightings among investments in

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the portfolio and in certain instances may result in up to a 100% weighting to a single methodology. Across the Level III private equity investment portfolio, approximately 55.4% of the fair value is derived from investments that are valued based exactly 50% on market comparables and 50% on a discounted cash flow analysis. Less than 5% of the fair value of the Level III private equity investment portfolio is derived from investments that are valued either based 100% on market comparables or 100% on a discounted cash flow analysis.

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

**Real Assets Investments:** Real asset investments in infrastructure, energy and real estate are valued using one or more of the discounted cash flow analysis, market comparables analysis and direct income capitalization, which in each case incorporates significant assumptions and judgments. Infrastructure investments are generally valued using the discounted cash flow analysis. Key inputs used in this methodology include the weighted average cost of capital and assumed inputs used to calculate terminal values, such as exit EBITDA multiples. Energy investments are generally valued using a discounted cash flow analysis. Key inputs used in this methodology that require estimates include the weighted average cost of capital. In addition, the valuations of energy investments generally incorporate both commodity prices as quoted on indices and long-term commodity price forecasts, which may be substantially different from, and are currently higher than, commodity prices on certain indices for equivalent future dates. Certain energy investments do not include an illiquidity discount. Long-term commodity price forecasts are utilized to capture the value of the investments across a range of commodity prices within the energy investment portfolio associated with future development and to reflect a range of price expectations. Real estate investments are generally valued using a combination of direct income capitalization and discounted cash flow analysis. Key inputs used in such methodologies that require estimates include an unlevered discount rate and current capitalization rate, and certain real estate investments do not include a minimum illiquidity discount. The valuations of real assets investments also use other inputs.

**Credit Investments:** Credit investments are valued using values obtained from dealers or market makers, and where these values are not available, credit investments are valued by KKR based on ranges of valuations determined by an independent valuation firm. Valuation models are based on discounted cash flow analyses, for which the key inputs are determined based on market comparables, which incorporate similar instruments from similar issuers.

**Other Investments:** With respect to other investments including equity method investments for which the fair value election has been made, KKR generally employs the same valuation methodologies as described above for private



equity investments when valuing these other investments.

CLO Debt Obligations: Prior to January 1, 2015 and the adoption of ASU 2014-13, collateralized loan obligation senior secured and subordinated notes were initially valued at the transaction price and were subsequently valued using a third party valuation service. The approach used to estimate the fair values was the discounted cash flow method, which includes consideration of the cash flows of the debt obligation based on projected quarterly interest payments and quarterly amortization. The debt obligations were discounted based on the appropriate yield curve given the debt obligation's respective maturity and credit rating. The most significant inputs to the valuation of these financial instruments were default and loss expectations and discount margins. As described above in Fair Value Measurements - Summary of Significant Accounting Policies - Level II Valuation Methodologies, beginning on January 1, 2015, with the adoption of ASU 2014-13, KKR measures CLO debt obligations on the basis of the fair value of the financial assets of the CLO.

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

### Level III Valuation Process

The valuation process involved for Level III measurements is completed on a quarterly basis and is designed to subject the valuation of Level III investments to an appropriate level of consistency, oversight, and review. KKR has a Private Markets valuation committee for private equity and real assets investments and a valuation committee for credit (including investments held by consolidated CLOs) and other investments. The Private Markets valuation committee is assisted by subcommittees in the valuation of real asset investments. Each of the Private Markets valuation committee and the credit valuation committee is assisted by a valuation team, which, except as noted below, is comprised only of employees who are not investment professionals responsible for preparing preliminary valuations or for oversight of the investments being valued. The valuation teams or subcommittees for real asset investments include investment professionals who participate in the preparation of preliminary valuations and oversight for those investments. The valuation committees and teams are responsible for coordinating and consistently implementing KKR's quarterly valuation policies, guidelines and processes. For Private Markets investments classified as Level III, investment professionals prepare preliminary valuations based on their evaluation of financial and operating data, company specific developments, market valuations of comparable companies and other factors. These preliminary valuations are reviewed with the investment professionals by the applicable valuation team and are also reviewed by an independent valuation firm engaged by KKR to perform certain procedures in order to assess the reasonableness of KKR's valuations annually for all Level III investments in Private Markets and quarterly for investments other than certain investments, which are less than pre-set value thresholds and which in the aggregate comprise less than 5% of the total value of KKR's Level III Private Markets investments. For most investments classified as Level III in Public Markets, in general, an independent valuation firm is engaged by KKR to provide third party valuations, or ranges of valuations from which KKR's investment professionals select a point in the range to determine the preliminary valuation, or an independent valuation firm is engaged by KKR to perform certain procedures in order to assess the reasonableness and provide positive assurance of KKR's valuations. All preliminary valuations in Private Markets and Public Markets are then reviewed by the applicable valuation committee, and after reflecting any input by their respective valuation committees, the preliminary valuations are presented to the firm's management committee. When these valuations are approved by this committee after reflecting any input from it, the valuations of Level III investments, as well as the valuations of Level I and Level II investments, are presented to the audit committee of KKR's board of directors and are then reported on to the board of directors.

### Fees and Other

Fees and other consist primarily of (i) transaction fees earned in connection with successful investment transactions and from capital markets activities, (ii) management and incentive fees from providing investment management services to unconsolidated funds, CLOs, other vehicles, and separately managed accounts, (iii) monitoring fees from providing services to portfolio companies, (iv) revenue earned by oil and gas-producing entities that are consolidated and (v) consulting fees earned by entities that employ non-employee operating consultants.

For the three months ended March 31, 2015 and 2014, respectively, fees and other consisted of the following:

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	Three Months Ended	
	March 31,	
	2015	2014
Monitoring Fees	\$ 111,525	\$ 52,349
Transaction Fees	92,605	155,154
Management Fees	48,205	50,185
Oil and Gas Revenue	24,944	17,781
Consulting Fees	8,427	10,351
Incentive Fees	5,639	17,106
Total Fees and Other	\$ 291,345	\$ 302,926

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All fees presented in the table above, except for oil and gas revenue, are earned from KKR investment funds, vehicles and portfolio companies. Consulting fees are earned by certain consolidated entities that employ non-employee operating consultants from providing advisory and other services to portfolio companies and other companies and are recognized as the services are rendered. These fees are separately negotiated with each company for which services are provided and are not shared with KKR.

### Monitoring, Transaction, Management, Consulting, and Incentive Fees Recognition

Monitoring, transaction, management, consulting and incentive fees are recognized when earned based on the contractual terms of the governing agreements and coincides with the period during which the related services are performed. In the case of transaction fees, the fees are recognized upon closing of the transaction. Monitoring fees may provide for a termination payment following an initial public offering or change of control. These termination payments are recognized in the period when the related transaction closes.

### Oil and Gas Revenue Recognition

Oil and gas revenues are recognized when production is sold to a purchaser at fixed or determinable prices, when delivery has occurred and title has transferred and collectability of the revenue is reasonably assured. The oil and gas producing entities consolidated by KKR follow the sales method of accounting for natural gas revenues. Under this method of accounting, revenues are recognized based on volumes sold, which may differ from the volume to which the entity is entitled based on KKR's working interest. An imbalance is recognized as a liability only when the estimated remaining reserves will not be sufficient to enable the under-produced owners to recoup their entitled share through future production. Under the sales method, no receivables are recorded when these entities have taken less than their share of production and no payables are recorded when it has taken more than its share of production unless reserves are not sufficient.

### Recently Issued Accounting Pronouncements

#### Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers Topic 606 ("ASU 2014-09") which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. Revenue recorded under ASU 2014-09 will depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In April 2015, the FASB proposed to defer the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017 and early adoption is not permitted. A full retrospective or modified retrospective approach is required. KKR is currently evaluating the impact the adoption of this guidance may have on its financial statements, including with respect to the timing of the recognition of carried interest.

#### Measurement of Financial Assets and Liabilities - Consolidated Collateralized Financing Entities

In August 2014, the FASB issued ASU 2014-13, "Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity" ("CFE"), such as CLOs. ASU 2014-13 provides an entity with an election to measure the financial assets and financial liabilities of a consolidated CFE on the basis of either the fair value of the CFE's financial assets or financial liabilities, whichever is more observable. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted and this guidance was early adopted by KKR on January 1, 2015 using a modified retrospective approach

by recording a cumulative-effect adjustment to equity as of the beginning of the annual period. Refer above to Variable Interest Entities - Collateralized Loan Obligations.  
Going Concern

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements — Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). The guidance in ASU 2014-15 sets forth management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern as well as required disclosures. ASU 2014-15 indicates that, when preparing interim and annual financial statements, management should evaluate whether conditions or events, in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern for one year from the date the financial statements are issued or are available to be issued. This evaluation should include consideration of conditions and events that are either known or are reasonably

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knowable at the date the financial statements are issued or are available to be issued, as well as whether it is probable that management's plans to address the substantial doubt will be implemented and, if so, whether it is probable that the plans will alleviate the substantial doubt. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods and annual periods thereafter. Early adoption is permitted, and a prospective approach is required. The adoption of this guidance is not expected to have a material impact on KKR's financial statements.

### Derivatives and Hedging

In November 2014, the FASB issued ASU No. 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity ("ASU 2014-16"). The guidance in ASU 2014-16 states that implied substantive terms and features of a hybrid financial instrument issued in the form of a stock should weigh each term and feature on the basis of relevant facts and circumstances. An entity should determine the nature of the host contract by considering the economic characteristics and risks of the entire hybrid financial instrument, including the embedded derivative feature that is being evaluated for separate accounting from the host contract. ASU 2014-16 is effective for reporting periods starting after December 15, 2015 and for interim periods within the fiscal year. Early adoption is permitted, and a retrospective approach is permitted but not required. The adoption of this guidance is not expected to have a material impact on KKR's financial statements.

### Consolidation

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis ("ASU 2015-02"). The guidance in ASU 2015-02 eliminates the presumption that a general partner should consolidate a limited partnership and also eliminates the consolidation model specific to limited partnerships. The amendments also clarify how to treat fees paid to an asset manager or other entity that makes the decisions for the investment vehicle and whether such fees should be considered in determining when a variable interest entity should be reported on an asset manager's balance sheet. ASU 2015-02 is effective for reporting periods starting after December 15, 2015 and for interim periods within the fiscal year. Early adoption is permitted, and a full retrospective or modified retrospective approach is required. KKR is evaluating the impact on its financial statements and expects to deconsolidate certain investment funds, vehicles and entities upon adoption of this guidance.

### Interest - Imputation of Interest

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). The guidance in ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted, and a retrospective approach is required. The adoption of this guidance is not expected to have a material impact on KKR's financial statements.

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## 3. NET GAINS (LOSSES) FROM INVESTMENT ACTIVITIES

Net Gains (Losses) from Investment Activities in the condensed consolidated statements of operations consist primarily of the realized and unrealized gains and losses on investments (including foreign exchange gains and losses attributable to foreign denominated investments and related activities) and other financial instruments, including those for which the fair value option has been elected. Unrealized gains or losses result from changes in the fair value of these investments and other financial instruments during a period. Upon disposition of an investment or financial instrument, previously recognized unrealized gains or losses are reversed and an offsetting realized gain or loss is recognized in the current period.

The following table summarizes total Net Gains (Losses) from Investment Activities for the three months ended March 31, 2015 and 2014, respectively:

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014	
	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)
Private Equity (a)	\$1,619,876	\$ 271,278	\$635,069	\$ 1,045,459
Credit and Other (a)	42,826	(275,975 )	159,780	134,845
Investments of Consolidated CLOs (a)	(17,271 )	92,903	(225 )	16,450
Real Assets (a)	—	(100,112 )	2,655	(10,353 )
Foreign Exchange Forward Contracts and Options (b)	133,931	323,310	(8,439 )	9,283
Securities Sold Short (b)	(1,637 )	(21,802 )	(16,013 )	23,989
Other Derivatives	(7,679 )	9,439	(18,009 )	5,161
Foreign Exchange Gains (Losses) on Debt Obligations (c)	11,017	(108,511 )	(2,236 )	(2,882 )
Foreign Exchange Gains (Losses) and Other (d)	24,724	(76,492 )	(1,955 )	(399 )
Total Net Gains (Losses) from Investment Activities	\$1,805,787	\$ 114,038	\$750,627	\$ 1,221,553

(a) See Note 4 "Investments."

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

(c) See Note 9 "Debt Obligations."

(d) Foreign Exchange Gains (Losses) includes foreign exchange gains (losses) on cash and cash equivalents and cash and cash equivalents held at consolidated entities.

## 4. INVESTMENTS

Investments consist of the following:

	Fair Value		Cost	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
Private Equity	\$37,912,609	\$ 38,222,255	\$28,736,938	\$ 29,317,314
Credit	6,985,924	6,702,740	7,391,974	6,906,583
Investments of Consolidated CLOs	8,049,472	8,559,967	8,211,888	8,815,286
Real Assets	3,874,099	3,130,404	6,197,448	5,354,191
Other	4,149,349	3,552,260	3,851,655	3,182,917

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Total Investments	\$60,971,453	\$ 60,167,626	\$54,389,903	\$ 53,576,291
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As of March 31, 2015, investments which represented greater than 5% of total investments consisted of Walgreens Boots Alliance Inc. of \$4.4 billion and First Data Corporation of \$4.2 billion. As of December 31, 2014, investments which represented greater than 5% of total investments consisted of Walgreens Boots Alliance Inc. of \$5.5 billion and First Data Corporation of \$3.8 billion. In addition, as of March 31, 2015 and December 31, 2014, investments totaling \$10.1 billion and \$11.4 billion, respectively, were pledged as direct collateral against various financing arrangements. See Note 9 "Debt Obligations."

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The following table represents private equity investments by industry as of March 31, 2015 and December 31, 2014:

	Fair Value	
	March 31, 2015	December 31, 2014
Health Care	\$9,652,931	\$10,269,605
Financial Services	6,111,757	5,691,815
Technology	4,520,091	4,262,800
Retail	4,359,055	4,141,276
Manufacturing	4,217,880	4,227,859
Other	9,050,895	9,628,900
	\$37,912,609	\$38,222,255

In the table above, other investments represent private equity investments in the following industries: Consumer Products, Education, Forestry, Media, Services, Telecommunications, Transportation, Hotel/Leisure, Packaging, Mining, Agriculture and Recycling. None of these industries represents more than 10% of total private equity investments as of March 31, 2015.

The majority of the securities underlying private equity investments represent equity securities. As of March 31, 2015 and December 31, 2014, the fair value of investments that were other than equity securities amounted to \$602.2 million and \$577.0 million, respectively.

## 5. FAIR VALUE MEASUREMENTS

The following tables summarize the valuation of KKR's assets and liabilities reported at fair value by the fair value hierarchy levels described in Note 2 "Summary of Significant Accounting Policies" as of March 31, 2015 and December 31, 2014 including those investments, other financial instruments and debt obligations of consolidated CLOs for which the fair value option has been elected. Equity Method Investments for which the fair value option has not been elected have been excluded from the tables below.

Assets, at fair value:

	March 31, 2015			Total
	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Observable Inputs (Level II)	Other Significant Unobservable Inputs (Level III)	
Private Equity	\$6,773,425	\$ 5,006,969	\$ 26,132,215	\$37,912,609
Credit	—	2,759,699	4,226,225	6,985,924
Investments of Consolidated CLOs	—	7,895,816	153,656	8,049,472
Real Assets	—	—	3,874,099	3,874,099
Other	806,462	432,407	2,381,303	3,620,172
Total	7,579,887	16,094,891	36,767,498	60,442,276
Foreign Exchange Contracts and Options	—	871,040	—	871,040
Other Derivatives	1,553	14,696	—	16,249
Total Assets	\$7,581,440	\$ 16,980,627	\$ 36,767,498	\$61,329,565

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	December 31, 2014			
	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Total
Private Equity	\$5,940,470	\$ 6,005,764	\$ 26,276,021	\$38,222,255
Credit	—	2,510,038	4,192,702	6,702,740
Investments of Consolidated CLOs	—	8,467,472	92,495	8,559,967
Real Assets	—	—	3,130,404	3,130,404
Other	573,983	276,051	2,133,001	2,983,035
Total	6,514,453	17,259,325	35,824,623	59,598,401
Foreign Exchange Contracts and Options	—	517,088	—	517,088
Other Derivatives	2,246	9,651	—	11,897
Total Assets	\$6,516,699	\$ 17,786,064	\$ 35,824,623	\$60,127,386
Liabilities, at fair value:				
	March 31, 2015			
	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Total
Securities Sold Short	\$583,069	\$ 576	\$—	\$583,645
Foreign Exchange Contracts and Options	—	102,598	—	102,598
Unfunded Revolver Commitments	—	4,788	—	4,788
Other Derivatives	—	71,266	—	71,266
Total Liabilities	\$583,069	\$ 179,228	\$—	\$762,297
	December 31, 2014			
	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Total
Securities Sold Short	\$630,794	\$ 2,338	\$—	\$633,132
Foreign Exchange Contracts and Options	—	71,956	—	71,956
Unfunded Revolver Commitments	—	3,858	—	3,858
Other Derivatives	—	75,150	—	75,150
Debt Obligations of Consolidated CLOs	—	—	7,615,340	7,615,340
Total Liabilities	\$630,794	\$ 153,302	\$7,615,340	\$8,399,436

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The following tables summarize changes in assets and liabilities reported at fair value for which Level III inputs have been used to determine fair value for the three months ended March 31, 2015 and 2014, respectively:

Three Months Ended March 31, 2015							
	Private Equity	Credit	Investments of Consolidated Real Assets CLOs	Other	Total Level III Investments	Debt Obligations of Consolidated CLOs	
Balance, Beg. of Period	\$26,276,021	\$4,192,702	\$92,495	\$3,130,404	\$2,133,001	35,824,623	\$7,615,340
Transfers In (1)	—	16,706	108,340	—	1,187	126,233	—
Transfers Out (2)	(1,212,235 )	(12,860 )	—	—	(1,710 )	(1,226,805 )	—
Acquisitions	—	—	—	—	—	—	—
Purchases	688,776	433,196	1,308	853,770	414,362	2,391,412	—
Sales	(327,054 )	(196,667 )	(3,138 )	(9,963 )	(99,163 )	(635,985 )	—
Settlements	—	57,567	(883 )	—	1,969	58,653	—
Net Realized Gains (Losses)	145,084	(6,536 )	—	—	1,229	139,777	—
Net Unrealized Gains (Losses)	561,623	(257,883 )	(44,466 )	(100,112 )	(69,572 )	89,590	—
Change in Accounting Principle (3)	—	—	—	—	—	—	(7,615,340 )
Change in Other Comprehensive Income	—	—	—	—	—	—	—
Balance, End of Period	\$26,132,215	\$4,226,225	\$153,656	\$3,874,099	\$2,381,303	36,767,498	\$—
Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities	\$712,482	\$(289,389 )	\$(44,466 )	\$(100,112 )	\$(71,431 )	207,084	\$—
Three Months Ended March 31, 2014							
	Level III Assets				Total Level III Investments	Level III Liabilities	
	Private Equity	Credit	Investments of Consolidated Real Assets CLOs	Other		Debt Obligations of Consolidated CLOs	
Balance, Beg. of Period	\$29,082,505	\$1,944,464	\$—	\$3,300,674	\$348,486	\$34,676,129	\$—
Transfers In (1)	—	—	—	—	—	—	—
Transfers Out (2)	(1,258,584 )	—	—	—	—	(1,258,584 )	—
Acquisitions	—	—	—	—	—	—	1,150,551
Purchases	2,122,439	453,205	—	496,219	406,465	3,478,328	—
Sales	(24,131 )	(134,166 )	—	(4,669 )	(19,207 )	(182,173 )	—
Settlements	—	15,720	—	—	—	15,720	—
Net Realized Gains (Losses)	(695,318 )	28,734	—	2,655	176	(663,753 )	—

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Net Unrealized Gains (Losses)	1,649,418	9,409	—	(13,951 )	42,718	1,687,594	2,239
Change in Other Comprehensive Income	—	—	—	—	—	—	—
Balance, End of Period	\$30,876,329	\$2,317,366	\$—	\$3,780,928	\$778,638	\$37,753,261	\$1,152,790
Changes in Net Unrealized Gains (Losses) Included in Net Gains (Losses) from Investment Activities	\$954,100	\$38,032	\$—	\$(13,951 )	\$43,665	\$1,021,846	\$2,239

The Transfers In noted in the tables above for credit, investments of consolidated CLOs and other investments are (1) principally attributable to certain investments that experienced an insignificant level of market activity during the period and thus were valued in the absence of observable inputs.

(2) The Transfers Out noted in the tables above for private equity investments are attributable to portfolio companies that are now valued using their publicly traded market price. The Transfers Out noted above for credit and other

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investments are principally attributable to certain investments that experienced a higher level of market activity during the period and thus were valued using observable inputs.

Upon adoption of ASU 2014-13, the debt obligations of consolidated CLOs are no longer Level III financial liabilities under the GAAP fair value hierarchy. As of March 31, 2015, the debt obligations of consolidated CLOs (3) are measured on the basis of the fair value of the financial assets of the CLO and are classified as Level II financial liabilities. See Note 2 " Summary of Significant Accounting Policies".

Total realized and unrealized gains and losses recorded for Level III investments are reported in Net Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations. There were no transfers between Level I and Level II during the three months ended March 31, 2015. There was one transfer for \$318.9 million between Level I and Level II for private equity investments during the three months ended March 31, 2014 attributable to a portfolio company that is now valued using its publicly traded market price.

The following table presents additional information about valuation methodologies and significant unobservable inputs used for investments that are measured at fair value and categorized within Level III as of March 31, 2015:

	Fair Value March 31, 2015	Valuation Methodologies	Unobservable Input(s) (1)	Weighted Average (2)	Range	Impact to Valuation from an Increase in Input (3)
Private Equity Investments	\$26,132,215					
Financial Services	\$5,683,574	Inputs to market comparable, discounted cash flow and transaction cost	Illiquidity Discount	10.2%	10% - 15%	Decrease
			Weight Ascribed to Market Comparables	43.0%	38% - 100%	(4)
			Weight Ascribed to Discounted Cash Flow	38.3%	0% - 50%	(5)
			Weight Ascribed to Transaction Price	18.7%	0% - 25%	(6)
		Market comparables	Enterprise Value/LTM EBITDA Multiple	13.0x	11.4x - 13.4x	Increase
			Enterprise Value/Forward EBITDA Multiple	11.4x	10.4x - 11.7x	Increase
			Weighted Average Cost of Capital	11.1%	9.5% - 11.5%	Decrease
		Discounted cash flow	Enterprise Value/LTM EBITDA Exit Multiple	10.4x	10.0x - 10.5x	Increase
		Technology	\$4,276,447	Inputs to market comparable, discounted cash flow and transaction cost	Illiquidity Discount	7.3%
Weight Ascribed to Market Comparables	32.9%				0% - 100%	(4)
Weight Ascribed to Discounted Cash Flow	32.8%				0% - 50%	(5)
Weight Ascribed to Transaction Price	34.3%				0% - 100%	(6)

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		Enterprise Value/LTM EBITDA Multiple	12.1x	5.9x - 15.9x	Increase
	Market comparables	Enterprise Value/Forward EBITDA Multiple	10.9x	5.3x - 12.9x	Increase
	Discounted cash flow	Weighted Average Cost of Capital	12.1%	8.1% - 20.7%	Decrease
		Enterprise Value/LTM EBITDA Exit Multiple	9.0x	5.5x - 10.0x	Increase
Healthcare	\$3,452,306	Illiquidity Discount	6.1%	2.5% - 15%	Decrease
	Inputs to market comparable, discounted cash flow and transaction cost	Weight Ascribed to Market Comparables	26.0%	0% - 50%	(4)
		Weight Ascribed to Discounted Cash Flow	35.7%	12.5% - 100%	(5)
		Weight Ascribed to Transaction Price	38.3%	0% - 75%	(6)
	Market comparables	Enterprise Value/LTM EBITDA Multiple	11.2x	9.6x - 13.2x	Increase
		Enterprise Value/Forward EBITDA Multiple	10.5x	8.8x - 11.9x	Increase
	Discounted cash flow	Weighted Average Cost of Capital	11.7%	9.0% - 13.2%	Decrease
		Enterprise Value/LTM EBITDA Exit Multiple	10.3x	7.5x - 11.5x	Increase
Retail	\$3,428,590	Illiquidity Discount	7.7%	5% - 20%	Decrease
	Inputs to market comparable, discounted cash flow and transaction	Weight Ascribed to Market Comparables	44.5%	0% - 50%	(4)
		Weight Ascribed to Discounted Cash Flow	44.6%	37.5% - 100%	(5)
		Weight Ascribed to Transaction Price	10.9%	0% - 25%	(6)

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	Fair Value March 31, 2015	Valuation Methodologies	Unobservable Input(s) (1)	Weighted Average (2)	Range	Impact to Valuation from an Increase in Input (3)
Retail (cont.)		Market comparables	Enterprise Value/LTM EBITDA Multiple	11.0x	7.0x - 14.3x	(7) Increase
			Enterprise Value/Forward EBITDA Multiple	9.6x	6.7x - 11.0x	(7) Increase
		Discounted cash flow	Weighted Average Cost of Capital	10.6%	9.0% - 22.2%	Decrease
			Enterprise Value/LTM EBITDA Exit Multiple	8.1x	6.0x - 10.8x	Increase
Manufacturing	\$3,392,657	Inputs to both market comparable and discounted cash flow	Illiquidity Discount	8.5%	5% - 21%	Decrease
			Weight Ascribed to Market Comparables	46.1%	33.3% - 50%	(4)
			Weight Ascribed to Discounted Cash Flow	53.9%	50% - 66.7%	(5)
			Enterprise Value/LTM EBITDA Multiple	11.6x	6.8x - 19.6x	Increase
		Market comparables	Enterprise Value/Forward EBITDA Multiple	10.6x	7.5x - 14.6x	Increase
			Control Premium	20.0%	20% - 20%	(8) Increase
		Discounted cash flow	Weighted Average Cost of Capital	14.0%	9.5% - 20.6%	Decrease
			Enterprise Value/LTM EBITDA Exit Multiple	9.6x	7.0x - 10.5x	Increase
Other	\$5,898,641	Inputs to market comparable, discounted cash flow and transaction cost	Illiquidity Discount	11.6%	5% - 20%	Decrease
			Weight Ascribed to Market Comparables	47.3%	0% - 100%	(4)
			Weight Ascribed to Discounted Cash Flow	52.7%	0% - 100%	(5)
			Enterprise Value/LTM EBITDA Multiple	11.9x	6.9x - 19.7x	Increase
		Market comparables	Enterprise Value/Forward EBITDA Multiple	10.7x	6.5x - 14.8x	Increase
			Control Premium	15.8%	10% - 20%	(8) Increase
		Discounted cash flow	Weighted Average Cost of Capital	12.8%	8% - 25.3%	Decrease
			Enterprise Value/LTM EBITDA Exit Multiple	9.9x	6.5x - 12.0x	Increase
Real Assets	\$3,874,099					
Energy	\$1,615,253			12.6%		Decrease

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		Discounted cash flow	Weighted Average Cost of Capital		8.9% - 17.6%	
			Average Price Per BOE (12)	\$30.50	\$25.46 - \$33.97	Increase
Infrastructure	\$944,891	Discounted cash flow	Weighted Average Cost of Capital	7.8%	5.7% - 12.5%	Decrease
			Enterprise Value/LTM EBITDA Exit Multiple	8.7x	7.8x - 10.0x	Increase
Real Estate	\$1,313,955	Inputs to direct income capitalization and discounted cash flow	Weight Ascribed to Direct Income Capitalization	31.1%	0% - 100%	(10)
			Weight Ascribed to Discounted Cash Flow	68.9%	0% - 100%	(5)
		Direct Income Capitalization	Current Capitalization Rate	7.0%	4.5% - 11.9%	Decrease
		Discounted cash flow	Unlevered Discount Rate	9.7%	7.3% - 20%	Decrease
Credit (11)	\$4,379,881 (9)		Yield	11.3%	5.9% - 22.4%	Decrease
		Yield Analysis	Net Leverage	5.3x	0.4x - 12.6x	Decrease
			EBITDA Multiple	8.0x	0.7x - 14.9x	Increase

In the table above, Other Investments, within private equity investments, represents the following industries: Consumer Products, Education, Forestry, Media, Services, Telecommunications, Transportation, Hotels/Leisure, Mining, Agriculture and Recycling. None of these industries represents more than 10% of total Level III private equity investments as of March 31, 2015.

In determining certain of these inputs, management evaluates a variety of factors including economic conditions, industry and market developments, market valuations of comparable companies and company specific (1) developments including exit strategies and realization opportunities. Management has determined that market participants would take these inputs into account when valuing the investments. LTM means Last Twelve Months and EBITDA means Earnings Before Interest Taxes Depreciation and Amortization. (2) Inputs were weighted based on the fair value of the investments included in the range.



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- Unless otherwise noted, this column represents the directional change in the fair value of the Level III investments that would result from an increase to the corresponding unobservable input. A decrease to the unobservable input would have the opposite effect. Significant increases and decreases in these inputs in isolation could result in significantly higher or lower fair value measurements.
- (3) The directional change from an increase in the weight ascribed to the market comparables approach would increase the fair value of the Level III investments if the market comparables approach results in a higher valuation than the discounted cash flow approach and transaction price. The opposite would be true if the market comparables approach results in a lower valuation than the discounted cash flow approach and transaction price.
- (4) The directional change from an increase in the weight ascribed to the discounted cash flow approach would increase the fair value of the Level III investments if the discounted cash flow approach results in a higher valuation than the market comparables approach, transaction price and direct income capitalization approach. The opposite would be true if the discounted cash flow approach results in a lower valuation than the market comparables approach and transaction price.
- (5) The directional change from an increase in the weight ascribed to the transaction price would increase the fair value of the Level III investments if the transaction price results in a higher valuation than the market comparables and discounted cash flow approach. The opposite would be true if the transaction price results in a lower valuation than the market comparables approach and discounted cash flow approach.
- (6) Ranges shown exclude inputs relating to a single portfolio company that was determined to lack comparability with other investments in KKR's private equity portfolio. This portfolio company had a fair value representing less than 0.5% of the total fair value of Private Equity Investments and had an Enterprise Value/LTM EBITDA Multiple and Enterprise Value/Forward EBITDA Multiple of 31.4x and 21.3x, respectively. The exclusion of this investment does not impact the weighted average.
- (7) Level III private equity investments whose valuations include a control premium represent less than 5% of total Level III private equity investments. The valuations for the remaining investments do not include a control premium.
- (8) Amounts include \$504.0 million of investments that were valued using dealer quotes or third party valuation firms.
- (9) The directional change from an increase in the weight ascribed to the direct income capitalization approach would increase the fair value of the Level III investments if the direct income capitalization approach results in a higher valuation than the discounted cash flow approach. The opposite would be true if the direct income capitalization approach results in a lower valuation than the discounted cash flow approach.
- (10) Includes Level III Credit Investments and Level III Investments of Consolidated CLOs.
- (11) The total Energy fair value amount includes multiple investments (in multiple locations throughout North America) that are held in multiple investment funds and produce varying quantities of oil, condensate, natural gas liquids, and natural gas. Commodity price may be measured using a common volumetric equivalent where one barrel of oil equivalent, or BOE, is determined using the ratio of six thousand cubic feet of natural gas to one barrel of oil, condensate or natural gas liquids. The price per BOE is provided to show the aggregate of all price inputs for the various investments over a common volumetric equivalent although the valuations for specific investments may use price inputs specific to the asset for purposes of our valuations. The discounted cash flows include forecasted production of liquids (oil, condensate, and natural gas liquids) and natural gas with a forecasted revenue ratio of approximately 36% liquids and 64% natural gas.
- (12)

In the table above, certain private equity investments may be valued at cost for a period of time after an acquisition as the best indicator of fair value. In addition, certain valuations of private equity investments may be entirely or partially derived by reference to observable valuation measures for a pending or consummated transaction.

The table above excludes Other Investments in the amount of \$2.4 billion comprised primarily of privately-held equity and equity-like securities (e.g. warrants) in companies that are neither private equity, real assets nor credit investments. These investments were valued using Level III valuation methodologies that are generally the same as those shown for private equity investments.

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

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

For the three months ended March 31, 2015 and 2014, basic and diluted Net Income (Loss) attributable to KKR & Co. L.P. per common unit were calculated as follows:

	Three Months Ended	
	March 31, 2015	March 31, 2014
Net Income (Loss) Attributable to KKR & Co. L.P.	\$270,507	\$210,041
Basic Net Income (Loss) Per Common Unit		
Weighted Average Common Units Outstanding - Basic	434,874,820	293,490,461
Net Income (Loss) Attributable to KKR & Co. L.P. Per Common Unit - Basic	\$0.62	\$0.72
Diluted Net Income (Loss) Per Common Unit		
Weighted Average Common Units Outstanding - Basic	434,874,820	293,490,461
Weighted Average Unvested Common Units and Other Exchangeable Securities	37,350,524	31,613,768
Weighted Average Common Units Outstanding - Diluted	472,225,344	325,104,229
Net Income (Loss) Attributable to KKR & Co. L.P. Per Common Unit - Diluted	\$0.57	\$0.65

Weighted Average Common Units Outstanding—Diluted primarily includes unvested equity awards that have been granted under the Equity Incentive Plan as well as exchangeable equity securities issued in connection with the acquisition of Avoca. Vesting or exchanges of these equity interests dilute KKR and KKR Holdings pro rata in accordance with their respective ownership interests in the KKR Group Partnerships.

	Three Months Ended	
	March 31, 2015	March 31, 2014
Weighted Average KKR Holdings Units Outstanding	375,836,317	399,474,991

For the three months ended March 31, 2015 and 2014, KKR Holdings units have been excluded from the calculation of diluted Net Income (Loss) attributable to KKR & Co. L.P. per common unit since the exchange of these units would not dilute KKR's respective ownership interests in the KKR Group Partnerships.

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

Other Assets consist of the following:

	March 31, 2015	December 31, 2014
Foreign Exchange Contracts and Options (a)	\$871,040	\$517,088
Interest, Dividend and Notes Receivable (b)	617,626	594,288
Due from Broker (c)	467,933	561,554
Oil & Gas Assets, net (d)	455,481	460,658
Unsettled Investment Sales (e)	291,983	176,622
Deferred Tax Assets, net	266,289	237,982
Intangible Assets, net (f)	196,688	209,202
Goodwill (f)	89,000	89,000
Fixed Assets, net (g)	75,492	76,247
Receivables	56,244	55,876
Deferred Financing Costs	50,732	46,058
Derivative Assets	16,249	11,897
Deferred Transaction Related Expenses	14,218	14,981
Prepaid Expenses	13,890	8,812
Prepaid Taxes	6,334	31,267
Other	21,725	72,685
Total	\$3,510,924	\$3,164,217

Represents derivative financial instruments used to manage foreign exchange risk arising from certain foreign denominated investments. Such instruments are measured at fair value with changes in fair value recorded in Net (a) Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations. See Note 3 "Net Gains (Losses) from Investment Activities" for the net changes in fair value associated with these instruments.

(b) Represents interest and dividend receivables and promissory notes due from third parties. The promissory notes bear interest at rates ranging from 2.0% -3.0% per annum and mature between 2016 and 2018.

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

(d) Includes proved and unproved oil and natural gas properties under the successful efforts method of accounting, which is net of impairment write-downs, accumulated depreciation, depletion and amortization.

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

(f) See Note 15 "Goodwill and Intangible Assets."

(g) Net of accumulated depreciation and amortization of \$126,823 and \$122,908 as of March 31, 2015 and December 31, 2014, respectively. Depreciation and amortization expense of \$3,914 and \$4,047 for the three months ended March 31, 2015 and 2014, respectively, is included in General, Administrative and Other in the accompanying condensed consolidated statements of operations.

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

	March 31, 2015	December 31, 2014
Amounts Payable to Carry Pool (a)	\$1,154,424	\$1,100,943
Unsettled Investment Purchases (b)	679,747	891,649
Securities Sold Short (c)	583,645	633,132
Due to Broker (d)	249,990	72,509
Accounts Payable and Accrued Expenses	103,497	130,023
Foreign Exchange Contracts and Options (e)	102,598	71,956
Derivative Liabilities	71,266	75,150
Accrued Compensation and Benefits	64,946	17,799
Interest Payable	63,399	61,643
Contingent Consideration Obligation (f)	42,600	40,600
Deferred Rent and Income	24,433	26,894
Taxes Payable	9,067	6,362
Other Liabilities	120,508	70,692
Total	\$3,270,120	\$3,199,352

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

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

Represents the obligations of KKR to deliver a specified security at a future point in time. Such securities are measured at fair value with changes in fair value recorded in Net Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations. See Note 3 "Net Gains (Losses) from Investment Activities" for the net changes in fair value associated with these instruments. The cost bases for these instruments at March 31, 2015 and December 31, 2014 were \$556,782 and \$628,071, respectively.

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

Represents derivative financial instruments used to manage foreign exchange risk arising from certain foreign denominated investments. Such instruments are measured at fair value with changes in fair value recorded in Net Gains (Losses) from Investment Activities in the accompanying condensed consolidated statements of operations.

(d) Represents the fair value of the contingent consideration related to the acquisition of Prisma.

(e) Represents the fair value of the contingent consideration related to the acquisition of Prisma.

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8. VARIABLE INTEREST ENTITIES

Consolidated VIEs

KKR consolidates certain VIEs in which it is determined that KKR is the primary beneficiary, which predominately are CLO vehicles. In developing its conclusion that it is the primary beneficiary of these CLO vehicles, KKR determined that it has more than an insignificant variable interest in these CLO vehicles by virtue of its residual interest in these CLO vehicles and, in certain cases, the presence of an incentive collateral management fee. These two variable interests were determined to expose KKR to a more than insignificant amount of these CLO vehicles' variability relative to its anticipated economic performance. In addition, in KKR's role as collateral manager of these CLO vehicles, KKR has the power to direct the activities that most significantly impact the economic performance of the entities. In each case, KKR's variable interests represent an obligation to absorb losses of or a right to receive benefits from the entity that could potentially be significant to the entity. In consideration of these factors, KKR concluded that it was the primary beneficiary of these CLO vehicles for consolidation accounting purposes. The primary purpose of these CLO vehicles is to provide investment opportunities with the objective of generating current income for these CLO investors in exchange for management and/or incentive based fees. The investment strategies of these CLO vehicles are similar and the fundamental risks of these CLO vehicles have similar characteristics, which include loss of invested capital and loss of management fees and/or incentive based fees. KKR does not provide performance guarantees and has no other financial obligation to provide funding to these consolidated CLO vehicles.

Unconsolidated VIEs

KKR holds variable interests in certain VIEs which are not consolidated as it is determined that KKR is not the primary beneficiary. VIEs that are not consolidated include (i) certain investment funds sponsored by KKR where the equity at risk to KKR is not considered substantive and (ii) certain CLO vehicles where KKR does not hold a variable interest that exposes KKR to a more than insignificant amount of the CLO vehicle's variability.

Investments in Unconsolidated Investment Funds

KKR's investment strategies differ by investment fund; however, the fundamental risks have similar characteristics, including loss of invested capital and loss of management fees and carried interests. KKR's maximum exposure to loss as a result of its investments in the unconsolidated investment funds is the carrying value of such investments, which was \$318.5 million at March 31, 2015. Accordingly disaggregation of KKR's involvement by type of unconsolidated investment fund would not provide more useful information. For these unconsolidated investment funds in which KKR is the sponsor, KKR may have an obligation as general partner to provide commitments to such investment funds. As of March 31, 2015, KKR's commitments to these unconsolidated investment funds was \$11.6 million. KKR has not provided any financial support other than its obligated amount as of March 31, 2015.

Investments in Unconsolidated CLO Vehicles

KKR provides collateral management services for, and has made nominal investments in, certain CLO vehicles that it does not consolidate. KKR's investments in the unconsolidated CLO vehicles, if any, are carried at fair value in the condensed consolidated statements of financial condition. KKR earns management fees, including subordinated management fees, for managing the collateral of the CLO vehicles. At March 31, 2015, combined assets under management in the pools of unconsolidated CLO vehicles were \$2.1 billion. KKR's maximum exposure to loss as a result of its investments in the residual interests of unconsolidated CLO vehicles is the carrying value of such investments, which was \$1.1 million at March 31, 2015. CLO investors in the CLO vehicles may only use the assets of the CLO to settle the debt of the related CLO, and otherwise have no recourse against KKR for any losses sustained in the CLO structures.

As of March 31, 2015 and December 31, 2014, the maximum exposure to loss, before allocations to the carry pool, if any, for those VIEs in which KKR is determined not to be the primary beneficiary but in which it has a variable interest is as follows:

	March 31, 2015	December 31, 2014
Investments	\$319,603	\$375,061
Due from Affiliates, net	599	3,478
Maximum Exposure to Loss	\$320,202	\$378,539

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## 9. DEBT OBLIGATIONS

KKR borrows and enters into credit agreements and issues debt for its general operating and investment purposes and certain of its investment funds borrow to meet financing needs of their operating and investing activities. In connection with the acquisition of KFN on April 30, 2014, KKR consolidates and reports KFN's debt obligations which are non-recourse to KKR beyond the assets of KFN.

Fund financing facilities have been established for the benefit of certain KKR investment funds. When a KKR investment fund borrows from the facility in which it participates, the proceeds from the borrowings are strictly limited for their intended use by the borrowing investment fund. KKR's obligations with respect to these financing arrangements are generally limited to KKR's pro-rata equity interest in such funds.

In addition, consolidated CLO vehicles issue debt securities to third party investors which are collateralized by assets held by the CLO vehicle. KKR bears no obligation with respect to financing arrangements at KKR's consolidated CLO vehicles. Debt securities issued by CLO vehicles are supported solely by the assets held at the CLO vehicles and are not collateralized by assets of any other KKR entity. As described in Note 2 to these condensed consolidated financial statements, as a result of the adoption of ASU 2014-13, KKR measures debt securities of consolidated CLOs on the basis of the fair value of the financial assets of the CLO.

KKR's borrowings consisted of the following:

	March 31, 2015			December 31, 2014			
	Financing Available	Borrowing Outstanding	Fair Value		Financing Available	Borrowing Outstanding	Fair Value
Revolving Credit Facilities:							
Corporate Credit Agreement	\$ 1,000,000	\$—	\$—		\$ 1,000,000	\$—	\$—
KCM Credit Agreement	403,000	97,000	97,000	(i)	473,000	27,000	27,000 (i)
Notes Issued:							
KKR Issued 6.375% Notes Due 2020 (a)	—	498,856	587,000	(j)	—	498,804	583,692 (j)
KKR Issued 5.500% Notes Due 2043 (b)	—	494,692	541,250	(j)	—	494,644	566,250 (j)
KKR Issued 5.125% Notes Due 2044 (c)	—	998,553	1,039,000	(j)	—	493,214	539,797 (j)
KFN Issued 8.375% Notes Due 2041 (d)	—	290,567	289,947	(k)	—	290,861	287,359 (k)
KFN Issued 7.500% Notes Due 2042 (e)	—	123,585	125,488	(k)	—	123,663	125,856 (k)
KFN Issued Junior Subordinated Notes (f)	—	247,320	221,775		—	246,907	228,087
Other Consolidated Debt Obligations:							
KKR Fund Financing Facilities (g)	3,048,109	1,808,781	1,808,781	(l)	2,150,819	1,047,351	1,047,351 (l)
CLO Vehicles (h)	—	7,158,322	7,158,322		—	7,615,340	7,615,340
	\$4,451,109	\$ 11,717,676	\$ 11,868,563		\$3,623,819	\$ 10,837,784	\$ 11,020,732

(a) \$500 million aggregate principal amount of 6.375% senior notes of KKR due 2020.



- (b) \$500 million aggregate principal amount of 5.500% senior notes of KKR due 2043.
- (c) \$1.0 billion aggregate principal amount of 5.125% senior notes of KKR due 2044.
- (d) KKR consolidates KFN and thus reports KFN's outstanding \$259 million aggregate principal amount of 8.375% senior notes due 2041.
- (e) KKR consolidates KFN and thus reports KFN's outstanding \$115 million aggregate principal amount of 7.500% senior notes due 2042.  
KKR consolidates KFN and thus reports KFN's outstanding \$284 million aggregate principal amount of junior subordinated notes. The weighted average interest rate is 5.4% and the weighted average years to maturity is 21.5
- (f) years as of March 31, 2015. These debt obligations are classified as Level III within the fair value hierarchy and valued using the same valuation methodologies as KKR's Level III credit investments.  
Certain of KKR's investment funds have entered into financing arrangements with major financial institutions, generally to enable such investment funds to make investments prior to or without receiving capital from fund
- (g) limited partners. The weighted average interest rate is 2.5% and 2.9% as of March 31, 2015 and December 31, 2014, respectively. In addition, the weighted average years to maturity is 2.6 years and 2.9 years as of March 31, 2015 and December 31, 2014, respectively.  
The debt obligations of consolidated CLO vehicles are carried at fair value. As of March 31, 2015, the debt
- (h) obligations of consolidated CLOs are measured on the basis of the fair value of the financial assets of the CLO and are classified as Level II financial liabilities. See Note 5 "Fair Value Measurements."
- (i) Carrying value approximates fair value given the credit facility's interest rate is variable.

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- (j) The notes are classified as Level II within the fair value hierarchy and fair value is determined by third party broker quotes.
- (k) The notes are classified as Level I within the fair value hierarchy and fair value is determined by quoted prices in active markets since the debt is publicly listed.
- (l) Carrying value approximates fair value given the fund financing facilities' interest rates are variable.

## 2044 Senior Notes

On March 18, 2015, KKR Group Finance Co. III LLC, a subsidiary of KKR Management Holdings Corp., issued an additional \$500 million aggregate principal amount of its 5.125% Senior Notes due 2044 (the "Notes"), under the indenture dated as of May 29, 2014, which were priced at 101.062%. The Notes are unsecured and unsubordinated obligations of the issuer and will mature on June 1, 2044, unless earlier redeemed or repurchased. The Notes are fully and unconditionally guaranteed, jointly and severally, by KKR & Co. L.P. and the KKR Group Partnerships. The guarantees are unsecured and unsubordinated obligations of the guarantors. The Notes constitute an additional issuance of the issuer's 5.125% Senior Notes due 2044, \$500 million aggregate principal amount of which were previously issued and are outstanding (the "Existing Notes" and together with the Notes are referred to hereafter as the "2044 Senior Notes"). The Notes form a single series with the Existing Notes. The terms of the Notes are identical to the terms of the Existing Notes, except for the issue date, issue price, the first payment date, June 1, 2015, and the date from which interest begins to accrue.

## Debt Obligations of Consolidated CLOs

As of March 31, 2015, debt obligations of consolidated CLOs consisted of the following:

	Borrowing Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years
Senior Secured Notes	\$6,907,430	1.9	% 8.5
Subordinated Notes	250,892	(a)	8.2
	\$7,158,322		

(a) The subordinated notes do not have contractual interest rates but instead receive a pro rata amount of the net distributions from the excess cash flows of the respective CLO vehicle. Accordingly, weighted average borrowing rates for the subordinated notes are based on cash distributions during the period ended March 31, 2015, if any. Debt obligations of consolidated CLOs are collateralized by assets held by each respective CLO vehicle and assets of one CLO vehicle may not be used to satisfy the liabilities of another. As of March 31, 2015, the fair value of the consolidated CLO assets was \$9.1 billion. This collateral consisted of Cash and Cash Equivalents Held at Consolidated Entities, Investments, and Other Assets.

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10. INCOME TAXES

The consolidated entities of KKR are generally treated as partnerships or disregarded entities for U.S. and non-U.S. tax purposes. The taxes payable on the income generated by partnerships and disregarded entities are generally paid by the fund investors, unitholders, principals and other third parties who beneficially own such partnerships and disregarded entities and are generally not payable by KKR. However, certain consolidated entities are treated as corporations for U.S. and non-U.S tax purposes and are therefore subject to U.S. federal, state and/or local income taxes and/or non-U.S. taxes at the entity-level. In addition, certain consolidated entities which are treated as partnerships for U.S. tax purposes are subject to the New York City Unincorporated Business Tax or other local taxes.

The effective tax rates were 0.82% and 1.07% for the three months ended March 31, 2015 and 2014, respectively. The effective tax rate differs from the statutory rate primarily due to the following: (i) a substantial portion of the reported net income (loss) before taxes is not attributable to KKR but rather is attributable to noncontrolling interests held in KKR's consolidated entities by third parties or by KKR Holdings, (ii) a significant portion of the amount of the reported net income (loss) before taxes attributable to KKR is from certain entities that are not subject to U.S. federal, state or local income taxes and/or non-U.S. taxes, and (iii) certain compensation charges attributable to KKR are not deductible for tax purposes.

During the three month period ended March 31, 2015, there were no material changes to KKR's uncertain tax positions and KKR believes there will be no significant increase or decrease to the uncertain tax positions within 12 months of the reporting date.

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## 11. EQUITY BASED COMPENSATION

The following table summarizes the expense associated with equity based compensation for the three months ended March 31, 2015 and 2014, respectively.

	Three months ended March 31,	
	2015	2014
Equity Incentive Plan Units	\$52,265	\$39,353
KKR Holdings Principal Awards	2,518	10,222
Other Exchangeable Securities	3,768	3,024
KKR Holdings Restricted Equity Units	128	110
Discretionary Compensation	17,871	24,819
Total	\$76,550	\$77,528

## Equity Incentive Plan

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

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

Expense associated with the vesting of these awards is based on the closing price of the KKR & Co. L.P. common units on the date of grant, discounted for the lack of participation rights in the expected distributions on unvested units, which currently ranges from 8% to 56% multiplied by the number of unvested units on the grant date. The grant date fair value of a KKR & Co. L.P. common unit reflects a discount for lack of distribution participation rights, because equity awards are not entitled to receive distributions while unvested. The discount range was based on management's estimates of future distributions that unvested equity awards will not be entitled to receive between the grant date and the vesting date. Therefore, units that vest in earlier periods have a lower discount as compared to units that vest in later periods, which have a higher discount. The discount range will generally increase when the level of expected annual distributions increases relative to the grant date fair value of a KKR & Co. L.P. common unit. A decrease in expected annual distributions relative to the grant date fair value of a KKR & Co. L.P. common unit would generally have the opposite effect. Expense is recognized on a straight line basis over the life of the award and assumes a forfeiture rate of up to 8% annually based upon expected turnover by class of recipient.

As of March 31, 2015, there was approximately \$346.1 million of estimated unrecognized expense related to unvested awards. That cost is expected to be recognized as follows:

Year	Unrecognized Expense (in millions)
Remainder of 2015	\$127.1

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2016	128.2
2017	73.3
2018	17.5
Total	\$346.1

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A summary of the status of unvested awards granted under the Equity Incentive Plan from January 1, 2015 through March 31, 2015 is presented below:

	Units	Weighted Average Grant Date Fair Value
Balance, January 1, 2015	20,488,737	\$12.33
Granted	14,902,386	16.98
Vested	—	—
Forfeited	(433,126	) 12.96
Balance, March 31, 2015	34,957,997	\$14.30

The weighted average remaining vesting period over which unvested awards are expected to vest is 1.4 years.

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

Vesting Date	Units
April 1, 2015	5,297,636
October 1, 2015	5,524,491
April 1, 2016	7,633,135
October 1, 2016	4,322,545
April 1, 2017	5,647,312
October 1, 2017	1,317,132
April 1, 2018	4,235,867
October 1, 2018	968,380
April 1, 2019	6,947
October 1, 2019	4,552
	34,957,997

#### KKR Holdings—Principal Awards

Certain KKR employees and non-employee operating consultants and other service providers received grants of KKR Holdings units (“Principal Awards”) which are exchangeable for KKR Group Partnership Units. These units are generally subject to minimum retained ownership requirements and in certain cases, transfer restrictions, and allow for their exchange into common units of KKR & Co. L.P. on a one-for-one basis. As of March 31, 2015, KKR Holdings owned approximately 46.0%, or 372,661,977 of the outstanding KKR Group Partnership Units.

Except for any Principal Awards that vested on the date of grant or that have vested since their grant dates, Principal Awards are subject to service based vesting, generally over a three to five year period from the date of grant. The transfer restriction period will generally last for a minimum of (i) one year with respect to one-half of the interests vesting on any vesting date and (ii) two years with respect to the other one-half of the interests vesting on such vesting date. While providing services to KKR, these individuals may also be subject to minimum retained ownership rules requiring them to continuously hold 25% of their vested interests. Upon separation from KKR, certain individuals will be subject to the terms of a non-compete agreement that may require the forfeiture of certain vested and unvested units should the terms of the non-compete agreement be violated. Holders of KKR Group Partnership Units held through KKR Holdings are not entitled to participate in distributions made on KKR Group Partnership Units until such units are vested.

Because KKR Holdings is a partnership, all of the 372,661,977 KKR Holdings units have been legally allocated, but the allocation of 34,783,520 of these units has not been communicated to each respective principal. The units that have not been communicated are subject to performance based vesting conditions, which include profitability and

other similar criteria. These criteria are not sufficiently specific to constitute performance conditions for accounting purposes, and the achievement, or lack thereof, will be determined based upon the exercise of judgment by the general partner of KKR Holdings. Each principal will ultimately receive between zero and 100% of the units initially allocated. The allocation of these units has not yet been communicated to the award recipients as this was management's decision on how to best incentivize its principals. It is anticipated that additional service-based vesting conditions will be imposed at the time the allocation is initially communicated

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to the respective principals. KKR applied the guidance of Accounting Standards Code (“ASC”) 718 and concluded that these KKR Holdings units do not yet meet the criteria for recognition of compensation cost because neither the grant date nor the service inception date has occurred. In reaching a conclusion that the service inception date has not occurred, KKR considered (a) the fact that the vesting conditions are not sufficiently specific to constitute performance conditions for accounting purposes, (b) the significant judgment that can be exercised by the general partner of KKR Holdings in determining whether the vesting conditions are ultimately achieved, and (c) the absence of communication to the principals of any information related to the number of units they were initially allocated. The allocation of these units will be communicated to the award recipients when the performance-based vesting conditions have been met, and currently there is no plan as to when the communication will occur. The determination as to whether the award recipients have satisfied the performance-based vesting conditions is made by the general partner of KKR Holdings, and is based on multiple factors primarily related to the award recipients’ individual performance.

The fair value of Principal Awards is based on the closing price of KKR & Co. L.P. common units on the date of grant. KKR determined this to be the best evidence of fair value as a KKR & Co. L.P. common unit is traded in an active market and has an observable market price. Additionally, a KKR Holdings unit is an instrument with terms and conditions similar to those of a KKR & Co. L.P. common unit. Specifically, units in both KKR Holdings and KKR & Co. L.P. represent ownership interests in KKR Group Partnership Units and, subject to any vesting, minimum retained ownership requirements and transfer restrictions referenced above, each KKR Holdings unit is exchangeable into a KKR Group Partnership Unit and then into a KKR & Co. L.P. common unit on a one-for-one basis.

Principal Awards give rise to equity-based payment charges in the condensed consolidated statements of operations based on the grant-date fair value of the award. For units vesting on the grant date, expense is recognized on the date of grant based on the fair value of a KKR & Co. L.P. common unit on the grant date multiplied by the number of vested units. Equity-based payment expense on unvested units is calculated based on the fair value of a KKR & Co. L.P. common unit at the time of grant, discounted for the lack of participation rights in the expected distributions on unvested units which currently ranges from 8% to 56%, multiplied by the number of unvested units on the grant date. Expense is recognized using the graded-attribution method, which treats each vesting tranche as a separate award. The grant date fair value of a KKR & Co. L.P. common unit reflects a discount for lack of distribution participation rights because equity awards are not entitled to receive distributions while unvested. The discount range was based on management’s estimates of future distributions that unvested equity awards will not be entitled to receive between the grant date and the vesting date. Therefore, units that vest in the earlier periods have a lower discount as compared to units that vest in later periods, which have a higher discount. The discount range will generally increase when the level of expected annual distributions increases relative to the grant date fair value of a KKR & Co. L.P. common unit. A decrease in expected annual distributions relative to the grant date fair value of a KKR & Co. L.P. common unit would generally have the opposite effect.

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

The calculation of equity-based payment expense and general administrative and other expense on unvested Principal Awards assumes forfeiture rates of up to 8% annually based upon expected turnover by class of employee, consultant, or service provider.



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As of March 31, 2015, there was approximately \$7.4 million of estimated unrecognized equity-based payment and general administrative and other expense related to unvested Principal Awards. That cost is expected to be recognized as follows:

Year	Unrecognized Expense (in millions)
Remainder of 2015	\$4.9
2016	2.1
2017	0.4
Total	\$7.4

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A summary of the status of unvested Principal Awards from January 1, 2015 through March 31, 2015 is presented below:

	Units	Weighted Average Grant Date Fair Value
Balance, January 1, 2015	4,708,434	\$8.44
Granted	74,247	16.64
Vested	—	—
Forfeited	(94,718	) 7.39
Balance, March 31, 2015	4,687,963	\$8.59

The weighted average remaining vesting period over which unvested units are expected to vest is 0.7 years.

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

Vesting Date	Units
April 1, 2015	1,153,193
October 1, 2015	2,063,345
April 1, 2016	122,697
October 1, 2016	1,127,413
April 1, 2017	70,271
October 1, 2017	111,293
April 1, 2018	39,751
	4,687,963

#### Other Exchangeable Securities

In connection with the acquisition of Avoca, KKR issued 2,545,602 equity securities of a subsidiary of a KKR Group Partnership and of KKR & Co. L.P. both of which are exchangeable into common units of KKR & Co. L.P. on a one-for-one basis (“Other Exchangeable Securities”). Certain Other Exchangeable Securities are subject to time based vesting (generally over a three-year period from February 19, 2014) and are not exchangeable into common units until vested, and in certain cases are subject to minimum retained ownership requirements and transfer restrictions. Consistent with grants of KKR Holdings awards and grants made under the KKR Equity Incentive Plan, holders of Other Exchangeable Securities are not entitled to receive distributions while unvested.

The fair value of Other Exchangeable Securities is based on the closing price of KKR & Co. L.P. common units on the date of grant. KKR determined this to be the best evidence of fair value as a KKR & Co. L.P. common unit is traded in an active market and has an observable market price. Additionally, Other Exchangeable Securities are instruments with terms and conditions similar to those of a KKR & Co. L.P. common unit. Specifically, these Other Exchangeable Securities are exchangeable into KKR & Co. L.P. common units on a one-for-one basis upon vesting.

Expense associated with the vesting of these Other Exchangeable Securities is based on the closing price of a KKR & Co. L.P. common unit on the date of grant, discounted for the lack of participation rights in the expected distributions on unvested Other Exchangeable Securities, which currently ranges from 8% to 56% multiplied by the number of unvested Other Exchangeable Securities on the issuance date. The discount range was based on management’s estimates of future distributions that unvested Other Exchangeable Securities will not be entitled to receive between the issuance date and the vesting date. Therefore, Other Exchangeable Securities that vest in earlier periods have a lower discount as compared to Other Exchangeable Securities that vest in later periods, which have a higher discount. The discount range will generally increase when the level of expected annual distributions increases relative to the issuance date fair value of a KKR & Co. L.P. common unit. A decrease in expected annual distributions relative to the

grant date fair value of a KKR & Co. L.P. common unit would generally have the opposite effect. Expense is recognized on a straight line basis over the life of the security and assumes a forfeiture rate of up to 8% annually based upon expected turnover by class of recipient.

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As of March 31, 2015, there was approximately \$19.8 million of estimated unrecognized expense related to unvested Other Exchangeable Securities. That cost is expected to be recognized as follows:

Year	Unrecognized Expense (in millions)
Remainder of 2015	\$10.4
2016	9.4
Total	\$19.8

A summary of the status of unvested Other Exchangeable Securities from January 1, 2015 through March 31, 2015 is presented below:

	Units	Weighted Average Grant Date Fair Value
Balance, January 1, 2015	1,695,972	\$18.45
Granted	—	—
Vested	—	—
Forfeited	—	—
Balance, March 31, 2015	1,695,972	\$18.45

The weighted average remaining vesting period over which unvested Other Exchangeable Securities are expected to vest is one year.

The following table summarizes the remaining vesting tranches of Other Exchangeable Securities:

Vesting Date	Units
October 1, 2015	847,983
October 1, 2016	847,989
	1,695,972

#### KKR Holdings—Restricted Equity Units

Grants of restricted equity units based on KKR Group Partnership Units held by KKR Holdings were made to professionals, support staff, and other personnel (“Holdings REU Awards”). These grants are funded by KKR Holdings and do not dilute KKR’s interests in the KKR Group Partnerships. Substantially all Holdings REU Awards are fully vested as of April 1, 2015 and there is no material unrecognized expense.

#### Discretionary Compensation

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



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## 12. RELATED PARTY TRANSACTIONS

Due from and to Affiliates consists of:

	March 31, 2015	December 31, 2014
Fees earned from portfolio companies	\$40,576	\$64,989
Fees earned from unconsolidated investment funds	44,746	47,229
Due from related entities	24,024	34,838
Due from Affiliates	\$109,346	\$147,056
	March 31, 2015	December 31, 2014
Due to KKR Holdings in connection with the tax receivable agreement	\$128,268	\$121,803
Due to related entities	13,381	9,745
Due to Affiliates	\$141,649	\$131,548

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13. SEGMENT REPORTING

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

Private Markets

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

Public Markets

KKR operates and reports its combined credit and hedge funds businesses through the Public Markets segment. KKR's credit business advises funds, CLOs, separately managed accounts, and investment companies registered under the Investment Company Act, including a business development company or BDC, undertakings for collective investment in transferable investment funds or UCITS and alternative investment funds or AIFs, which invests capital in (i) leveraged credit strategies, such as leveraged loans, high yield bonds and opportunistic credit and (ii) alternative credit strategies such as mezzanine investments, special situations investments, direct lending investments and long/short credit. KKR's Public Markets segment also includes its hedge funds business that offers a variety of investment strategies including customized hedge fund portfolios, hedge fund-of-fund solutions and acquiring stakes in or seeding hedge fund managers. KKR's funds in the credit and hedge funds strategies are managed by KKR Credit Advisors (US) LLC (formerly known as KKR Asset Management LLC) and Prisma Capital Partners LP, both of which are SEC-registered investment advisers, and KKR Credit Advisors (Ireland), regulated by the Central Bank of Ireland and KKR Credit Advisors (UK), regulated by the United Kingdom Financial Conduct Authority, or FCA.

Capital Markets

Capital Markets segment is comprised primarily of KKR's global capital markets business. KKR's capital markets business supports the firm, portfolio companies and third-party clients by developing and implementing both traditional and non-traditional capital solutions for investments or companies seeking financing. These services include arranging debt and equity financing for transactions, placing and underwriting securities offerings and providing other types of capital markets services. When KKR underwrites an offering of securities or a loan on a firm commitment basis, KKR commits to buy and sell an issue of securities or indebtedness and generate revenue by purchasing the securities or indebtedness at a discount or for a fee. When KKR acts in an agency capacity, KKR generates revenue for arranging financing or placing securities or debt with capital markets investors. KKR Capital Markets LLC is an SEC-registered broker-dealer and a FINRA member, and KKR is also registered or authorized to carry out certain broker-dealer activities in various countries in North America, Europe, Asia-Pacific and the Middle East. KKR's third party capital markets activities are generally carried out through Merchant Capital Solutions LLC, a joint venture with two other unaffiliated partners, and non-bank financial companies, or NBFCs, in India.

KKR earns the majority of its fees from subsidiaries located in the United States.

Key Performance Measure - Economic Net Income ("ENI")

ENI is used by management in making operating and resource deployment decisions as well as assessing the overall performance of each of KKR's reportable business segments. The reportable segments for KKR's business are

presented prior to giving effect to the allocation of income (loss) between KKR & Co. L.P. and KKR Holdings and as such represents the business in total. In addition, KKR's reportable segments are presented without giving effect to the consolidation of the funds that KKR manages.

ENI is a measure of profitability for KKR's reportable segments and is used by management as an alternative measurement of the operating and investment earnings of KKR and its business segments. ENI is comprised of total segment revenues; less total segment expenses and certain economic interests in KKR's segments held by third parties. ENI differs from net income (loss) on a GAAP basis as a result of: (i) the inclusion of management fees earned from consolidated funds that were eliminated in consolidation; (ii) the exclusion of fees and expenses of certain consolidated entities; (iii) the exclusion of charges relating to the amortization of intangible assets; (iv) the exclusion of non-cash equity-based charges and other non-cash compensation charges borne by KKR Holdings or incurred under the Equity Incentive Plan and other securities that are exchangeable for



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common units of KKR & Co. L.P.; (v) the exclusion of certain non-recurring items; (vi) the exclusion of investment income (loss) relating to noncontrolling interests; and (vii) the exclusion of income taxes.

The following tables present the financial data for KKR's reportable segments:

	As of and for the Three Months Ended March 31, 2015			
	Private Markets	Public Markets	Capital Markets	Total Reportable Segments
<b>Segment Revenues</b>				
<b>Management, Monitoring and Transaction Fees, Net</b>				
Management Fees	\$ 109,276	\$ 64,504	\$—	\$ 173,780
Monitoring Fees	97,838	—	—	97,838
Transaction Fees	46,599	13,430	43,257	103,286
Fee Credits (1)	(69,906)	) (10,588)	) —	(80,494)
Total Management, Monitoring and Transaction Fees, Net	183,807	67,346	43,257	294,410
<b>Performance Income</b>				
Realized Carried Interest	302,425	—	—	302,425
Incentive Fees	—	5,665	—	5,665
Unrealized Carried Interest	126,937	12,347	—	139,284
Total Performance Income	429,362	18,012	—	447,374
<b>Investment Income (Loss)</b>				
Net Realized Gains (Losses)	183,264	684	(3,281)	) 180,667
Net Unrealized Gains (Losses)	79,363	(87,877)	) (2,207)	) (10,721)
Total Realized and Unrealized	262,627	(87,193)	) (5,488)	) 169,946
Net Interest and Dividends	(7,831)	) 51,872	6,634	50,675
Total Investment Income (Loss)	254,796	(35,321)	) 1,146	220,621
Total Segment Revenues	867,965	50,037	44,403	962,405
<b>Segment Expenses</b>				
<b>Compensation and Benefits</b>				
Cash Compensation and Benefits	73,967	24,005	9,055	107,027
Realized Allocation to Carry Pool (2)	120,970	—	—	120,970
Unrealized Allocation to Carry Pool (2)	50,693	4,938	—	55,631
Total Compensation and Benefits	245,630	28,943	9,055	283,628
Occupancy and Related Charges	11,016	3,122	658	14,796
Other Operating Expenses	42,116	14,954	3,876	60,946
Total Segment Expenses	298,762	47,019	13,589	359,370
Income (Loss) attributable to noncontrolling interests (3)	719	175	2,728	3,622
Economic Net Income (Loss)	\$ 568,484	\$ 2,843	\$ 28,086	\$ 599,413
Total Assets	\$ 8,023,160	\$ 4,560,080	\$ 1,341,946	\$ 13,925,186

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

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

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

Represents economic interests that will (i) allocate to third parties an aggregate of 1% of profits and losses of (3) KKR's management companies until a future date and (ii) allocate to third party investors certain profits and losses in KKR's Capital Markets segment.

	As of and for the Three Months Ended March 31, 2014			
	Private Markets	Public Markets	Capital Markets	Total Reportable Segments
<b>Segment Revenues</b>				
<b>Management, Monitoring and Transaction Fees, Net</b>				
Management Fees	\$ 123,039	\$ 72,354	\$ —	\$ 195,393
Monitoring Fees	36,363	—	—	36,363
Transaction Fees	93,020	6,022	64,474	163,516
Fee Credits (1)	(80,338	) (4,330	) —	(84,668
Total Management, Monitoring and Transaction Fees, Net	172,084	74,046	64,474	310,604
<b>Performance Income</b>				
Realized Carried Interest	168,800	24,750	—	193,550
Incentive Fees	—	17,019	—	17,019
Unrealized Carried Interest	145,776	(129	) —	145,647
Total Performance Income	314,576	41,640	—	356,216
<b>Investment Income (Loss)</b>				
Net Realized Gains (Losses)	176,198	5,479	51	181,728
Net Unrealized Gains (Losses)	70,673	14,814	272	85,759
Total Realized and Unrealized	246,871	20,293	323	267,487
Net Interest and Dividends	(2,808	) 9,577	4,395	11,164
Total Investment Income (Loss)	244,063	29,870	4,718	278,651
<b>Total Segment Revenues</b>	<b>730,723</b>	<b>145,556</b>	<b>69,192</b>	<b>945,471</b>
<b>Segment Expenses</b>				
<b>Compensation and Benefits</b>				
Cash Compensation and Benefits	66,898	26,745	15,272	108,915
Realized Allocation to Carry Pool (2)	67,520	9,900	—	77,420
Unrealized Allocation to Carry Pool (2)	58,743	(53	) —	58,690
Total Compensation and Benefits	193,161	36,592	15,272	245,025
Occupancy and Related Charges	11,560	2,172	457	14,189
Other Operating Expenses	40,059	8,507	4,235	52,801
Total Segment Expenses	244,780	47,271	19,964	312,015
<b>Income (Loss) attributable to noncontrolling interests (3)</b>	<b>515</b>	<b>522</b>	<b>2,165</b>	<b>3,202</b>

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Economic Net Income (Loss)	\$485,428	\$97,763	\$47,063	\$630,254
Total Assets	\$6,425,260	\$1,633,796	\$1,433,212	\$9,492,268

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

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

(2) Represents economic interests that will (i) allocate to third parties an aggregate of 1% of profits and losses of KKR's management companies until a future date and (ii) allocate to third party investors certain profits and losses in KKR's Capital Markets segment.

The following tables reconcile KKR's total reportable segments to the most directly comparable financial measures calculated and presented in accordance with GAAP:

	For the Three Months Ended	
	March 31, 2015	March 31, 2014
Fees		
Total Segment Revenues	\$962,405	\$945,471
Management fees relating to consolidated funds and other entities	(125,575)	(145,208)
Fee credits relating to consolidated funds	72,949	80,092
Net realized and unrealized carried interest	(441,709)	(339,197)
Total investment income (loss)	(220,621)	(278,651)
Revenue earned by oil & gas producing entities	24,944	17,781
Reimbursable expenses	9,778	15,986
Other	9,174	6,652
Fees and Other	\$291,345	\$302,926

	For the Three Months Ended	
	March 31, 2015	March 31, 2014
Expenses		
Total Segment Expenses	\$359,370	\$312,015
Equity based compensation	76,550	77,528
Reimbursable expenses	19,859	18,912
Operating expenses relating to consolidated funds and other entities	10,970	7,315
Expenses incurred by oil & gas producing entities	21,078	10,984
Intangible amortization, acquisition, litigation and certain non-recurring costs	15,471	23,303
Other	11,735	23,114
Total Expenses	\$515,033	\$473,171

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## Income (Loss) Before Taxes

	For the Three Months Ended	
	March 31, 2015	March 31, 2014
Economic net income	\$599,413	\$630,254
Income taxes	(16,138)	(21,702)
Amortization of intangibles and other, net	2,790	(20,169)
Equity based compensation	(76,550)	(77,528)
Net income (loss) attributable to noncontrolling interests held by KKR Holdings	(239,008)	(300,814)
Net income (loss) attributable to KKR & Co. L.P.	270,507	210,041
Net income (loss) attributable to noncontrolling interests and appropriated capital	1,670,569	1,783,488
Net income (loss) attributable to redeemable noncontrolling interests	1,933	10,637
Income taxes	16,138	21,702
Income (loss) before taxes	\$1,959,147	\$2,025,868

The items that reconcile KKR's total reportable segments to the corresponding condensed consolidated amounts calculated and presented in accordance with GAAP for (i) net income (loss) attributable to redeemable noncontrolling interests, (ii) income (loss) attributable to noncontrolling interests and appropriated capital and (iii) total assets are primarily attributable to the impact of the consolidation of KKR's funds and certain other entities.

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## 14. ACQUISITIONS

## Acquisition of KFN

On April 30, 2014, KKR, affiliates of KKR and KFN, completed the acquisition by merger (the “Merger”) contemplated by an Agreement and Plan of Merger (the “Merger Agreement”), pursuant to which KFN became a subsidiary of KKR Fund Holdings. KFN is a specialty finance company with expertise in a range of asset classes in which it invests, including bank loans, high yield securities, natural resources, special situations, mezzanine, commercial real estate and private equity with a focus on specialty lending. The addition of KFN provided KKR with over \$2 billion of permanent equity capital to support the continued growth of its business.

The total consideration paid was approximately \$2.4 billion consisting entirely of the issuance of 104.3 million KKR common units as follows (amounts in thousands except unit data):

Number of KKR common units issued	104,340,028
KKR common unit price on April 30, 2014	\$22.71
Estimated fair value of KKR common units issued	\$2,369,559

The following is a summary of the estimated fair values of the assets acquired and liabilities as of April 30, 2014, the date they were assumed (amounts in thousands):

Cash and cash equivalents	\$210,413
Cash and cash equivalents held at consolidated entities	614,929
Restricted cash and cash equivalents	35,038
Investments	1,235,813
Investments of consolidated CLOs	6,742,768
Other assets	642,721
Other assets of consolidated CLOs	133,036
Total assets	9,614,718
Debt obligations	724,509
Debt obligations of consolidated CLOs	5,663,666
Accounts payable, accrued expenses and other liabilities	118,427
Other liabilities of consolidated CLOs	344,660
Total liabilities	6,851,262
Noncontrolling interests	378,983
Fair value of Net Assets Acquired	2,384,473
Less: Fair value of consideration transferred	2,369,559
Gain on acquisition	\$14,914

As of April 30, 2014, the fair value of the net assets acquired exceeded the fair value of consideration transferred by approximately \$14.9 million and relates primarily to the difference between the fair value of the assets and liabilities of CLOs consolidated by KFN. This amount has been recorded in net gains (losses) from investment activities in the condensed consolidated statements of operations.

On a segment basis, the financial results of KFN are included within each of the Private Markets segment, Public Markets segment and Capital Markets segment, based on the character of each asset of KFN.

KKR incurred \$8.3 million of acquisition related costs through the date of closing, which were expensed as incurred and are reflected within General, Administrative and Other.



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## Acquisition of Avoca Capital

On February 19, 2014, KKR closed its acquisition of 100% of the equity interests of Avoca Capital and its affiliates (“Avoca”). Avoca, now renamed KKR Credit Advisors (Ireland), was a European credit investment manager with approximately \$8.2 billion in assets under management at the time of acquisition. The addition of Avoca provided KKR with a greater presence in the European leveraged credit markets.

The total consideration included \$83.3 million in cash and \$56.5 million in securities of a subsidiary of a KKR Group Partnership and of KKR & Co. L.P. that are exchangeable into approximately 2.4 million KKR & Co. L.P. common units, at any time, at the election of the holders of the securities. In connection with this transaction, there is no contingent consideration payable in the future.

The following is a summary of the estimated fair values of the assets acquired and liabilities as of February 19, 2014, the date they were assumed:

Cash and cash equivalents	\$24,381
Investments	20,905
Investments of consolidated CLOs	1,226,174
Other assets of consolidated CLOs	186,609
Other assets	7,370
Intangible assets	65,880
Total assets	1,531,319
Liabilities	13,584
Debt obligations of consolidated CLOs	1,150,551
Other liabilities of consolidated CLOs	140,308
Total liabilities	1,304,443
Fair Value of Net Assets Acquired	226,876
Less: Fair value of subordinated notes of consolidated CLOs held by KKR prior to acquisition (a)	74,029
Less: Fair value of consideration transferred	139,798
Gain on acquisition	\$13,049

Represents subordinated notes in one of the consolidated CLOs held by KKR prior to the acquisition of (a) Avoca. Upon acquisition of Avoca, KKR’s investment in the subordinated notes was offset against the corresponding debt obligations of the consolidated CLO in purchase accounting.

As of February 19, 2014, the fair value of the net assets acquired exceeded the fair value of consideration transferred by approximately \$13.0 million and relates primarily to the difference between the fair value of the assets and liabilities of CLOs required to be consolidated in connection with the Avoca transaction. This amount has been recorded in net gains (losses) from investment activities in the condensed consolidated statements of operations.

On a segment basis, the financial results of Avoca are included within the Public Markets segment.

KKR incurred \$4.4 million of acquisition related costs through the date of closing, which were expensed as incurred and are reflected within General, Administrative and Other.



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## 15. GOODWILL AND INTANGIBLE ASSETS

## Goodwill

Goodwill from the acquisition of Prisma represents the excess of acquisition costs over the fair value of net tangible and intangible assets acquired and is primarily attributed to synergies expected to arise after the acquisition of Prisma. The carrying value of goodwill was \$89.0 million as of March 31, 2015 and December 31, 2014, and is recorded within Other Assets on the condensed consolidated statements of financial condition. Goodwill has been allocated entirely to the Public Markets segment. As of March 31, 2015, the fair value of KKR's reporting units substantially exceeded their respective carrying values. All of the goodwill is currently expected to be deductible for tax purposes. See Note 7 "Other Assets and Accounts Payable, Accrued Expenses and Other Liabilities."

## Intangible Assets

Intangible Assets, Net consists of the following:

	As of	
	March 31, 2015	December 31, 2014
Finite-Lived Intangible Assets	\$284,766	\$284,766
Accumulated Amortization (includes foreign exchange)	(88,078	) (75,564
Intangible Assets, Net	\$196,688	\$209,202

Changes in Intangible Assets, Net consists of the following:

	Three Months Ended March 31,
	2015
Balance, Beginning of Period	\$209,202
Amortization Expense	(6,708
Foreign Exchange	) (5,806
Balance, End of Period	\$196,688

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16. COMMITMENTS AND CONTINGENCIES

Debt Covenants

Borrowings of KKR contain various debt covenants. These covenants do not, in management's opinion, materially restrict KKR's operating business or investment strategies. KKR is in compliance with its debt covenants in all material respects as of March 31, 2015, except for an instance of non-compliance at one consolidated investment fund that has since been cured or waived and is not material to KKR's financial results.

Investment Commitments

As of March 31, 2015, KKR had unfunded commitments consisting of (i) \$1,192.5 million to its active private equity and other investment vehicles and (ii) \$374.6 million in connection with commitments by KKR's capital markets business, (iii) \$128.6 million relating to Merchant Capital Solutions LLC and (iv) other investment commitments of \$157.2 million. Whether these amounts are actually funded, in whole or in part depends on the terms of such commitments, including the satisfaction or waiver of any conditions to funding.

Contingent Repayment Guarantees

The partnership documents governing KKR's carry—paying funds, including funds relating to private equity, mezzanine, infrastructure, energy, real estate, direct lending and special situations investments, generally include a “clawback” provision that, if triggered, may give rise to a contingent obligation requiring the general partner to return amounts to the fund for distribution to the fund investors at the end of the life of the fund. Under a clawback obligation, upon the liquidation of a fund, the general partner is required to return, typically on an after-tax basis, previously distributed carry to the extent that, due to the diminished performance of later investments, the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled, including the effects of any performance thresholds. Excluding carried interest received by the general partners of funds that were not contributed to KKR in the acquisition of the assets and liabilities of KKR & Co. (Guernsey) L.P. (formerly known as KKR Private Equity Investors, L.P.) on October 1, 2009 (the “KPE Transaction”), as of March 31, 2015, no carried interest was subject to this clawback obligation, assuming that all applicable carry paying funds were liquidated at their March 31, 2015 fair values. Had the investments in such funds been liquidated at zero value, the clawback obligation would have been \$2,486.8 million. Carried interest is recognized in the statement of operations based on the contractual conditions set forth in the agreements governing the fund as if the fund were terminated and liquidated at the reporting date and the fund's investments were realized at the then estimated fair values. Amounts earned pursuant to carried interest are earned by the general partner of those funds to the extent that cumulative investment returns are positive and where applicable, preferred return thresholds have been met. If these investment amounts earned decrease or turn negative in subsequent periods, recognized carried interest will be reversed and to the extent that the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled, a clawback obligation would be recorded. For funds that are consolidated, this clawback obligation, if any, is reflected as an increase in noncontrolling interests in the condensed consolidated statements of financial condition. For funds that are not consolidated, this clawback obligation, if any, is reflected as a reduction of KKR's investment balance as this is where carried interest is initially recorded.

Certain private equity funds that were contributed to KKR in the KPE Transaction in 2009 also include a “net loss sharing provision.” Upon the liquidation of an investment vehicle to which a net loss sharing obligation applies, the general partner is required to contribute capital to the vehicle, to fund 20% of the net losses on investments. In these vehicles, such losses would be required to be paid by KKR to the fund investors in those vehicles in the event of a liquidation of the fund regardless of whether any carried interest had previously been distributed, and a greater share

of investment losses would be allocable to KKR relative to the capital that KKR contributed to it as general partner. Based on the fair market values as of March 31, 2015, there would have been no net loss sharing obligation. If the vehicles were liquidated at zero value, the net loss sharing obligation would have been approximately \$115.8 million as of March 31, 2015.

Prior to the KPE Transaction in 2009, certain principals who received carried interest distributions with respect to certain private equity funds contributed to KKR had personally guaranteed, on a several basis and subject to a cap, the contingent obligations of the general partners of such private equity funds to repay amounts to fund investors pursuant to the general partners' clawback obligations. The terms of the KPE Transaction require that principals remain responsible for any clawback obligations relating to carry distributions received prior to the KPE Transaction, up to a maximum of \$223.6 million. Through investment realizations, KKR's potential exposure has been reduced to \$184.7 million as of March 31, 2015. Using valuations as of March 31, 2015, no amounts are due with respect to the clawback obligation required to be funded by principals. Carry distributions arising subsequent to the KPE Transaction may give rise to clawback obligations that may be allocated generally

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to KKR and persons who participate in the carry pool. Unlike the clawback obligation, KKR will be responsible for all amounts due under a net loss sharing obligation and will indemnify principals for any personal guarantees that they have provided with respect to such amounts. In addition, guarantees of or similar arrangements relating to clawback or net loss sharing obligations in favor of third party investors in an individual investment partnership by entities KKR owns may limit distributions of carried interest more generally.

## Indemnifications

In the normal course of business, KKR enters into contracts that contain a variety of representations and warranties that provide general indemnifications. In addition, certain of KKR's consolidated funds and KFN have provided certain indemnities relating to environmental and other matters and has provided nonrecourse carve-out guarantees for fraud, willful misconduct and other customary wrongful acts, each in connection with the financing of certain real estate investments that KKR has made. KKR's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against KKR that have not yet occurred. However, based on experience, KKR expects the risk of material loss to be low.

## Litigation

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

On May 23, 2011, KKR, certain KKR affiliates and the board of directors of Primedia Inc. (a former KKR portfolio company whose directors at that time included certain KKR personnel) were named as defendants, along with others, in two shareholder class action complaints filed in the Court of Chancery of the State of Delaware challenging the sale of Primedia in a merger transaction that was completed on July 13, 2011. These actions allege, among other things, that Primedia board members, KKR, and certain KKR affiliates, breached their fiduciary duties by entering into the merger agreement at an unfair price and failing to disclose all material information about the merger. Plaintiffs also allege that the merger price was unfair in light of the value of certain shareholder derivative claims, which were dismissed on August 8, 2011, based on a stipulation by the parties that the derivative plaintiffs and any other former Primedia shareholders lost standing to prosecute the derivative claims on behalf of Primedia when the Primedia merger was completed. The dismissed shareholder derivative claims included allegations concerning open market purchases of certain shares of Primedia's preferred stock by KKR affiliates in 2002 and allegations concerning Primedia's redemption of certain shares of Primedia's preferred stock in 2004 and 2005, some of which were owned by KKR affiliates. With respect to the pending shareholder class actions challenging the Primedia merger, on June 7, 2011, the Court of Chancery denied a motion to preliminarily enjoin the merger. On July 18, 2011, the Court of Chancery consolidated the two pending shareholder class actions and appointed lead counsel for plaintiffs. On October 7, 2011, defendants moved to dismiss the operative complaint in the consolidated shareholder class action. The operative complaint seeks, in relevant part, unspecified monetary damages and rescission of the merger. On December 2, 2011, plaintiffs filed a consolidated amended complaint, which similarly alleges that the Primedia board members, KKR, and certain KKR affiliates breached their respective fiduciary duties by entering into the merger agreement at an unfair price in light of the value of the dismissed shareholder derivative claims. That amended complaint seeks an unspecified amount of monetary damages. On January 31, 2012, defendants moved to dismiss the amended complaint. On May 10, 2013, the Court of Chancery denied the motion to dismiss the complaint as it relates to the Primedia board members, KKR and certain KKR affiliates. On July 1, 2013, KKR and other defendants filed a motion for judgment on the pleadings on the grounds that plaintiff's claims were barred by the statute of limitations. On December 20, 2013, the Court of Chancery granted the motion in part and denied the motion in part. On March 6, 2015, KKR entered into a definitive agreement to settle all claims without the admission of wrongdoing, which is subject to the approval of the Court of Chancery and would operate to release all claims in the two shareholder class

actions filed in Georgia state courts that are discussed below. The amount to be paid pursuant to the settlement is not expected to have a material effect on KKR's financial results.

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

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

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securities to any of the defendants in leveraged buyout transactions and specifically challenges nine transactions. The first stage of discovery concluded on or about April 15, 2010. On August 18, 2010, the court granted plaintiffs' motion to proceed to a second stage of discovery in part and denied it in part. Specifically, the court granted a second stage of discovery as to eight additional transactions but denied a second stage of discovery as to any transactions beyond the additional eight specified transactions. On October 7, 2010, the plaintiffs filed under seal a fourth amended complaint that includes new factual allegations concerning the additional eight transactions and the original nine transactions. The fourth amended complaint also includes eight purported sub classes of plaintiffs seeking unspecified monetary damages and/or restitution with respect to eight of the original nine challenged transactions and new separate claims against two of the original nine challenged transactions. On January 13, 2011, the court granted a motion filed by KKR and certain other defendants to dismiss all claims alleged by a putative damages sub class in connection with the acquisition of PanAmSat Corp. and separate claims for relief related to the PanAmSat transaction. The second phase of discovery permitted by the court is completed. On July 11, 2011, plaintiffs filed a motion seeking leave to file a proposed fifth amended complaint that seeks to challenge ten additional transactions in addition to the transactions identified in the previous complaints. Defendants opposed plaintiffs' motion. On September 7, 2011, the court granted plaintiffs' motion in part and denied it in part. Specifically, the court granted a third stage of limited discovery as to the ten additional transactions identified in plaintiffs' proposed fifth amended complaint but denied plaintiffs' motion seeking leave to file a proposed fifth amended complaint. On June 14, 2012, following the completion of the third phase of discovery, plaintiffs filed a fifth amended complaint which, like their proposed fifth amended complaint, seeks to challenge ten additional transactions in addition to the transactions identified in the previous complaints. On June 22, 2012, defendants filed a motion to dismiss certain claims asserted in the fifth amended complaint. On July 18, 2012, the court granted in part and denied in part defendants' motion to dismiss, dismissing certain previously released claims against certain defendants. On March 13, 2013, the United States District Court denied defendants' motion for summary judgment on the count involving KKR. However, the court narrowed plaintiffs' claim to an alleged overarching agreement to refrain from jumping other defendants' announced proprietary transactions, thereby limiting the case to a smaller number of transactions subject to plaintiffs' claim. KKR filed a renewed motion for summary judgment on April 16, 2013, which the court denied on July 18, 2013. Plaintiffs moved for class certification on October 21, 2013. Defendants filed their opposition to the motion on January 24, 2014. On July 28, 2014, KKR entered into a definitive agreement to settle all claims without the admission of wrongdoing, which was preliminarily approved by the court on September 29, 2014, and an order of final approval of the settlement was entered on March 5, 2015. The time to appeal has expired.

From December 19, 2013 to January 31, 2014, multiple putative class action lawsuits were filed in the Superior Court of California, County of San Francisco, the United States District Court of the District of Northern California, and the Court of Chancery of the State of Delaware by KFN shareholders against KFN, individual members of KFN's board of directors, KKR, and certain of KKR's affiliates in connection with KFN's entry into a merger agreement pursuant to which it would become a subsidiary of KKR. The merger transaction was completed on April 30, 2014. The actions filed in California state court were consolidated, and prior to the filing or designation of an operative complaint for the consolidated action, the consolidated action was voluntarily dismissed without prejudice on December 1, 2014. The complaint filed in the California federal court action, which was never served on the defendants, was voluntarily dismissed without prejudice on May 6, 2014. Two of the Delaware actions were voluntarily dismissed without prejudice, and the remaining Delaware actions were consolidated. On February 21, 2014, a consolidated complaint was filed in the consolidated Delaware action which all defendants moved to dismiss on March 7, 2014. On October 14, 2014, the Delaware Court of Chancery granted defendants' motions to dismiss with prejudice. On November 13, 2014, plaintiffs filed a notice of appeal in the Supreme Court of the State of Delaware and the appeal is pending.

The consolidated complaint in the Delaware action alleges that the members of the KFN board of directors breached fiduciary duties owed to KFN shareholders by approving the proposed transaction for inadequate consideration; approving the proposed transaction in order to obtain benefits not equally shared by other KFN shareholders; entering



into the merger agreement containing preclusive deal protection devices; and failing to take steps to maximize the value to be paid to the KFN shareholders. The Delaware action also alleges that KKR, and certain of KKR's affiliates, aided and abetted the alleged breaches of fiduciary duties and that KKR is a controlling shareholder of KFN by means of a management agreement between KFN and KKR Financial Advisors LLC, a subsidiary of KKR, and KKR breached a fiduciary duty it allegedly owed to KFN shareholders by causing KFN to enter into the merger agreement. The relief sought in the Delaware action includes, among other things, declaratory relief concerning the alleged breaches of fiduciary duties, compensatory damages, attorneys' fees and costs, and other relief.

KKR currently is and expects to continue to become, from time to time, subject to examinations, inquiries and investigations by various U.S. and non U.S. governmental and regulatory agencies, including but not limited to the U.S. Securities and Exchange Commission, or SEC, Department of Justice, state attorney generals, Financial Industry Regulatory Authority, or FINRA, and the U.K. Financial Conduct Authority. Such examinations, inquiries and investigations may result in the commencement of civil or criminal lawsuits against KKR or its personnel. KKR is engaged in discussions with the SEC

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regarding a potential resolution of one such matter involving an inquiry by the SEC relating to the allocation of certain categories of expenses between KKR's flagship private equity funds and co-investment and employee vehicles that invested alongside those private equity funds during the period 2006 to 2011. There can be no assurance that these discussions will lead to a resolution of the matter.

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

KKR establishes an accrued liability for legal proceedings only when those matters present loss contingencies that are both probable and reasonably estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. No loss contingency is recorded for matters where such losses are either not probable or reasonably estimable (or both) at the time of determination. Such matters are subject to many uncertainties, including among others (i) the proceedings are in early stages; (ii) damages sought are unspecified, unsupported, unexplained or uncertain; (iii) discovery has not been started or is incomplete; (iv) there is uncertainty as to the outcome of pending appeals or motions; (v) there are significant factual issues to be resolved; or (vi) there are novel legal issues or unsettled legal theories to be presented or a large number of parties. Consequently, management is unable to estimate a range of potential loss, if any, related to these matters. In addition, loss contingencies may be, in part or in whole, subject to insurance or other payments such as contributions and/or indemnity, which may reduce any ultimate loss. For these matters described above for which a loss is both probable and reasonably estimable, KKR has estimated the aggregate amount of losses attributable to KKR to be approximately \$25.0 million. This estimate is subject to significant judgment and a variety of assumptions and uncertainties. Actual outcomes may vary significantly from this estimate.

It is not possible to predict the ultimate outcome of all pending legal proceedings, and some of the matters discussed above seek or may seek potentially large and/or indeterminate amounts. As of such date, based on information known by management, management has not concluded that the final resolutions of the matters above will have a material effect upon the consolidated financial statements. However, given the potentially large and/or indeterminate amounts sought or may be sought in certain of these matters and the inherent unpredictability of investigations and litigations, it is possible that an adverse outcome in certain matters could, from time to time, have a material effect on KKR's financial results in any particular period.

## 17. REGULATORY CAPITAL REQUIREMENTS

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

The regulatory capital requirements referred to above may restrict KKR's ability to withdraw capital from its registered broker-dealer entities. At March 31, 2015, approximately \$91.2 million of cash at KKR's registered broker-dealer entities may be restricted as to the payment of cash dividends and advances to KKR.

## 18. SUBSEQUENT EVENTS

Distribution

A distribution of \$0.46 per KKR & Co. L.P. common unit was announced on April 23, 2015, and will be paid on May 18, 2015 to unitholders of record as of the close of business on May 4, 2015. KKR Holdings will receive its pro rata share of the distribution from the KKR Group Partnerships.

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

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements of KKR & Co. L.P., together with its consolidated subsidiaries, and the related notes included elsewhere in this report and our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the Securities and Exchange Commission on February 27, 2015, including the audited consolidated financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained therein. The historical condensed consolidated financial data discussed below reflects the historical results and financial position of KKR. In addition, this discussion and analysis contains forward looking statements and involves numerous risks and uncertainties, including those described under "Cautionary Note Regarding Forward-looking Statements" and "Risk Factors." Actual results may differ materially from those contained in any forward looking statements.

Overview

We are a leading global investment firm that manages investments across multiple asset classes including private equity, energy, infrastructure, real estate, credit and hedge funds. We aim to generate attractive investment returns by following a patient and disciplined investment approach, employing world-class people, and driving growth and value creation in the assets we manage. We invest our own capital alongside the capital we manage for fund investors and bring debt and equity investment opportunities to others through our capital markets business.

Our business offers a broad range of investment management services to our fund investors and provides capital markets services to our firm, our portfolio companies and third parties. Throughout our history, we have consistently been a leader in the private equity industry, having completed more than 260 private equity investments in portfolio companies with a total transaction value in excess of \$505 billion. We have grown our firm by expanding our geographical presence and building businesses in new areas, such as credit, special situations, hedge funds, collateralized loan obligations ("CLOs"), capital markets, infrastructure, energy and real estate. These efforts build on our core principles and industry expertise, allowing us to leverage the intellectual capital and synergies in our businesses, and to capitalize on a broader range of the opportunities we source. Additionally, we have increased our focus on meeting the needs of our existing fund investors and in developing relationships with new investors in our funds.

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

We have also used our balance sheet as a significant source of capital to further grow and expand our business, increase our participation in our existing businesses and further align our interests with those of our fund investors and other stakeholders. The majority of our balance sheet consists of general partner interests in KKR investment funds, limited partner interests in certain KKR investment funds, and co-investments in certain portfolio companies of KKR private equity funds as well as the interests in CLOs, corporate loans, debt securities and energy and real estate assets acquired in connection with our acquisition of KKR Financial Holdings LLC. Our balance sheet also holds other assets used in the development of our business, including seed capital for new strategies such as growth equity investments.

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

Our investment teams have deep industry knowledge and are supported by a substantial and diversified capital base, an integrated global investment platform, the expertise of operating consultants and senior advisors and a worldwide network of business relationships that provide a significant source of investment opportunities, specialized knowledge during due diligence and substantial resources for creating and realizing value for stakeholders. These teams invest capital, a substantial portion of which is of a long duration and not subject to redemption. With over 75% of our fee paying assets under management not subject to redemption for at least 8 years from inception, we have significant flexibility to grow investments and select exit

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opportunities. We believe that these aspects of our business will help us continue to expand and grow our business and deliver strong investment performance in a variety of economic and financial conditions.

## Business Segments

## Private Markets

Through our Private Markets segment, we manage and sponsor a group of private equity funds and co-investment vehicles that invest capital for long-term appreciation, either through controlling ownership of a company or strategic minority positions. We also manage and sponsor a group of funds and co-investment vehicles that invest capital in real assets, such as infrastructure, energy and real estate. These funds, vehicles and accounts are managed by Kohlberg Kravis Roberts & Co. L.P., an SEC registered investment adviser. As of March 31, 2015, the segment had \$62.1 billion of AUM and FPAUM of \$47.2 billion, consisting of \$37.7 billion in private equity and \$9.5 billion in real assets (including infrastructure, energy and real estate). Prior to 2010, FPAUM in the Private Markets segment consisted entirely of private equity funds.

The table below presents information as of March 31, 2015 relating to our current private equity funds and other investment vehicles for which we have the ability to earn carried interest. This data does not reflect acquisitions or disposals of investments, changes in investment values or distributions occurring after March 31, 2015.

	Investment Period (1)		Amount (\$ in millions)			Invested	Realized	Remaining Cost (3)	Remaining Fair Value
	Commencement Date	End Date	Commitment	Uncalled Commitment (2)	Percentage Committed by General Partner				
Private Markets									
Private Equity Funds									
European Fund IV	12/2014	12/2020	\$2,229.3	\$2,068.4	8.9%	\$160.9	\$—	\$160.9	\$154.8
Asian Fund II	4/2013	4/2019	5,825.0	4,157.0	1.3%	1,668.0	—	1,668.0	2,382.4
North America Fund XI	9/2012	9/2018	8,718.4	4,202.6	2.9%	4,515.8	205.6	4,515.8	6,006.1
China Growth Fund	11/2010	11/2016	1,010.0	444.7	1.0%	565.3	46.3	547.9	683.0
E2 Investors (Annex Fund)	8/2009	11/2013	208.1	12.3	4.6%	195.8	166.0	33.9	150.4
European Fund III	3/2008	3/2014	6,137.6	629.1	4.6%	5,508.5	3,934.4	3,694.0	4,596.6
Asian Fund	7/2007	4/2013	3,983.3	158.7	2.5%	3,824.6	4,432.7	2,296.7	3,452.2
2006 Fund	9/2006	9/2012	17,642.2	553.1	2.1%	17,089.1	15,043.2	9,270.4	15,319.2
European Fund II	11/2005	10/2008	5,750.8	—	2.1%	5,750.8	6,143.6	1,268.9	2,068.6
Millennium Fund	12/2002	12/2008	6,000.0	—	2.5%	6,000.0	11,445.6	1,284.3	2,284.5
European Fund	12/1999	12/2005	3,085.4	—	3.2%	3,085.4	8,736.6	—	40.0
Total Private Equity Funds			60,590.1	12,225.9		48,364.2	50,154.0	24,740.8	37,137.8
	Various	Various	4,195.9	1,298.1	Various	2,897.8	1,434.9	2,371.5	3,059.5

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Co-Investment  
Vehicles

Total Private Equity			64,786.0	13,524.0		51,262.0	51,588.9	27,112.3	40,197.3
Real Assets									
Energy Income and Growth Fund	9/2013	9/2018	1,974.2	1,217.7	12.8%	756.5	92.1	715.0	580.3
Natural Resources Fund	Various	Various	887.4	2.9	Various	884.5	96.6	809.9	319.9
Global Energy Opportunities	Various	Various	1,033.7	809.6	Various	224.1	27.7	218.4	149.1
Infrastructure Fund	9/2011	10/2014	1,039.8	132.5	4.8%	907.3	81.8	907.3	947.8
Infrastructure Fund II	10/2014	10/2020	2,325.6	2,275.3	5.4%	50.3	—	50.3	50.3
Infrastructure Co-Investments	Various	Various	1,125.0	—	Various	1,125.0	314.8	1,125.0	1,583.1
Real Estate Partners Americas	5/2013	12/2016	1,330.2	728.0	16.3%	602.2	229.8	500.8	557.4
Real Assets			9,715.9	5,166.0		4,549.9	842.8	4,326.7	4,187.9
Private Markets Total			\$74,501.9	\$18,690.0		\$55,811.9	\$52,431.7	\$31,439.0	\$44,385.2

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

The commitment represents the aggregate capital commitments to the fund, including capital commitments by third-party fund investors and the general partner. Foreign currency commitments have been converted into U.S. (2) dollars based on (i) the foreign exchange rate at the date of purchase for each investment and (ii) the exchange rate that prevailed on March 31, 2015, in the case of uncalled commitments.

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

The tables below present information as of March 31, 2015 relating to the historical performance of certain of our Private Markets investment vehicles since inception, which we believe illustrates the benefits of our investment approach. The information presented under Total Investments includes all of the investments made by the specified investment vehicle, while the information presented under Realized/Partially Realized Investments includes only those investments for which realized proceeds, excluding current income like dividends and interest, are a material portion of invested capital. This data does not reflect additional capital raised since March 31, 2015 or acquisitions or disposals of investments, changes in investment values or distributions occurring after that date. Past performance is no guarantee of future results.

Private Markets Investment Funds	Amount		Fair Value of Investments			Gross IRR*	Net IRR*	Multiple of Invested Capital*
	Committed	Invested	Realized	Unrealized	Total Value			
(\$ in millions)								
Total Investments								
Legacy Funds (1)								
1976	\$31.4	\$31.4	\$537.2	\$—	\$537.2	39.5 %	35.5 %	17.1
1980	356.8	356.8	1,827.8	—	1,827.8	29.0 %	25.8 %	5.1
1982	327.6	327.6	1,290.7	—	1,290.7	48.1 %	39.2 %	3.9
1984	1,000.0	1,000.0	5,963.5	—	5,963.5	34.5 %	28.9 %	6.0
1986	671.8	671.8	9,080.7	—	9,080.7	34.4 %	28.9 %	13.5
1987	6,129.6	6,129.6	14,949.2	—	14,949.2	12.1 %	8.9 %	2.4
1993	1,945.7	1,945.7	4,143.3	—	4,143.3	23.6 %	16.8 %	2.1
1996	6,011.6	6,011.6	12,476.9	—	12,476.9	18.0 %	13.3 %	2.1
Subtotal - Legacy Funds	16,474.5	16,474.5	50,269.3	—	50,269.3	26.1 %	19.9 %	3.1
Included Funds								
European Fund (1999) (2)	3,085.4	3,085.4	8,736.6	40.0	8,776.6	27.0 %	20.2 %	2.8
Millennium Fund (2002)	6,000.0	6,000.0	11,445.6	2,284.5	13,730.1	22.3 %	16.3 %	2.3
European Fund II (2005) (2)	5,750.8	5,750.8	6,143.6	2,068.6	8,212.2	5.8 %	4.2 %	1.4
2006 Fund (2006)	17,642.2	17,089.1	15,043.2	15,319.2	30,362.4	11.6 %	8.9 %	1.8
Asian Fund (2007)	3,983.3	3,824.6	4,432.7	3,452.2	7,884.9	19.8 %	14.3 %	2.1
European Fund III (2008) (2)	6,137.6	5,508.5	3,934.4	4,596.6	8,531.0	15.5 %	9.5 %	1.5
E2 Investors (Annex Fund) (2009) (2)	208.1	195.8	166.0	150.4	316.4	13.7 %	11.4 %	1.6
China Growth Fund (2010)	1,010.0	565.3	46.3	683.0	729.3	11.5 %	4.4 %	1.3
Natural Resources Fund (2010)	887.4	884.5	96.6	319.9	416.5	(45.3) %	(48.3) %	0.5
Infrastructure Fund (2011) (2)	1,039.8	907.3	81.8	947.8	1,029.6	7.3 %	6.1 %	1.1
North America Fund XI (2012) (3)	8,718.4	4,515.8	205.6	6,006.1	6,211.7	N/A	N/A	N/A
Asian Fund II (2013) (3)	5,825.0	1,668.0	—	2,382.4	2,382.4	N/A	N/A	N/A
Real Estate Partners Americas (2013) (3)	1,330.2	602.2	229.8	557.4	787.2	N/A	N/A	N/A
Energy Income and Growth Fund (2013) (3)	1,974.2	756.5	92.1	580.3	672.4	N/A	N/A	N/A
Infrastructure Fund II (2) (3)	2,325.6	50.3	—	50.3	50.3	N/A	N/A	N/A



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European Fund IV (2) (3)	2,229.3	160.9	—	154.8	154.8	N/A	N/A	N/A
Subtotal - Included Funds	68,147.3	51,565.0	50,654.3	39,593.5	90,247.8	15.3 %	11.0 %	1.7 %
All Funds	\$84,621.8	\$68,039.5	\$100,923.6	\$39,593.5	\$140,517.1	25.5 %	20.1 %	2.2 %

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Private Markets Investment Funds	Amount		Fair Value of Investments			Gross IRR*	Net IRR*	Multiple of Invested Capital*
	Committed	Invested	Realized	Unrealized	Total Value			
(\$ in millions)								
Realized/Partially Realized Investments (4)								
Legacy Funds (1)								
1976	\$31.4	\$31.4	\$537.2	\$—	\$537.2	39.5 %	35.5 %	17.1
1980	356.8	356.8	1,827.8	—	1,827.8	29.0 %	25.8 %	5.1
1982	327.6	327.6	1,290.7	—	1,290.7	48.1 %	39.2 %	3.9
1984	1,000.0	1,000.0	5,963.5	—	5,963.5	34.5 %	28.9 %	6.0
1986	671.8	671.8	9,080.7	—	9,080.7	34.4 %	28.9 %	13.5
1987	6,129.6	6,129.6	14,949.2	—	14,949.2	12.1 %	8.9 %	2.4
1993	1,945.7	1,945.7	4,143.3	—	4,143.3	23.6 %	16.8 %	2.1
1996	6,011.6	6,011.6	12,476.9	—	12,476.9	18.0 %	13.3 %	2.1
Subtotal - Legacy Funds	16,474.5	16,474.5	50,269.3	—	50,269.3	26.1 %	19.9 %	3.1
Included Funds								
European Fund (1999) (2)	3,085.4	3,085.4	8,736.6	40.0	8,776.6	27.0 %	20.2 %	2.8
Millennium Fund (2002)	6,000.0	4,518.2	11,036.8	1,439.9	12,476.7	33.5 %	25.9 %	2.8
European Fund II (2005) (2)	5,750.8	5,096.8	6,143.6	2,066.4	8,210.0	7.8 %	6.6 %	1.6
2006 Fund (2006)	17,642.2	5,846.3	14,190.2	3,711.7	17,901.9	25.3 %	22.8 %	3.1
Asian Fund (2007)	3,983.3	1,868.1	4,256.8	557.1	4,813.9	23.7 %	20.4 %	2.6
European Fund III (2008) (2)	6,137.6	2,301.1	3,846.7	1,058.8	4,905.5	21.6 %	18.2 %	2.1
E2 Investors (Annex Fund) (2009) (2)	208.1	67.5	166.0	24.8	190.8	26.7 %	26.2 %	2.8
China Growth Fund (2010)	1,010.0	17.5	28.5	—	28.5	33.5 %	33.5 %	1.6
Natural Resources Fund (2010)	887.4	884.6	96.6	319.8	416.4	(42.7)%	(48.3)%	0.5
Infrastructure Fund (2011) (2)	1,039.8	28.1	26.5	46.3	72.8	55.5 %	55.5 %	2.6
North America Fund XI (2012) (4)	8,718.4	—	—	—	—	—	—	—
Asian Fund II (2013) (4)	5,825.0	—	—	—	—	—	—	—
Real Estate Partners Americas (2013)	1,330.2	—	—	—	—	—	—	—
Energy Income and Growth Fund (2013) (4)	1,974.2	—	—	—	—	—	—	—
Infrastructure Fund II (2) (4)	2,325.6	—	—	—	—	—	—	—
European Fund IV (2) (4)	2,229.3	—	—	—	—	—	—	—
Subtotal - Included Funds	68,147.3	23,713.6	48,528.3	9,264.8	57,793.1	23.0 %	19.2 %	2.4
All Realized/Partially Realized Investments	\$84,621.8	\$40,188.1	\$98,797.6	\$9,264.8	\$108,062.4	26.0 %	21.1 %	2.7

(1) These funds were not contributed to KKR as part of the KPE Transaction.

The capital commitments of the European Fund, European Fund II, European Fund III, E2 Investors (Annex Fund), European Fund IV, Infrastructure Fund and Infrastructure Fund II include euro-denominated commitments of €196.5 million, €2,597.5 million, €2,882.8 million, €55.5 million, €953.8 million, €30.0 million and €153.8 million, respectively. Such amounts have been converted into U.S. dollars based on (i) the foreign exchange rate at the date of purchase for each investment and (ii) the exchange rate prevailing on March 31, 2015 in the case of unfunded commitments.

The gross IRR, net IRR and multiple of invested capital are calculated for our investment funds that have invested for at least 36 months prior to March 31, 2015. None of the North America Fund XI, Asian Fund II, Real Estate (3)Partners Americas, Energy Income and Growth Fund, Infrastructure Fund II or European Fund IV have invested for at least 36 months as of March 31, 2015. We therefore have not calculated gross IRRs, net IRRs and multiples of invested capital with respect to those funds.

Investments are considered partially realized when realized proceeds, excluding current income like dividends and interest, are a material portion of invested capital. None of the North America Fund XI, Asian Fund II, Real Estate (4)Partners Americas, Energy Income and Growth Fund, Infrastructure Fund II or European Fund IV have realized a material portion of invested capital. We therefore have not calculated gross IRRs, net IRRs and multiples of invested capital with respect to the investments of those funds.

\* IRRs measure the aggregate annual compounded returns generated by a fund's investments over a holding period. Net IRRs presented under Total Investments are calculated after giving effect to the allocation of realized and unrealized carried interest and the payment of any applicable management fees. Net IRRs presented under Realized/Partially Realized Investments are calculated after giving effect to the allocation of realized and unrealized carried interest, but before payment of any applicable management fees as management fees are applied to funds, not investments. Gross IRRs are calculated before giving effect to the allocation of carried interest and the payment of any applicable management fees.

The multiples of invested capital measure the aggregate returns generated by a fund's investments in absolute terms. Each multiple of invested capital is calculated by adding together the total realized and unrealized values of a fund's investments and dividing by the total amount of capital invested by the fund. Such amounts do not give effect to the allocation of any realized and unrealized returns on a fund's investments to the fund's general partner pursuant to a carried interest or the payment of any applicable management fees.

Existing KKR private markets funds may utilize financing facilities in connection with the management of capital calls to provide liquidity to such funds and may temporarily provide debt or equity financing to companies to facilitate permanent investments therein by such fund, or bridge financing. The principal amount of a bridge financing returned within 18 months is considered recyclable capital which is restored to the unused commitments of the investors in the relevant fund, and the interest paid thereon is distributed pro rata. If a bridge financing is not refunded within 18 months, it is considered to be a permanent investment in the company from the date of the original investment. In addition, commencing with KKR European Fund II, any portion of a permanent investment returned within 13 months or 18 months for some of our newer funds generally is considered recyclable capital and is restored to the unused commitments of the investors in the relevant fund. For the purposes of calculating the internal rates of return and multiples of invested capital herein, recyclable capital (both amounts repaid for bridge financings and permanent investments returned within 13 or 18 months, as applicable) and any related interest income has been disregarded. As a result, gross IRRs, net IRRs and multiples of invested capital are higher than if the foregoing amounts had not been disregarded.

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## Public Markets

We operate and report our combined credit and hedge funds businesses through the Public Markets segment. Our credit business advises funds, CLOs, separately managed accounts, and investment companies registered under the Investment Company Act, including a business development company or BDC, undertakings for collective investment in transferable securities or UCITS, and alternative investments funds or AIFs, which invest capital in (i) leveraged credit strategies, such as leveraged loans, high yield bonds and opportunistic credit, and (ii) alternative credit strategies such as mezzanine investments, direct lending investments, special situations investments and long/short credit investment strategies. The funds, accounts, registered investment companies and CLOs in our leveraged credit and alternative credit strategies are managed by KKR Credit Advisors (US) LLC (formerly known as KKR Asset Management LLC), which is an SEC-registered investment adviser, KKR Credit Advisors (Ireland), regulated by the Central Bank of Ireland, and KKR Credit Advisors (UK), regulated by the United Kingdom Financial Conduct Authority or FCA. Our Public Markets segment also includes our hedge funds business that offers a variety of investment strategies including customized hedge fund portfolios, hedge fund-of-fund solutions and acquiring stakes in or seeding hedge fund managers. The funds and accounts in our hedge fund business are managed by Prisma Capital Partners LP (KKR Prisma or Prisma), an SEC-registered investment adviser. In our hedge funds stakes and seeding business, we have a 24.9% interest in Nephila Capital Ltd., or Nephila, an investment manager focused on investing in natural catastrophe and weather risk, and a 24.9% interest in BlackGold Capital Management L.P., or BlackGold, a credit-oriented investment manager focused on investing in energy and hard asset investments.

We intend to continue to grow the Public Markets business by leveraging our global investment platform, experienced investment professionals and the ability to adapt our investment strategies to different market conditions to capitalize on investment opportunities that may arise at various levels of the capital structure and across market cycles.

## Leveraged Credit Strategies: Inception-to-Date Annualized Gross Performance vs. Benchmark by Strategy

(\$ in millions)	Inception Date	AUM	Gross Returns	Net Returns	Benchmark (1)	Benchmark Gross Returns
Bank Loans Plus High Yield (2)	Jul 2008	\$3,402	9.27 %	8.59 %	65% S&P/ LSTA, 35% BoAML HY Master II Index (3)	7.07 %
Opportunistic Credit	May 2008	1,312	14.11 %	11.99 %	BoAML HY Master II Index (4)	8.88 %
Bank Loans (2)	Apr 2011	2,166	5.49 %	4.86 %	S&P/ LSTA Loan Index (5)	4.39 %
High Yield (2)	Apr 2011	1,094	7.36 %	6.77 %	BoAML HY Master II Index (6)	7.00 %
Bank Loans Conservative	Apr 2011	788	5.10 %	4.48 %	S&P/ LSTA BB-B Loan Index (7)	4.38 %
European Leveraged Loans (8)	Sep 2009	1,426	6.32 %	5.79 %	CS Inst West European Leveraged Loan Index (9)	5.28 %

(1) The Benchmarks referred to herein include the S&P/LSTA Leveraged Loan Index (the "S&P/LSTA Loan Index"), the Bank of America Merrill Lynch High Yield Master II Index (the "BoAML HY Master II Index"), the S&P European Leveraged Loan Index (the "ELLI") and Credit Suisse Institutional Western European Leveraged Loan Index (the "CS Inst European Leveraged Loan Index"). The S&P/LSTA Loan Index is an index that comprises all loans that meet the inclusion criteria and that have marks from the LSTA/LPC mark-to-market service. The inclusion criteria consist of the following: (i) syndicated term loan instruments consisting of term loans (both amortizing and institutional), acquisition loans (after they are drawn down) and bridge loans; (ii) secured; (iii) U.S. dollar denominated; (iv) minimum term of one year at inception; and (v) minimum initial spread of LIBOR plus 1.25%. The BoAML HY Master II Index is a market value weighted index of below investment grade U.S. dollar

denominated corporate bonds publicly issued in the U.S. domestic market. "Yankee" bonds (debt of foreign issuers issued in the U.S. domestic market) are included in the BoAML HY Master II Index provided that the issuer is domiciled in a country having investment grade foreign currency long-term debt rating. Qualifying bonds must have maturities of one year or more, a fixed coupon schedule and minimum outstanding of US\$100 million. In addition, issuers having a credit rating lower than BBB3, but not in default, are also included. The ELLI is based upon Euro denominated facilities. The index reflects the market-weighted performance of institutional leveraged loan portfolios investing in European credits. All the index components are loans syndicated to European loan investors. The ELLI series uses real-time market weightings, spreads and interest payments. The Index was calculated monthly from January 1, 2002 to January 1, 2004; then weekly until May 2, 2013, and is currently calculated daily. The CS Inst European Leveraged Loan Index contains only institutional loan facilities priced above 90, excluding TL and TLa facilities and loans rated CC, C or in default. It is designed to more closely reflect the investment criteria of institutional investors. While the returns of these strategies reflect the reinvestment of income and dividends, none of the indices presented in the chart above reflect such reinvestment, which has the effect of increasing the reported relative performance of these strategies as compared to the indices. Furthermore, these indices are not subject to management fees, incentive allocations or expenses. It is not possible to invest directly in unmanaged indices.

- (2) The AUM of the Bank Loans Plus High Yield strategy is also included in the AUM of the High Yield strategy and the AUM of the Bank Loans strategy.

Performance is based on a blended composite of Bank Loans Plus High Yield strategy accounts. The Benchmark (3) used for purposes of comparison for the Bank Loans Plus High Yield strategy is based on 65% S&P/LSTA Loan Index and 35% BoAML HY Master II Index.

The Opportunistic Credit strategy invests in high yield securities and corporate loans with no preset allocation. The (4) Benchmark used for purposes of comparison for the Opportunistic Credit strategy presented herein is based on the BoAML HY Master II Index.

(5) Performance is based on a composite of portfolios that primarily invest in leveraged loans. The Benchmark used for purposes of comparison for the Bank Loans strategy is based on the S&P/LSTA Loan Index.

(6) Performance is based on a composite of portfolios that primarily invest in high yield securities. The Benchmark used for purposes of comparison for the High Yield strategy is based on the BoAML HY Master II Index.

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Performance is based on a composite of portfolios that primarily invest in leveraged loans rated B-/Baa3 or higher. (7) The Benchmark used for purposes of comparison for the Bank Loans strategy is based on the S&P/LSTA BB/B Loan Index.

(8) The AUM amounts reflected have been converted to U.S. dollars based on the exchange rate prevailing on March 31, 2015. The returns presented are calculated based on local currency.

(9) Performance is based on a composite of portfolios that primarily invest in higher quality leveraged loans. The Benchmark used for purposes of comparison for the European Senior Loans strategy is based on the CS Inst West European Leveraged Loan Index.

Our alternative credit strategies primarily invest in more illiquid instruments through private investment funds. The following table presents information regarding our Public Markets alternative credit funds where investors are subject to capital commitments from inception to March 31, 2015. Some of our alternative credit funds have begun investing more recently and therefore have not yet developed meaningful track records, and thus their performance is not included below. Past performance is no guarantee of future results.

## Alternative Credit Strategies: Fund Performance

Public Markets Investment Funds	Inception Date	Amount		Fair Value of Investments			Gross IRR*	Multiple Net IRR* of Invested Capital**	
		Commitment	Investment	Realized Value	Unrealized Value	Total Value			
(\$ in Millions)									
Special Situations Fund	Dec-12	\$2,073.7	\$1,905.3	\$73.7	\$2,214.2	\$2,287.9	19.2 %	12.6 %	1.2
Special Situations Fund II	Dec-14	659.7	85.0	—	85.5	85.5	N/A	N/A	N/A
Mezzanine Partners	Mar-10	1,022.8	799.7	269.6	797.2	1,066.8	15.7 %	9.4 %	1.3
Lending Partners	Dec-11	460.2	383.0	127.7	357.0	484.7	12.2 %	9.8 %	1.3
Lending Partners II	Jun-14	1,071.4	433.3	—	460.4	460.4	N/A	N/A	N/A
All Funds		\$5,287.8	\$3,606.3	\$471.0	\$3,914.3	\$4,385.3			1.2

\* IRRs measure the aggregate annual compounded returns generated by a fund's investments over a holding period. Net IRRs presented are calculated after giving effect to the allocation of realized and unrealized carried interest and the payment of any applicable management fees. Gross IRRs are calculated before giving effect to the allocation of carried interest and the payment of any applicable management fees.

\*\* The multiples of invested capital measure the aggregate returns generated by a fund's investments in absolute terms. Each multiple of invested capital is calculated by adding together the total realized and unrealized values of a fund's investments and dividing by the total amount of capital invested by the fund. Such amounts do not give effect to the allocation of any realized and unrealized returns on a fund's investments to the fund's general partner pursuant to a carried interest or the payment of any applicable management fees.

For the period beginning in June 2004 through March 31, 2015, our hedge fund-of-funds low volatility strategy, which consists of the majority of our hedge fund-of-funds AUM and FPAUM, generated a gross annualized return of 7.7%. As of March 31, 2015, our hedge fund-of-funds accounted for \$10.6 billion of AUM.

The table below presents information as of March 31, 2015 relating to our Public Markets vehicles:

(\$ in millions)	AUM	FPAUM	Typical Mgmt Fee Rate	Incentive Fee / Carried	Preferred Return	Duration of Capital
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			Interest			
Leveraged Credit:						
Leveraged Credit SMAs/Funds	\$7,322	\$7,106	0.50%-1.50%	Various (1)	Various (1)	Subject to redemptions
CLO's	8,062	8,062	0.50%	Various (1)	Various (1)	10-14 Years (2)
Total Leveraged Credit	15,384	15,168				
Alternative Credit (3)	7,557	6,512	0.75%-1.50% (4)	10.00-20.00%	8.00-12.00%	8-15 Years (2)
Hedge Fund Solutions	10,557	10,552	0.50%-1.50%	Various (1)	Various (1)	Subject to redemptions
Corporate Capital Trust (5)	3,491	3,491	1.00%	10.00%	7.00%	7 years (5)
Total	\$36,989	\$35,723				

Certain funds and CLOs are subject to a performance fee in which the manager or general partner of the funds share in up to 20% or in our hedge fund solutions business, up to 10% of the net profits earned by investors in excess of performance hurdles (generally tied to a benchmark or index) and subject to a provision requiring the funds and vehicles to regain prior losses before any performance fee is earned.

(1) Term for duration of capital is since inception. Inception dates for CLOs were between 2004 and 2015 and for separately managed accounts and funds investing in alternative credit strategies from 2009 through 2015.

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AUM and FPAUM include all assets invested by vehicles that principally invest in alternative credit strategies, (3) respectively, and consequently may include a certain amount of assets, currently less than \$1.0 billion, invested in other strategies.

(4) Lower fees on uninvested capital in certain vehicles.

Corporate Capital Trust is a BDC sub-advised by KKR. By December 31, 2018, the capital in the Corporate (5) Capital Trust vehicle may have an indefinite duration. This vehicle invests in both leveraged credit and alternative credit strategies.

## Capital Markets

Our Capital Markets segment is comprised primarily of our global capital markets business. Our capital markets business supports our firm, our private equity and other portfolio companies and third-party clients by developing and implementing both traditional and non-traditional capital solutions for investments or companies seeking financing. These services include arranging debt and equity financing for transactions, placing and underwriting securities offerings and providing other types of capital markets services. When we underwrite an offering of securities or a loan on a firm commitment basis, we commit to buy and sell an issue of securities or indebtedness and generate revenue by purchasing the securities or indebtedness at a discount or for a fee. When we act in an agency capacity, we generate revenue for arranging financing or placing securities or debt with capital markets investors. KKR Capital Markets LLC is an SEC-registered broker-dealer and a FINRA member, and we are also registered or authorized to carry out certain broker-dealer activities in various countries in North America, Europe, Asia-Pacific and the Middle East. Our third party capital markets activities are generally carried out through Merchant Capital Solutions LLC, a joint venture with two other unaffiliated partners, and non-bank financial companies, or NBFCs, in India.

## Business Environment

As a global investment firm, we are affected by financial and economic conditions in North and South America, Europe, Asia Pacific and elsewhere in the world. Global and regional economic conditions have a substantial impact on our financial condition and results of operations, impacting both the values of the investments we make as well as our ability to exit these investments profitably and to make new investments. According to the Bureau of Economic Analysis as of April 2015, real GDP in the U.S. increased at a seasonally adjusted rate of 0.2% quarter over quarter in the first quarter of 2015 following an increase of 2.2% in the fourth quarter of 2014, a revised figure provided by the Bureau of Economic Analysis. According to the Bureau of Labor Statistics, the U.S. unemployment rate decreased to 5.6% as of March 31, 2015 relative to an average rate of 6.2% for the year ended December 31, 2014. In the Euro Area, as of April 2015, the IMF estimates that real GDP will grow at a higher rate in 2015 than in 2014 following a seasonally adjusted increase of 0.34% quarter over quarter in the fourth quarter of 2014 according to the Statistical Office of the European Communities. As of April 2015, despite recent signs of improvement, the Euro Area unemployment rate remains elevated at 11.3% as of March 31, 2015, a slight decline from 11.5% as of December 31, 2014. According to the China Bureau of National Statistics, real GDP in China increased 1.3% in the first quarter of 2015 following an increase of 1.5% in the fourth quarter of 2014. As of April 2015, the IMF estimates that China's economy will expand at a lower rate in 2015 than in past periods. In China, the unemployment rate, which is issued annually by the China Bureau of National Statistics, remains relatively low at 4.1% as of December 31, 2014. In addition to economic conditions, global equity and debt markets also have a substantial effect on our financial condition and results of operations. Global equity markets finished positively for the quarter ended March 31, 2015, with the S&P 500 Index up 1.0% and the MSCI World Index up 2.5%. Equity market volatility declined during the quarter as evidenced by the Chicago Board Options Exchange Market Volatility Index, or the VIX, a measure of volatility, which began the quarter at 19.2 and ended at 15.3 on March 31, 2015, for a decrease of 20.4%. The investment grade credit markets increased, with the S&P/LSTA Leveraged Loan Index up 2.1% and the BoAML HY Master II Index up 2.5% during the quarter ended March 31, 2015, respectively. Within credit markets, spreads have tightened modestly in the quarter ended March 31, 2015 but remain significantly above levels a year ago. Generally,



increased credit spreads lead to a reduction in the value of our credit investments, if not offset by hedging or other factors. Higher interest rates in conjunction with slower growth or weaker currencies in some emerging market economies may cause the default risk of these countries to increase, and this could impact the operations or value of our investments.

In addition, foreign exchange rates have a substantial impact on the valuations of our investments that are denominated in currencies other than the U.S. dollar. Currency volatility, which has become more pronounced in recent quarters, can also affect our businesses which deal in cross border trade. U.S. dollar appreciation relative to other currencies is likely to cause a decrease in the U.S. dollar value of our non U.S. investments to the extent unhedged, cause portfolio companies that export to the U.S. to suffer a decline in revenues, and make the exports of U.S. based companies less

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competitive. The Euro fell 11.3% in the quarter ended March 31, 2015, while the British pound fell 4.9% relative to the U.S. dollar.

Interest rates have a substantial impact on the valuations of our investments, particularly those valued in whole or in part using a discounted cash flow analysis. In the quarter ended March 31, 2015, many global central banks cut interest rates as historic low rates combined with the fall in oil prices and below potential growth heightened deflationary fears. As at March 31, 2015, 10 year government bond yields for the first quarter of 2015 remained flat in China, declined by 36 basis points in Germany, and 25 basis points in the U.S. In the U.S., the Federal Reserve ended its tapering campaign and has signaled a future rate increase.

Our Private Markets portfolio contains energy real asset investments whose values are influenced by the price of natural gas and oil. Such energy real asset investments had a fair value of \$0.7 billion, as of March 31, 2015. For example, the 2017 price of WTI crude oil declined from approximately \$67 per barrel to \$61 per barrel and the 2017 price of natural gas declined from approximately \$3.77 per mcf to \$3.35 per mcf as of December 31, 2014 and March 31, 2015, respectively. For additional information regarding our energy real asset valuation methodologies, see “-Critical Accounting Policies-Fair Value Measurements-Level III Valuation Methodologies-Real Asset Investments.” For a discussion of how financial and economic conditions impact our financial condition and results of operations see “Risk Factors-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 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,” “-Risks Related to the Assets We Manage-Valuation methodologies for certain assets in our funds and on our balance sheet can be subjective 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 us,” “-Our investments are impacted by various economic conditions that are difficult to quantify or predict, but may have a significant adverse impact on the valuation of our investments,” “-Dependence on significant leverage in investments by our funds and our principal assets could adversely affect our ability to achieve attractive rates of return on those investments” and “-We 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” and see “Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

### Basis of Accounting

We consolidate the financial results of the KKR Group Partnerships and their consolidated subsidiaries, which include the accounts of our investment management and capital markets companies, the general partners of certain unconsolidated funds and vehicles, general partners of consolidated funds and their respective consolidated funds and certain other entities including certain consolidated CLOs.

In accordance with accounting principles generally accepted in the United States of America, or GAAP, certain entities, including a substantial number of our funds and CLOs, are consolidated notwithstanding the fact that we may hold only a minority economic interest in those entities. In particular, in the majority of our consolidated funds and other investment vehicles, we hold a general partner interest that gives us substantive controlling rights over such funds and vehicles. With respect to our consolidated funds and vehicles, we generally have operational discretion and control, and fund investors have no substantive rights to impact ongoing governance and operating activities of the fund, including the ability to remove the general partner, also known as kick-out rights. As of March 31, 2015, our AUM in our Private Markets segment included 21 consolidated investment funds and 15 unconsolidated investment vehicles. Our AUM in our Public Markets segment included 20 consolidated investment vehicles, including CLOs, and 67 unconsolidated vehicles.

When an entity is consolidated, we reflect the assets, liabilities, fees, expenses, investment income and cash flows of the consolidated entity on a gross basis. While the consolidation of a consolidated fund or entity does not have an effect on the amounts of net income attributable to KKR or KKR's partners' capital that KKR reports, the

consolidation does significantly impact the financial statement presentation. This is due to the fact that the assets, liabilities, fees, expenses and investment income of the consolidated funds and entities are reflected on a gross basis while the allocable share of those amounts that are attributable to third parties are reflected as single line items. The single line items in which the assets, liabilities, fees, expenses and investment income attributable to third parties are recorded are presented as noncontrolling interests on the consolidated statements of financial condition and net income attributable to noncontrolling interests on the consolidated statements of operations. For a further discussion of our consolidation policies, see "—Critical Accounting Policies—Consolidation."

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### Key Financial Measures Under GAAP

#### Fees and Other

Fees and other consist primarily of (i) transaction fees earned in connection with successful investment transactions and from capital markets activities, (ii) management and incentive fees from providing investment management services to unconsolidated funds, CLOs, other vehicles and separately managed accounts, (iii) monitoring fees from providing services to portfolio companies, (iv) revenue earned by oil and gas-producing entities that are consolidated and (v) consulting fees earned by entities that employ non-employee operating consultants. These fees are based on the contractual terms of the governing agreements and are recognized when earned, which coincides with the period during which the related services are performed and in the case of transaction fees, upon closing of the transaction. Monitoring fees may provide for a termination payment following an initial public offering or change of control. These termination payments are recognized in the period when the related transaction closes.

Fees and other reported in our consolidated financial statements do not include the management or incentive fees that we earn from consolidated funds and other entities, because those fees are eliminated in consolidation. However, because those management and incentive fees are earned from, and funded by, third-party investors who hold noncontrolling interests in the consolidated funds and entities, net income attributable to KKR is increased by the amount of the management fees that are eliminated in consolidation. Accordingly, while the consolidation of funds and other entities impacts the amount of fees that are recognized in our financial statements, it does not affect the ultimate amount of net income attributable to KKR or KKR's partners' capital.

For a further discussion of our fee policies, see “—Critical Accounting Policies—Revenue Recognition.”

#### Expenses

##### Compensation and Benefits

Compensation and benefits expense includes cash compensation consisting of salaries, bonuses, and benefits, as well as equity-based compensation consisting of charges associated with the vesting of equity-based awards and carry pool allocations. All employees of certain consolidated entities receive a base salary that is paid by KKR or its consolidated entities, and is accounted for as compensation and benefits expense. These employees are also eligible to receive discretionary cash bonuses based on performance, overall profitability and other matters. While cash bonuses paid to most employees are borne by KKR and certain consolidated entities and result in customary compensation and benefits expense, cash bonuses that are paid to certain employees are currently borne by KKR Holdings. These bonuses are funded with distributions that KKR Holdings receives on KKR Group Partnership Units held by KKR Holdings but are not then passed on to holders of unvested units of KKR Holdings. Because employees are not entitled to receive distributions on units that are unvested, any amounts allocated to employees in excess of an employee's vested equity interests are reflected as employee compensation and benefits expense. These compensation charges are recorded based on the unvested portion of quarterly earnings distributions received by KKR Holdings at the time of the distribution.

With respect to KKR's active and future funds and co-investment vehicles that provide for carried interest, KKR allocates to its employees and other personnel a portion of the carried interest earned as part of its carry pool. KKR currently allocates approximately 40% of the carry it earns from these funds and vehicles to its carry pool. These amounts are accounted for as compensatory profit-sharing arrangements in conjunction with the related carried interest income and recorded as compensation and benefits expense for KKR employees and general, administrative and other expense for certain non-employee consultants and service providers in the consolidated statements of operations.

General, Administrative and Other

General, administrative and other expense consists primarily of professional fees paid to legal advisors, accountants, advisors and consultants, insurance costs, travel and related expenses, communications and information services, depreciation and amortization charges, changes in fair value of contingent consideration, expenses incurred by oil and gas-producing entities (including impairment charges) that are consolidated and other general and operating expenses which are not borne by fund investors and are not offset by credits attributable to fund investors' noncontrolling interests in consolidated funds. General, administrative and other expense also consists of costs incurred in connection with pursuing potential investments that do not result in completed transactions, a substantial portion of which are borne by fund investors.

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### Investment Income (Loss)

#### Net Gains (Losses) from Investment Activities

Net gains (losses) from investment activities consist of realized and unrealized gains and losses arising from our investment activities. The majority of our net gains (losses) from investment activities are related to our private equity investments. Fluctuations in net gains (losses) from investment activities between reporting periods is driven primarily by changes in the fair value of our investment portfolio as well as the realization of investments. The fair value of, as well as the ability to recognize gains from, our private equity investments is significantly impacted by the global financial markets, which, in turn, affects the net gains (losses) from investment activities recognized in any given period. Upon the disposition of an investment, previously recognized unrealized gains and losses are reversed and an offsetting realized gain or loss is recognized in the current period. Since our investments are carried at fair value, fluctuations between periods could be significant due to changes to the inputs to our valuation process over time. For a further discussion of our fair value measurements and fair value of investments, see "—Critical Accounting Policies—Fair Value Measurements."

#### Dividend Income

Dividend income consists primarily of distributions that investment funds receive from portfolio companies in which they invest. Dividend income is recognized primarily in connection with (i) dispositions of operations by portfolio companies, (ii) distributions of excess cash generated from operations from portfolio companies and (iii) other significant refinancings undertaken by portfolio companies.

#### Interest Income

Interest income consists primarily of interest that is received on our cash balances and other investments including credit instruments in which our consolidated funds and other entities invest.

#### Interest Expense

Interest expense is incurred from debt issued by KKR, including debt issued by KFN which was consolidated upon completion of the acquisition of KFN, credit facilities entered into by KKR, debt securities issued by consolidated CLOs and financing arrangements at our consolidated funds entered into primarily with the objective of managing cash flow. KFN's debt obligations are non-recourse to KKR beyond the assets of KFN. Debt securities issued by consolidated CLOs are supported solely by the investments held at the CLO vehicles and are not collateralized by assets of any other KKR entity. Our obligations under financing arrangements at our consolidated funds are generally limited to our pro-rata equity interest in such funds. Our management companies bear no obligations with respect to financing arrangements at our consolidated funds. We also capitalize debt financing costs incurred in connection with new debt arrangements. Such costs are amortized into interest expense using either the interest method or the straight-line method, as appropriate. See "—Liquidity".

#### Income Taxes

The KKR Group Partnerships and certain of their subsidiaries operate in the United States as partnerships for U.S. federal income tax purposes and as corporate entities in non-U.S. jurisdictions. Accordingly, these entities, in some cases, are subject to New York City unincorporated business taxes, or non-U.S. income taxes. Furthermore, we hold our interest in one of the KKR Group Partnerships through KKR Management Holdings Corp., which is treated as a corporation for U.S. federal income tax purposes, and certain other subsidiaries of the KKR Group Partnerships are treated as corporations for U.S. federal income tax purposes. Accordingly, such subsidiaries of KKR, including KKR

Management Holdings Corp., and of the KKR Group Partnerships are subject to U.S. federal, state and local corporate income taxes at the entity level and the related tax provision attributable to KKR's share of this income is reflected in the financial statements. We also generate certain interest income to our unitholders and interest deductions to KKR Management Holdings Corp.

We use the asset and liability method to account for income taxes in accordance with GAAP. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that all or a portion of the deferred tax assets will not be realized.

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Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining tax expense and in evaluating tax positions including evaluating uncertainties. We review our tax positions quarterly and adjust our tax balances as new information becomes available.

### Net Income (Loss) Attributable to Noncontrolling Interests

Net income (loss) attributable to noncontrolling interests represents the ownership interests that certain third parties hold in entities that are consolidated in the financial statements as well as the ownership interests in our KKR Group Partnerships that are held by KKR Holdings. The allocable share of income and expense attributable to these interests is accounted for as net income (loss) attributable to noncontrolling interests. Historically, the amount of net income (loss) attributable to noncontrolling interests has been substantial and has resulted in significant charges and credits in the statements of operations. Given the consolidation of certain of our investment funds and the significant ownership interests in our KKR Group Partnerships held by KKR Holdings, we expect this activity to continue.

### Segment Operating and Performance Measures

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

We disclose the following financial measures in this report that are calculated and presented using methodologies other than in accordance with GAAP. We believe that providing these performance measures on a supplemental basis to our GAAP results is helpful to unitholders in assessing the overall performance of KKR's businesses. These financial measures should not be considered as a substitute for similar financial measures calculated in accordance with GAAP, if available. We caution readers that these non-GAAP financial measures may differ from the calculations of other investment managers, and as a result, may not be comparable to similar measures presented by other investment managers. Reconciliations of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP, where applicable, are included within "Condensed Consolidated Financial Statements (Unaudited)—Note 13. Segment Reporting" and later in this report under "—Segment Balance Sheet."

### Economic Net Income (Loss) ("ENI")

Economic net income (loss) is a measure of profitability for KKR's reportable segments and is used by management as an alternative measurement of the operating and investment earnings of KKR and its business segments. We believe this measure is useful to unitholders as it provides additional insight into the overall profitability of KKR's businesses inclusive of carried interest and related carry pool allocations and investment income. ENI is comprised of total segment revenues less total segment expenses and certain economic interests in KKR's segments held by third parties. ENI differs from net income (loss) on a GAAP basis as a result of: (i) the inclusion of management fees earned from consolidated funds that were eliminated in consolidation; (ii) the exclusion of fees and expenses of certain consolidated entities; (iii) the exclusion of charges relating to the amortization of intangible assets; (iv) the exclusion of non-cash equity-based charges and other non-cash compensation charges borne by KKR Holdings or incurred under the Equity Incentive Plan and other securities that are exchangeable for common units of KKR & Co. L.P.; (v) the exclusion of certain non-recurring items; (vi) the exclusion of investment income (loss) relating to noncontrolling interests; and (vii) the exclusion of income taxes.



Assets Under Management (“AUM”)

Assets under management represent the assets from which KKR is entitled to receive fees or a carried interest and general partner capital. We believe this measure is useful to unitholders as it provides additional insight into KKR's capital raising activities and the overall activity in its investment funds. KKR calculates the amount of AUM as of any date as the sum of: (i) the fair value of the investments of KKR's investment funds plus uncalled capital commitments from these funds; (ii) the fair value of investments in KKR's co-investment vehicles; (iii) the net asset value of certain of KKR's fixed income products; (iv) the value of outstanding CLOs (excluding CLOs wholly-owned by KKR); and (v) the fair value of other assets managed by KKR. AUM excludes those assets managed by entities where KKR does not hold more than a 50% ownership interest. KKR's definition of AUM is not based on any definition of AUM that may be set forth in the agreements governing the investment funds, vehicles or accounts that it manages or calculated pursuant to any regulatory definitions.

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### Fee Paying AUM (“FPAUM”)

Fee paying AUM represents only those assets under management from which KKR receives management fees. We believe this measure is useful to unitholders as it provides additional insight into the capital base upon which KKR earns management fees. This relates to KKR's capital raising activities and the overall activity in its investment funds or CLOs, for only those funds or CLOs where KKR receives fees (i.e., excluding vehicles that receive only carried interest or general partner capital). FPAUM is the sum of all of the individual fee bases that are used to calculate KKR's fees and differs from AUM in the following respects: (i) assets from which KKR does not receive a fee are excluded (i.e., assets with respect to which it receives only carried interest) and (ii) certain assets, primarily in its private equity funds, are reflected based on capital commitments and invested capital as opposed to fair value because fees are not impacted by changes in the fair value of underlying investments.

### Equity Invested

Equity invested is the aggregate amount of equity capital that has been invested by KKR's investment funds and carry-yielding co-investment vehicles and is used as a measure of investment activity for KKR and its business segments during a given period. We believe this measure is useful to unitholders as it provides additional insight into KKR's investments among its investment funds and carry-yielding co-investment vehicles and replaces committed dollars invested. Such amounts include: (i) capital invested by fund investors and co-investors with respect to which KKR is entitled to a carried interest and (ii) capital invested by KKR's investment funds, including investments made using investment financing arrangements.

### Gross Dollars Invested

Gross dollars invested is the aggregate amount of capital that has been invested by all of KKR's Public Markets investment vehicles in our private credit non-liquid strategies and is used as a measure of investment activity for a portion of KKR's Public Markets segment in a given period. We believe this measure is useful to unitholders as it provides additional insight into KKR's investment of capital across private credit non-liquid strategies for all the investment vehicles in the Public Markets segment. Such amounts include capital invested by fund investors and co-investors with respect to which KKR's Public Markets business is entitled to a fee or carried interest.

### Syndicated Capital

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

### Uncalled Commitments

Uncalled commitments are used as a measure of unfunded capital commitments that KKR's investment funds and carry-paying co-investment vehicles have received from partners to contribute capital to fund future investments. We believe this measure is useful to unitholders as it provides additional insight into the amount of capital that is available to KKR's investment funds to make future investments. Uncalled commitments are not reduced for investments completed using fund-level investment financing arrangements.

### Adjusted Units

Adjusted units are used as a measure of the total equity ownership of KKR that is held by KKR & Co. L.P. (including equity awards issued under the Equity Incentive Plan), KKR Holdings and other holders of securities exchangeable into common units of KKR & Co. L.P. and represent the fully diluted unit count using the if-converted method. We believe this measure is useful to unitholders as it provides an indication of the total equity ownership of KKR as if all outstanding KKR Holdings units, equity awards issued under the Equity Incentive Plan and other exchangeable securities had been exchanged for common units of KKR & Co. L.P.

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## Segment Book Value

Book value is a measure of the net assets of KKR's reportable segments and is used by management primarily in assessing the unrealized value of KKR's investment portfolio, including carried interest, as well as KKR's overall liquidity position. We believe this measure is useful to unitholders as it provides additional insight into the assets and liabilities of KKR excluding the assets and liabilities that are allocated to noncontrolling interest holders. Book value differs from KKR & Co. L.P. partners' capital on a GAAP basis primarily as a result of the exclusion of ownership interests attributable to KKR Holdings.

## Unaudited Condensed Consolidated Results of Operations

The following is a discussion of our condensed consolidated results of operations for the three months ended March 31, 2015 and 2014. You should read this discussion in conjunction with the condensed consolidated financial statements and related notes included elsewhere in this report. For a more detailed discussion of the factors that affected the results of operations of our three business segments in these periods, see “—Segment Analysis.”

The following tables set forth information regarding our results of operations for the three months ended March 31, 2015 and 2014.

Three months ended March 31, 2015 compared to three months ended March 31, 2014

	Three Months Ended		
	March 31, 2015	March 31, 2014	Change
	(\$ in thousands)		
Revenues			
Fees and Other	\$291,345	\$302,926	(11,581 )
Expenses			
Compensation and Benefits	364,999	331,038	33,961
Occupancy and Related Charges	15,732	15,408	324
General, Administrative and Other	134,302	126,725	7,577
Total Expenses	515,033	473,171	41,862
Investment Income (Loss)			
Net Gains (Losses) from Investment Activities	1,919,825	1,972,180	(52,355 )
Dividend Income	78,815	96,704	(17,889 )
Interest Income	296,158	161,960	134,198
Interest Expense	(111,963 )	(34,731 )	(77,232 )
Total Investment Income (Loss)	2,182,835	2,196,113	(13,278 )
Income (Loss) Before Taxes	1,959,147	2,025,868	(66,721 )
Income Taxes	16,138	21,702	(5,564 )
Net Income (Loss)	1,943,009	2,004,166	(61,157 )
Net Income (Loss) Attributable to Redeemable Noncontrolling Interests	1,933	10,637	(8,704 )
Net Income (Loss) Attributable to Noncontrolling Interests and Appropriated Capital	1,670,569	1,783,488	(112,919 )

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Net Income (Loss) Attributable to KKR & Co. L.P.	\$270,507	\$210,041	60,466
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## Fees and Other

The net decrease was primarily due to a decrease in transaction fees of \$62.5 million and a decrease in incentive fees of \$11.5 million. The decrease in transaction fees was primarily attributable to (i) a decrease in the size of fee generating investments completed during the three months ended March 31, 2015 in our Private Markets segment and (ii) a decrease in transaction fees in our capital markets business due to a decrease in IPO underwriting fees as well as a decrease in the size of capital markets transactions when compared to the prior period. During the three months ended March 31, 2015, there were 12 transaction fee-generating investments with a total combined transaction value of approximately \$4.4 billion compared to 8 transaction fee-generating investments with a total combined transaction value of approximately \$8.5 billion during the three months ended March 31, 2014. The decrease in incentive fees is due primarily to a decrease in incentive fees from KFN as a result of our acquisition of it on April 30, 2014 as incentive fees from KFN after that date are eliminated. Offsetting these decreases was an increase in monitoring fees of \$59.2 million and an increase in revenues earned by consolidated oil and gas producing entities of \$7.2 million. The increase in monitoring fees was primarily the result of \$81.7 million of fees received in the first quarter of 2015 from the termination of monitoring fee arrangements in connection with the exits of Alliance Boots GmbH (healthcare sector), which was renamed Walgreens Boots Alliance Inc. subsequent to the acquisition of it by Walgreens Co., and Big Heart Pet Brands (consumer products sector) compared to \$8.7 million of such fees received during the first quarter of 2014. These types of termination payments may occur in the future; however, they are infrequent in nature and are generally correlated with sale activity in our private equity portfolio. The increase in revenue earned by consolidated oil and gas producing entities was primarily the result of revenues of oil and gas producing entities of KFN, which was acquired on April 30, 2014.

## Expenses

The increase was primarily due to an increase in compensation and benefits of \$34.0 million and an increase in general administrative and other expense of \$7.6 million. The increase in compensation and benefits expense was primarily due to higher carry pool allocations as a result of the recognition of a higher level of carried interest during the three months ended March 31, 2015 as compared to the three months ended March 31, 2014. The increase in general administrative and other expense is primarily attributable to (i) activities of our consolidated oil and gas producing entities acquired in the acquisition of KFN completed on April 30, 2014, (ii) increased expenses attributable to Avoca which we acquired on February 19, 2014, and (iii) expenses of KFN in the 2015 period as a result of our acquisition of it.

## Net Gains (Losses) from Investment Activities

The following is a summary of net gains (losses) from investment activities:

	Three Months Ended	
	March 31,	
	2015	2014
	(\$ in thousands)	
Net Gains (Losses) from Private Equity Investments	\$1,891,154	\$1,680,528
Other Net Gains (Losses) from Investment Activities	28,671	291,652
Net Gains (Losses) from Investment Activities	\$1,919,825	\$1,972,180

The majority of our net gains (losses) from investment activities relate to our private equity portfolio. The following is a summary of the components of net gains (losses) from investment activities for private equity investments which illustrates the variances from the prior period. See “—Segment Analysis—Private Markets Segment” for further information

regarding gains and losses in our private equity portfolio.

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	Three Months Ended	
	March 31,	
	2015	2014
	(\$ in thousands)	
Realized Gains	\$1,622,818	\$1,330,387
Unrealized Losses from Sales of Investments and Realization of Gains (a)	(1,435,288	) (1,230,791
Realized Losses	(2,942	) (695,318
Unrealized Gains from Sales of Investments and Realization of Losses (b)	—	695,318
Unrealized Gains from Changes in Fair Value	2,400,345	2,097,306
Unrealized Losses from Changes in Fair Value	(693,779	) (516,374
Net Gains (Losses) from Investment Activities - Private Equity Investments	\$1,891,154	\$1,680,528

(a) Amounts represent the reversal of previously recognized unrealized gains in connection with realization events where such gains become realized.

(b) Amounts represent the reversal of previously recognized unrealized losses in connection with realization events where such losses become realized.

A significant driver of net gains (losses) from investment activities for the three months ended March 31, 2015 was related to unrealized gains and losses from changes in fair value in our private equity investments. The net appreciation in the market value of our private equity portfolio was driven primarily by net unrealized gains of \$0.7 billion, \$0.4 billion and \$0.3 billion in our 2006 Fund, North America Fund XI and Asian Fund II, respectively. Approximately 61% of the net change in value for the three months ended March 31, 2015 was attributable to changes in share prices of various publicly held or publicly indexed investments for the three months ended March 31, 2015, the most significant of which were gains on Walgreens Boots Alliance Inc., Qingdao Haier (CH: 600690) and PRA Health Sciences, Inc. (NASDAQ: PRAH) These increases were partially offset by decreased share prices of various publicly held investments, the most significant of which were RigNet (NASDAQ: RNET) and Far East Horizon Ltd (HK: 3360). Our privately held investments contributed the remainder of the change in value, the most significant of which were gains relating to First Data Corporation (financial services sector), Big Heart Pet Brands, and Mitchell International (technology sector). The unrealized gains on our privately held investments were partially offset by unrealized losses relating primarily to BIS Industries Ltd. (industrial sector), Laureate Education, Inc. (education sector) and SunGard (technology sector) The increased valuations of individual companies in our privately held investments, in the aggregate, generally related to (i) an increase in the value of market comparables and individual company performance and (ii) in the case of Big Heart Pet Brands, an increase that primarily reflected the valuation of an agreement to sell this investment. The decreased valuations of individual companies in our privately held investments, in the aggregate, generally related to individual company performance or, in certain cases, an unfavorable business outlook.

The most significant driver of net gains (losses) from investment activities for the three months ended March 31, 2014 is related to unrealized gains and losses from changes in fair value in our private equity investments. The net unrealized investment gains in our private equity portfolio were driven primarily by net unrealized gains of \$0.6 billion, \$0.5 billion and \$0.3 billion in our 2006 Fund, European Fund III and Asian Fund, respectively. Approximately 31% of the net change in value for the three months ended March 31, 2014 was attributable to changes in share prices of various publicly listed investments, the most significant of which were gains on NXP Semiconductors N.V. (NASDAQ: NXPI), HCA, Inc. (NYSE:HCA) and Pets at Home Group Plc. (LSE: PETS) These increases were partially offset by decreased share prices of various publicly held investments, the most significant of which were Far East Horizon Ltd., Tarkett S.A. (FP: TKTT) and ProSiebenSat.1 Media AG (XETRA: PSM). Our privately held investments contributed the remainder of the change in value, the most significant of which were gains relating to United Envirotech Limited (recycling sector), Alliance Boots GmbH and Avincis Group (transportation



sector). The unrealized gains on our privately held investments were partially offset by unrealized losses relating primarily to Laureate Education, Inc. and Toys R Us (retail sector). The increased valuations of individual companies in our privately held investments, in the aggregate, generally related to (i) an increase in the value of market comparables and individual company performance, (ii) in the case of Avincis Group, an increase that primarily reflects the valuation of an agreement to sell the investment that was announced in March 2014 and (iii) in the case of Alliance Boots GmbH, in part due to the increase in the value of a publicly traded stock that may be delivered pursuant to a previously announced transaction. The decreased valuations of individual companies in our privately held investments, in the aggregate, generally related to individual company performance or, in certain cases, an unfavorable business outlook.

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### Dividend Income

During the three months ended March 31, 2015 we received dividends of \$51.6 million from Far East Horizon Ltd, \$7.6 million from Walgreens Boots Alliance Inc., and an aggregate of \$19.6 million of dividends from other investments. During the three months ended March 31, 2014, we received a dividend of \$76.3 million from Academy Sports and Outdoors (retail sector), and an aggregate of \$20.4 million of dividends from other investments. Significant dividends from portfolio companies are generally not recurring quarterly dividends, and while they may occur in the future, their size and frequency are variable.

### Interest Income

The increase was primarily due to the consolidation of debt instruments held by KFN including CLOs, subsequent to the acquisition of KFN on April 30, 2014, as well as a net increase in the amount of credit instruments in our consolidated Public Markets investment vehicles, including growth in our CLO platform when compared to the prior period.

### Interest Expense

The increase was primarily due to (i) interest expense associated with consolidated CLOs acquired in the KFN acquisition which was completed on April 30, 2014, (ii) interest expense associated with senior and subordinated debt at KFN and (iii) interest expense on our 2044 Senior Notes issued on May 29, 2014 and an additional issuance of such notes on March 18, 2015.

### Income (Loss) Before Taxes

The decrease was due to the increase in expenses and the decrease in investment income and fees as described above.

### Income Taxes

The decrease was primarily due to a decrease in the amount of income in the KKR Group Partnerships that is subject to corporate taxes, partially offset by an increase in KKR & Co. L.P.'s ownership percentage in the KKR Group Partnerships from approximately 42.4% for the three months ended March 31, 2014 to approximately 53.6% for the three months ended March 31, 2015. The increase in ownership is primarily the result of the issuance of KKR & Co. L.P. common units in connection with our acquisition of KFN. This increase in ownership subjects a greater level of income to corporate taxes.

### Net Income (Loss) Attributable to Redeemable Noncontrolling Interests

The decrease was primarily driven by the termination of our KKR Equity Strategies fund and to a lesser extent decreased investment income for funds and vehicles where noncontrolling interests are redeemable.

### Net Income (Loss) Attributable to Noncontrolling Interests and Appropriated Capital

The decrease was primarily driven by a decrease in KKR Holding's ownership percentage in the KKR Group Partnerships, primarily as a result of the acquisition of KFN, from approximately 57.6% for the three months ended March 31, 2014 to 46.4% for the three months ended March 31, 2015.

### Net Income (Loss) Attributable to KKR & Co. L.P.

The increase was primarily attributable to an increase in KKR & Co. L.P.'s ownership percentage in the KKR Group Partnerships from approximately 42.4% for the three months ended March 31, 2014 to 53.6% for the three months ended March 31, 2015 primarily as a result of the acquisition of KFN.

#### Segment Analysis

The following is a discussion of the results of our three reportable business segments for three months ended March 31, 2015 and 2014. You should read this discussion in conjunction with the information included under “—Basis of Financial Presentation—Segment Operating and Performance Measures” and the condensed consolidated financial statements and related notes included elsewhere in this report.

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## Private Markets Segment

The following tables set forth information regarding the results of operations and certain key operating metrics for our Private Markets segment for the three months ended March 31, 2015 and 2014.

Three months ended March 31, 2015 compared to three months ended March 31, 2014

	Three Months Ended		
	March 31, 2015	March 31, 2014	Change
	(\$ in thousands)		
<b>Segment Revenues</b>			
<b>Management, Monitoring and Transaction Fees, Net</b>			
Management Fees	\$ 109,276	\$ 123,039	\$(13,763 )
Monitoring Fees	97,838	36,363	61,475
Transaction Fees	46,599	93,020	(46,421 )
Fee Credits	(69,906 )	(80,338 )	10,432
Total Management, Monitoring and Transaction Fees, Net	183,807	172,084	11,723
<b>Performance Income</b>			
Realized Carried Interest	302,425	168,800	133,625
Incentive Fees	—	—	—
Unrealized Carried Interest	126,937	145,776	(18,839 )
Total Performance Income	429,362	314,576	114,786
<b>Investment Income (Loss)</b>			
Net Realized Gains (Losses)	183,264	176,198	7,066
Net Unrealized Gains (Losses)	79,363	70,673	8,690
Total Realized and Unrealized	262,627	246,871	15,756
Net Interest and Dividends	(7,831 )	(2,808 )	(5,023 )
Total Investment Income (Loss)	254,796	244,063	10,733
Total Segment Revenues	867,965	730,723	137,242
<b>Segment Expenses</b>			
<b>Compensation and Benefits</b>			
Cash Compensation and Benefits	73,967	66,898	7,069
Realized Allocation to Carry Pool	120,970	67,520	53,450
Unrealized Allocation to Carry Pool	50,693	58,743	(8,050 )
Total Compensation and Benefits	245,630	193,161	52,469
Occupancy and related charges	11,016	11,560	(544 )
Other operating expenses	42,116	40,059	2,057
Total Segment Expenses	298,762	244,780	53,982
Income (Loss) attributable to noncontrolling interests	719	515	204
Economic Net Income (Loss)	\$568,484	\$485,428	\$83,056
Assets Under Management	\$62,139,400	\$60,520,300	\$1,619,100

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Fee Paying Assets Under Management	\$47,161,900	\$48,211,000	\$(1,049,100 )
Equity Invested	\$2,047,400	\$2,551,800	\$(504,400 )
Uncalled Commitments	\$18,690,000	\$18,256,800	\$(18,238,110 )

Segment Revenues

Management, Monitoring and Transaction Fees, Net

The net increase was primarily due to an increase in monitoring fees of \$61.5 million, and a decrease in fee credits of \$10.4 million, partially offset by a decrease in transaction fees of \$46.4 million and a decrease in management fees of \$13.8

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million. The increase in monitoring fees was primarily the result of \$81.7 million of fees received in the first quarter of 2015 from the termination of monitoring fee arrangements in connection with the exits of Alliance Boots GmbH and Big Heart Pet Brands compared to approximately \$8.7 million of such fees received during the first quarter of 2014. These types of termination payments may occur in the future; however, they are infrequent in nature and are generally correlated with sale activity in our private equity portfolio. The decrease in transaction fees was primarily attributable to a decrease in the size of fee generating investments completed during the three months ended March 31, 2015. During the three months ended March 31, 2015, there were 12 transaction fee-generating investments with a total combined transaction value of approximately \$4.4 billion compared to 8 transaction fee-generating investments with a total combined transaction value of approximately \$8.5 billion during the three months ended March 31, 2014. Transaction fees vary by investment based upon a number of factors, the most significant of which are transaction size, the particular discussions as to the amount of the fees, the complexity of the transaction and KKR's role in the transaction. The decrease in management fees is primarily attributable to (i) the European Fund III entering into its post-investment period on March 31, 2014, which reduced the fund's fee rate by approximately half and changed the fund's management fee base from committed capital to invested capital and (ii) to a lesser extent lower invested capital in our 2006 Fund and European II Fund as a result of realizations. Partially offsetting these decreases are increases due to new capital raised in Global Infrastructure Investors II Fund, the Energy Income and Growth Fund and European Fund IV. The decrease in fee credits is due primarily to a lower level of monitoring fees and transaction fees that are shared with our fund limited partners due to a higher proportion of those fees being earned from capital managed for investors in which fees are not shared. See also discussion under “- Assets Under Management” and “- Fee-Paying Assets Under Management”.

## Performance Income

The net increase is primarily attributable to higher net carried interest resulting from more private equity funds earning carried interest and to a lesser extent higher overall appreciation in our private equity portfolio.

Realized carried interest for the three months ended March 31, 2015 consisted primarily of realized gains from the sale of Alliance Boots GmbH, Big Heart Pet Brands and Fotolia Holdings Inc. (technology sector)

Realized carried interest for the three months ended March 31, 2014 consisted primarily of realized gains from the partial sale of Jazz Pharmaceuticals, Inc. (NASDAQ: JAZZ), Santander Consumer USA (NYSE: SC) and NXP Semiconductors N.V.

The following table presents net unrealized carried interest by investment vehicle for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,	
	2015	2014
	(\$ in thousands)	
North America Fund XI	65,553	17,771
Asian Fund II	52,790	—
European Fund III	30,817	84,529
China Growth Fund	15,433	(1,484)
Millennium Fund	5,521	(47,032)
Real Estate Partners Americas	1,802	7,230
Co-Investment Vehicles and Other	1,018	(4,620)
E2 Investors	925	1,418
European Fund	(148)	) 876
2006 Fund	(5,935)	) 60,707
Asian Fund	(13,595)	) 60,689

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European Fund II	(28,700	) (30,989	)
Management Fee Refunds	1,456	(3,319	)
Total (a)	\$126,937	\$145,776	

(a) The above table excludes any funds for which there was no unrealized carried interest during either of the periods presented.

For the three months ended March 31, 2015, the net unrealized carried interest income of \$126.9 million included \$372.5 million representing net increases in the value of various portfolio companies, which were partially offset by unrealized losses

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of \$245.6 million primarily representing reversals of previously recognized net unrealized gains in connection with the occurrence of realization events such as partial or full sales and management fee refunds.

For the three months ended March 31, 2015, the value of our private equity investment portfolio increased 5.1%. Increased share prices of various publicly held or publicly indexed investments comprised approximately 61% of the net increase in value for the three months ended March 31, 2015, the most significant of which were gains on Walgreens Boots Alliance Inc., Qingdao Haier and PRA Health Sciences, Inc. These increases were partially offset by decreased share prices of various publicly held investments, the most significant of which were RigNet, and Far East Horizon Ltd. Our privately held investments contributed the remainder of the change in value, the most significant of which were gains relating to First Data Corporation, Big Heart Pet Brands, and Mitchell International. The unrealized gains on our privately held investments were partially offset by unrealized losses relating primarily to BIS Industries Ltd., Laureate Education, Inc. and SunGard. The increased valuations of individual companies in our privately held investments, in the aggregate, generally related to (i) an increase in the value of market comparables and individual company performance and (ii) in the case of Big Heart Pet Brands, an increase that primarily reflected the valuation of an agreement to sell this investment. The decreased valuations of individual companies in our privately held investments, in the aggregate, generally related to individual company performance or, in certain cases, an unfavorable business outlook.

The reversals of previously recognized net unrealized gains for the three months ended March 31, 2015 resulted primarily from the sales of Alliance Boots GmbH, Big Heart Pet Brands and Fotolia Holdings Inc.

For the three months ended March 31, 2014, the net unrealized carried interest of \$145.8 million included \$269.9 million primarily reflecting net increases in the value of various portfolio companies which were partially offset by \$124.1 million of reversals of previously recognized net unrealized gains in connection with the occurrence of realization events such as partial or full sales and management fee refunds.

For the three months ended March 31, 2014, the value of our private equity investment portfolio increased 4.5%. Increased share prices of various publicly held investments comprised approximately 31% of the net increase in value for the three months ended March 31, 2014, the most significant of which were gains on NXP Semiconductors N.V., HCA, Inc. and Pets at Home Group Plc. These increases were partially offset by decreased share prices of various publicly held investments, the most significant of which were Far East Horizon Ltd., Tarkett S.A. and ProSiebenSat.1 Media AG. Our privately held investments contributed the remainder of the change in value, the most significant of which were gains relating to United Envirotech Limited, Alliance Boots GmbH and Avincis Group. The unrealized gains on our privately held investments were partially offset by unrealized losses relating primarily to Laureate Education, Inc. and Toys R Us. The increased valuations of our privately held investments, in the aggregate, generally related to (i) an increase in the value of market comparables and individual company performance, (ii) in the case of Avincis Group, an increase that primarily reflects the valuation of an agreement to sell the investment that was announced in March 2014 and (iii) in the case of Alliance Boots GmbH, in part due to the increase in the value of a publicly traded stock that may be delivered pursuant to a previously announced transaction. The decreased valuations of our privately held investments, in the aggregate, generally related to individual company performance or, in certain cases, an unfavorable business outlook.

## Investment Income

The net increase is primarily due to an increase in unrealized gains of \$8.7 million and realized gains of \$7.1 million, which were partially offset by an decrease in net interest and dividends of \$5.0 million.

For the three months ended March 31, 2015, net realized gains were comprised primarily of gains from the sale of private equity investments, including the sales of Alliance Boots GmbH, Kion Group AG (XETRA:KGX) and The Nielsen Company B.V. (NYSE: NLSN). Net unrealized gains were primarily attributable to increases in value of



various private equity investments including First Data Corporation and Walgreens Boots Alliance Inc. and growth equity investments including Coherus Biosciences (NASDAQ:CHRS). Partially offsetting these increases were unrealized losses primarily related to the reversal of gains on sales of investments noted in the realized gains commentary above as well as declines in value of various investments in working interests in oil and gas producing properties.

For the three months ended March 31, 2014, net realized gains were comprised primarily of realized gains from the sale or partial sale of private equity investments, the most significant of which were NXP Semiconductors N.V., ProSiebenSat.1 Media AG and Kion Group AG. Realized investment losses from private equity investments that were already written down as of October 1, 2009 that have been excluded from net realized gains (losses) above amounted to approximately \$55.5 million for the three months ended March 31, 2014 and related to the write-off of A.T.U Auto Teile Unger (retail sector). The net unrealized gains related primarily to increases in the value of various investments, most notably WMI Holdings Corp.

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(financial services sector), HCA, Inc. and Alliance Boots GmbH, partially offset by unrealized losses on ProSiebenSat.1 Media AG, The Nielsen Company B.V and Energy Future Holdings Corp. (energy sector) , as well as reversals of unrealized gains on the sale of ProSiebenSat.1 Media AG, Kion Group AG and The Nielsen Company B.V.

For the three months ended March 31, 2015, net interest and dividends were comprised of (i) \$11.7 million of interest income which consists primarily of interest that is received from our cash balances and other assets, (ii) \$5.0 million of dividend income from distributions received through our investment funds and other assets and (iii) \$24.5 million of interest expense primarily relating to the senior notes outstanding for KKR and KFN, a portion of which are allocable to the Private Markets segment. For the three months ended March 31 2014, net interest and dividends were comprised of (i) \$6.0 million of interest income primarily from interest that is received from our cash balances and other assets, (ii) \$4.4 million of dividend income from our investment funds and other assets and (iii) \$13.2 million of interest expense primarily relating to senior notes outstanding for KKR. The decrease in net interest and dividends from the prior period is primarily due to higher allocations of interest expense to the Private Markets segment as a result of our 2044 Senior Notes issued on May 29, 2014 and an additional issuance of such notes on March 18, 2015, as well as interest expense relating to debt obligations at KFN subsequent to KKR's acquisition of it on April 30, 2014.

Segment Expenses

Compensation and Benefits

The net increase was due primarily to higher allocations to carry pool driven by the higher levels of net carried interest as discussed in "Performance Income" above. The net increase was also due to higher cash compensation and benefits primarily reflecting increased headcount.

Occupancy and Other Operating Expenses

The net increase was primarily driven by an increase in professional fee expense reflecting the overall growth of this segment. Partially offsetting this increase was a decrease in expenses for unconsummated transactions, also known as "broken deal" expenses.

Economic Net Income (Loss)

The increase was primarily due to an increase in performance income, partially offset by increases in segment expenses as described above.

Assets Under Management

The following table reflects the changes in our Private Markets AUM from December 31, 2014 to March 31, 2015:

	(\$ in thousands)	
December 31, 2014	\$61,505,800	
New Capital Raised	1,591,100	
Distributions	(2,967,000	)
Change in Value	2,009,500	
March 31, 2015	\$62,139,400	

AUM for the Private Markets segment was \$62.1 billion at March 31, 2015, an increase of \$0.6 billion, compared to \$61.5 billion at December 31, 2014. The increase was primarily attributable to appreciation in the fair value of our

private equity portfolio as well as new capital raised primarily in European Fund IV and Global Infrastructure Investors II. These increases were offset by distributions to private equity fund investors of \$3.0 billion comprised of \$2.1 billion of realized gains and \$0.9 billion of return of original cost.

The appreciation in the market value of our private equity portfolio was driven primarily by net unrealized gains of \$0.7 billion, \$0.4 billion and \$0.3 billion in our 2006 Fund, North America Fund XI and Asian Fund II, respectively. Approximately 61% of the net change in value for the three months ended March 31, 2015 was attributable to changes in share prices of various publicly held or publicly indexed investments, the most significant of which were gains on Walgreens Boots Alliance Inc., Qingdao Haier and PRA Health Sciences, Inc. These increases were partially offset by decreased share prices of

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various publicly held investments, the most significant of which were RigNet, and Far East Horizon Ltd. Our privately held investments contributed the remainder of the change in value, the most significant of which were gains relating to First Data Corporation, Big Heart Pet Brands, and Mitchell International. The unrealized gains on our privately held investments were partially offset by unrealized losses relating primarily to BIS Industries Ltd., Laureate Education, Inc. and SunGard. The increased valuations of individual companies in our privately held investments, in the aggregate, generally related to (i) an increase in the value of market comparables and individual company performance and (ii) in the case of Big Heart Pet Brands, an increase that primarily reflected the valuation of an agreement to sell this investment. The decreased valuations of individual companies in our privately held investments, in the aggregate, generally related to individual company performance or, in certain cases, an unfavorable business outlook.

As of March 31, 2015, our AUM excluded approximately \$3.1 billion in commitments in connection with infrastructure, energy, private equity and co-investment vehicles for which we are currently not earning management fees. Such commitments will not contribute to AUM unless and until we are entitled to receive fees or carried interest in accordance with our definition of AUM.

## Fee-Paying Assets Under Management

The following table reflects the changes in our Private Markets FPAUM from December 31, 2014 to March 31, 2015:

	(\$ in thousands)	
December 31, 2014	\$47,262,500	
New Capital Raised	1,320,500	
Distributions	(961,100	)
Change in Value	(460,000	)
March 31, 2015	\$47,161,900	

FPAUM in our Private Markets segment was \$47.2 billion at March 31, 2015, a decrease of \$0.1 billion, compared to \$47.3 billion at December 31, 2014. The decrease was primarily attributable to distributions to private equity fund investors as well as the impact of changes in foreign exchange rates on euro denominated commitments. These decreases were partially offset by new capital raised of \$1.3 billion primarily in our European Fund IV and Global Infrastructure Investors II.

As of March 31, 2015, our FPAUM excluded approximately \$3.1 billion in commitments in connection with infrastructure, energy, private equity and co-investment vehicles for which we are currently not earning management fees. Once these committed amounts are invested, management fees will begin to be earned with respect to such amounts, which will be accretive to our management fees. Such commitments will not contribute to FPAUM unless and until we are entitled to receive management fees in accordance with our definition of FPAUM.

## Equity Invested

The decrease was due to a decrease in the size of private equity investments closed during the three months ended March 31, 2015 compared to the three months ended March 31, 2014. Generally, the operating companies acquired through our private equity business have higher transaction values and result in higher equity invested, relative to transactions in our real asset businesses. The number of large private equity investments made in any quarter is volatile and consequently, a significant amount of equity invested in one quarter or a few quarters may not be indicative of a similar level of capital deployment in future quarters. For the three months ended March 31, 2015, there were 31 transactions with a total combined value of approximately \$6.1 billion compared to 13 transactions with a total combined transaction value of approximately \$9.1 billion for the three months ended March 31, 2014.

Uncalled Commitments

As of March 31, 2015, our Private Markets Segment had \$18.7 billion of remaining uncalled capital commitments that could be called for investments in new transactions.

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## Public Markets Segment

The following tables set forth information regarding the results of operations and certain key operating metrics for our Public Markets segment for the three months ended March 31, 2015 and 2014.

Three months ended March 31, 2015 compared to three months ended March 31, 2014

	Three Months Ended		
	March 31, 2015	March 31, 2014	Change
	(\$ in thousands)		
<b>Segment Revenues</b>			
Management, Monitoring and Transaction Fees, Net			
Management Fees	\$64,504	\$72,354	(7,850 )
Monitoring Fees	—	—	—
Transaction Fees	13,430	6,022	7,408
Fee Credits	(10,588 )	(4,330 )	(6,258 )
Total Management, Monitoring and Transaction Fees, Net	67,346	74,046	(6,700 )
<b>Performance Income</b>			
Realized Carried Interest	—	24,750	(24,750 )
Incentive Fees	5,665	17,019	(11,354 )
Unrealized Carried Interest	12,347	(129 )	12,476
Total Performance Income	18,012	41,640	(23,628 )
<b>Investment Income (Loss)</b>			
Net Realized Gains (Losses)	684	5,479	(4,795 )
Net Unrealized Gains (Losses)	(87,877 )	14,814	(102,691 )
Total Realized and Unrealized	(87,193 )	20,293	(107,486 )
Net Interest and Dividends	51,872	9,577	42,295
Total Investment Income (Loss)	(35,321 )	29,870	(65,191 )
Total Segment Revenues	50,037	145,556	(95,519 )
<b>Segment Expenses</b>			
Compensation and Benefits			
Cash Compensation and Benefits	24,005	26,745	(2,740 )
Realized Allocation to Carry Pool	—	9,900	(9,900 )
Unrealized Allocation to Carry Pool	4,938	(53 )	4,991
Total Compensation and Benefits	28,943	36,592	(7,649 )
Occupancy and related charges	3,122	2,172	950
Other operating expenses	14,954	8,507	6,447
Total Segment Expenses	47,019	47,271	(252 )
Income (Loss) attributable to noncontrolling interests	175	522	(347 )
Economic Net Income (Loss)	\$2,843	\$97,763	(94,920 )
Assets Under Management	\$36,988,600	\$41,757,200	(4,768,600 )

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Fee Paying Assets Under Management	\$35,722,600	\$35,400,600	322,000
Equity Invested	\$649,300	\$734,100	(84,800 )
Uncalled Commitments	\$2,865,600	\$1,728,300	1,137,300
Gross Dollars Invested	\$1,210,800	\$989,700	221,100

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### Segment Revenues

#### Management, Monitoring and Transaction Fees, Net

The net decrease was primarily due to a decrease in management fees of \$7.9 million. The decrease in management fees is due primarily to a decrease in management fees received from KFN as a result of our acquisition of it on April 30, 2014, as management fees from KFN after that date are eliminated from segment results. This decrease was partially offset by the inclusion of a full quarter of operating results for Avoca in the first quarter of 2015 reflecting our acquisition of it on February 19, 2014. The increase in transaction fees is due primarily to an increase in the size of fee earning transactions in the current period. The increase in fee credits is due primarily to the increase in transaction fees as described above.

#### Performance Income

The net decrease was primarily attributable to lower net carried interest resulting from a lower increase in the net asset values of certain carry-eligible investment vehicles in the three months ended March 31, 2015 and a lower level of incentive fees. The decrease in incentive fees is due primarily to a decrease in incentive fees received from KFN as a result of our acquisition of it on April 30, 2014, as incentive fees from KFN after that date are eliminated from segment results, partially offset by an increase in incentive fees earned from Corporate Capital Trust, our sub-advised BDC, resulting from favorable performance. Incentive fees are typically determined for the twelve-month periods ending in either the second or fourth quarters of the calendar year, however, such fees may be determined at other points during the year for certain strategies. Whether an incentive fee from KKR vehicles is payable in any given period, and the amount of an incentive fee payment, if any, depends on the investment performance of the vehicle and as a result are expected to vary significantly from period to period.

#### Investment Income

The net decrease was primarily due to a decrease in total realized and unrealized gains of \$107.5 million, partially offset by an increase in net interest and dividends of \$42.3 million. The decrease in total realized and unrealized gains was due primarily to unrealized losses reflecting (i) overall reductions in the value of our investments in CLOs, (ii) reductions in value of specialty finance holdings, including those acquired in our acquisition of KFN and (iii) reductions in certain credit and other Public Markets related investments. The increase in interest and dividends is due primarily to more significant levels of investments in interest yielding CLOs and credit investments as a result of our acquisition of KFN on April 30, 2014 and to a lesser extent our acquisition of Avoca on February 19, 2014.

### Segment Expenses

#### Compensation and Benefits

The decrease was primarily due to a decrease in net allocation to carry pool in connection with lower levels of net carried interest as described above as well as a decrease in cash compensation and benefits reflecting the decrease in fees, which generally results in lower compensation expense.

#### Occupancy and Other Operating Expenses

This increase was primarily driven by a full quarter of operating results including operating expenses for Avoca in the first quarter of 2015 reflecting our acquisition of it on February 19, 2014 as well as increased professional fees and expenses associated with fundraising in connection with the growth of this segment.



Economic Net Income (Loss)

The decrease is primarily attributable to the decreases in investment income, performance income and management fees as described above.

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## Assets Under Management

The following table reflects the changes in our Public Markets AUM from December 31, 2014 to March 31, 2015:

	(\$ in thousands)	
December 31, 2014	\$37,106,700	
New Capital Raised	2,247,900	
Distributions	(1,195,400	)
Redemptions	(653,200	)
Net Changes in Fee Base of Certain Funds	(238,600	)
Change in Value	(278,800	)
March 31, 2015	\$36,988,600	

AUM in our Public Markets segment totaled \$37.0 billion at March 31, 2015, a decrease of \$0.1 billion compared to AUM of \$37.1 billion at December 31, 2014. The decrease for the period was primarily due to the redemption and distribution of \$1.8 billion from certain investment vehicles across multiple strategies, a decrease in value of \$0.3 billion and a net change in fee base of \$0.2 billion reflecting our Mezzanine Fund entering its post-investment period. These decreases were largely offset by \$2.2 billion of new capital raised primarily in our alternative credit platform, our hedge funds platform and CLOs.

As of March 31, 2015, our AUM excluded approximately \$2.6 billion in commitments in connection with various credit strategies, the most significant of which are special situations and direct lending, for which we are currently not earning management fees. Such commitments will not contribute to AUM unless and until we are entitled to receive fees or carried interest in accordance with our definition of AUM.

## Fee-Paying Assets Under Management

The following table reflects the changes in our Public Markets FPAUM from December 31, 2014 to March 31, 2015:

	(\$ in thousands)	
December 31, 2014	\$35,783,900	
New Capital Raised	2,193,800	
Distributions	(933,200	)
Redemptions	(653,200	)
Net Changes in Fee Base of Certain Funds	(325,200	)
Change in Value	(343,500	)
March 31, 2015	\$35,722,600	

FPAUM in our Public Markets segment was \$35.7 billion at March 31, 2015, a decrease of \$0.1 billion compared to FPAUM of \$35.8 billion at December 31, 2014. The decrease was primarily due to the redemption and distribution of \$1.6 billion from certain investment vehicles across multiple strategies, a decrease in value of \$0.3 billion and a net change in fee base of \$0.3 billion reflecting our Mezzanine Fund entering its post-investment period. These decreases were partially offset by new capital raised of \$2.2 billion, primarily in our alternative credit platform, our hedge funds platform and CLOs.

As of March 31, 2015, our FPAUM excluded approximately \$2.6 billion in commitments in connection with various credit strategies, the most significant of which are special situations and direct lending, for which we are currently not earning management fees. Once these committed amounts are invested, management fees will begin to be earned with respect to such amounts, which will be accretive to our management fees. Such commitments will not contribute to FPAUM unless and until we are entitled to receive management fees in accordance with our definition of FPAUM.

Equity Invested

The decrease is primarily due to a lower level of net capital deployed, primarily in our special situations strategies.

Uncalled Commitments

As of December 31, 2014, our Public Markets segment had \$2.9 billion of uncalled capital commitments that could be called for investments in new transactions.

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## Gross Dollars Invested

The increase is primarily due to a higher level of investment activity in our direct lending and mezzanine strategies, partially offset by a decrease in investment activity in our special situations strategies.

## Capital Markets

The following tables set forth information regarding the results of operations and certain key operating metrics for our Capital Markets segment for the three months ended March 31, 2015 and 2014.

Three months ended March 31, 2015 compared to three months ended March 31, 2014

	Three Months Ended		
	March 31, 2015	March 31, 2014	Change
	(\$ in thousands)		
Segment Revenues			
Management, Monitoring and Transaction Fees, Net			
Management Fees	\$—	\$—	\$—
Monitoring Fees	—	—	—
Transaction Fees	43,257	64,474	(21,217 )
Fee Credits	—	—	—
Total Management, Monitoring and Transaction Fees, Net	43,257	64,474	(21,217 )
Performance Income			
Realized Carried Interest	—	—	—
Incentive Fees	—	—	—
Unrealized Carried Interest	—	—	—
Total Performance Income	—	—	—
Investment Income (Loss)			
Net Realized Gains (Losses)	(3,281 )	51	(3,332 )
Net Unrealized Gains (Losses)	(2,207 )	272	(2,479 )
Total Realized and Unrealized	(5,488 )	323	(5,811 )
Net Interest and Dividends	6,634	4,395	2,239
Total Investment Income (Loss)	1,146	4,718	(3,572 )
Total Segment Revenues	44,403	69,192	(24,789 )
Segment Expenses			
Compensation and Benefits			
Cash Compensation and Benefits	9,055	15,272	(6,217 )
Realized Allocation to Carry Pool	—	—	—
Unrealized Allocation to Carry Pool	—	—	—
Total Compensation and Benefits	9,055	15,272	(6,217 )
Occupancy and related charges	658	457	201
Other operating expenses	3,876	4,235	(359 )
Total Segment Expenses	13,589	19,964	(6,375 )
Income (Loss) attributable to noncontrolling interests	2,728	2,165	563

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Economic Net Income (Loss)	\$28,086	\$47,063	\$(18,977 )
Syndicated Capital	\$248,700	\$91,400	\$157,300

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### Segment Revenues

#### Management, Monitoring and Transaction Fees, Net

Transaction fees decreased primarily due to a decrease in IPO underwriting fees as well as the size of capital markets transactions for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. Our capital markets business does not generate management or monitoring fees. Overall, we completed 30 capital markets transactions for the three months ended March 31, 2015 of which 5 represented equity offerings and 25 represented debt offerings, as compared to 43 transactions for the three months ended March 31, 2014 of which 4 represented equity offerings and 39 represented debt offerings. We earned fees in connection with underwriting, syndication and other capital markets services. While each of the capital markets transactions that we undertake in this segment is separately negotiated, our fee rates are generally higher with respect to underwriting or syndicating equity offerings than with respect to debt offerings, and the amount of fees that we collect for like transactions generally correlates with overall transaction sizes. Our capital markets fees are sourced from our Private Markets and Public Markets platforms as well as third party companies. For the three months ended March 31, 2015 approximately 30% of our transaction fees were earned from third parties, as compared to 23% for the three months ended March 31, 2014. Our transaction fees are comprised of fees from various global regions. For the three months ended March 31, 2015 approximately 70% of our transaction fees were sourced outside of the United States as compared to approximately 46% for the three months ended March 31, 2014. Our capital markets business is dependent on the overall capital markets environment, which is influenced by equity prices, credit spreads and volatility.

### Segment Expenses

#### Compensation and Benefits

This decrease was primarily due to a decrease in cash compensation and benefits related to lower transaction fees for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. Lower transaction fees generally results in lower compensation expense.

#### Occupancy and Other Operating Expenses

This decrease was primarily driven by a decrease in professional fees in connection with the lower overall level of capital markets transaction activity for the three months ended March 31, 2015 as compared to the three months ended March 31, 2014.

#### Economic Net Income (Loss)

The decrease is primarily attributable to the decrease in transaction fees, partially offset by the decrease in compensation and benefits, described above.

### Syndicated Capital

The increase is primarily due to an increase in the number and aggregate size of syndication transactions in the three months ended March 31, 2015 when compared to three months ended March 31, 2014. Overall, we completed 5 syndication transactions for the three months ended March 31, 2015 as compared to 2 syndication transactions for the three months ended March 31, 2014.

### Segment Balance Sheet

Our segment balance sheet serves as a significant source of capital to further grow and expand our business, increase our participation in our existing businesses and further align our interests with those of our fund investors and other stakeholders. The majority of our balance sheet consists of general partner interests in KKR investment funds, limited partner interests in certain KKR investment funds and co-investments in certain portfolio companies of KKR private equity funds as well as interests in CLOs, corporate loans, debt securities and energy and real estate assets held by KFN. Our balance sheet also holds other assets used in the development of our business, including seed capital for new strategies such as growth equity investments.

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## Investments

Investments is a term used solely for purposes of financial presentation of a portion of KKR's balance sheet and includes majority investments in subsidiaries that operate KKR's asset management and other businesses, including the general partner interests of KKR's investment funds.

## Cash and Short-Term Investments

Cash and short-term investments represent cash and liquid short-term investments in high-grade, short-duration cash management strategies used by KKR to generate additional yield on our excess liquidity and is used by management in evaluating KKR's liquidity position. We believe this measure is useful to unitholders as it provides additional insight into KKR's available liquidity. Cash and short-term investments differ from cash and cash equivalents on a GAAP basis as a result of the inclusion of liquid short-term investments in cash and short-term investments. The impact that these liquid short-term investments have on cash and cash equivalents on a GAAP basis is reflected in the consolidated statements of cash flows within cash flows from operating activities. Accordingly, the exclusion of these investments from cash and cash equivalents on a GAAP basis has no impact on cash provided (used) by operating activities, investing activities or financing activities. As of March 31, 2015, we had cash and short-term investments on a segment basis of approximately \$1.5 billion. Excluding approximately \$0.2 billion of liquid short-term investments, cash and short-term investments may be reconciled to cash and cash equivalents of approximately \$1.3 billion as of March 31, 2015.

The following tables present our segment balance sheet as of March 31, 2015, and December 31, 2014:

	As of March 31, 2015	As of December 31, 2014
	(\$ in thousands, except per unit amounts)	
Cash and short-term investments	\$ 1,453,916	\$ 1,121,385
Investments	10,040,752	9,807,606
Unrealized carry (a)	1,375,022	1,283,022
Other assets	1,055,496	999,654
Total assets	\$ 13,925,186	\$ 13,211,667
Debt obligations - KKR (ex-KFN)	\$ 2,097,000	\$ 1,527,000
Debt obligations - KFN	657,310	657,310
Preferred shares - KFN	373,750	373,750
Other liabilities	285,297	413,808
Total liabilities	3,413,357	2,971,868
Noncontrolling interests	124,769	121,574
Book value	\$ 10,387,060	\$ 10,118,225
Book value per adjusted unit	\$ 12.19	\$ 12.07
(a) Unrealized Carry		
Private Markets	\$ 1,281,225	\$ 1,196,633
Public Markets	93,797	86,389
Total	\$ 1,375,022	\$ 1,283,022





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The following tables provide reconciliations of KKR's GAAP Common Units Outstanding - Basic to Adjusted Units and KKR & Co. L.P. Partners' Capital to Book Value:

	As of
	March 31, 2015
GAAP Common Units Outstanding - Basic	438,054,363
Adjustments:	
Unvested Common Units(a)	36,953,115
Other Exchangeable Securities (b)	4,776,216
GAAP Common Units Outstanding - Diluted	479,783,694
Adjustments:	
KKR Holdings Units (c)	372,661,977
Adjusted Units	852,445,671
	As of
	March 31, 2015
(\$ in thousands, except per unit amounts)	
KKR & Co. L.P. partners' capital	\$5,601,366
Noncontrolling interests held by KKR Holdings L.P.	4,719,963
Equity impact of KKR Management Holdings Corp. and other	65,731
Book value	10,387,060
Adjusted units	852,445,671
Book value per adjusted unit	\$12.19

- Represents equity awards granted under the Equity Incentive Plan. The issuance of common units of
- (a) KKR & Co. L.P. pursuant to awards under the Equity Incentive Plan dilutes KKR common unitholders and KKR Holdings pro rata in accordance with their respective percentage interests in the KKR business.
  - (b) Represents securities in a subsidiary of a KKR Group Partnership and of KKR & Co. L.P. that are exchangeable into KKR & Co. L.P. common units issued in connection with the acquisition of Avoca.
  - (c) Common units that may be issued by KKR & Co. L.P. upon exchange of units in KKR Holdings L.P. for KKR common units.

## Liquidity

We manage our liquidity and capital requirements by focusing on our cash flows before the consolidation of our funds and CLOs and the effect of changes in short term assets and liabilities, which we anticipate will be settled for cash within one year. Our primary cash flow activities on a segment basis typically involve: (i) generating cash flow from operations; (ii) generating income from investment activities, by investing in investments that generate yield (namely interest and dividends) as well as the sale of investments and other assets; (iii) funding capital commitments that we have made to our funds and CLOs, (iv) developing and funding new investment strategies, investment products and other growth initiatives, including acquisitions; (v) underwriting and funding commitments in our capital markets business; (vi) distributing cash flow to our fund investors, unitholders and certain holders of certain exchangeable securities; and (vii) borrowings, interest payments and repayments under credit agreements, our senior notes and other borrowing arrangements. As of March 31, 2015, we had cash and short-term investments on a segment basis of \$1.5 billion.

### Sources of Liquidity

Our primary sources of liquidity consist of amounts received from: (i) our operating activities, including the fees earned from our funds, managed accounts, portfolio companies, and capital markets transactions; (ii) realizations on carried interest from our investment funds; (iii) interest and dividends from investments that generate yield, including our investments in CLOs; (iv) realizations on and sales of investments and other assets; and (v) borrowings under our credit facilities, debt offerings and other borrowing arrangements. In addition, we may generate cash proceeds from sales of our common units as described below.

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With respect to our private equity funds, carried interest is distributed to the general partner of a private equity fund with a clawback or net loss sharing provision only after all of the following are met: (i) a realization event has occurred (e.g., sale of a portfolio company, dividend, etc.); (ii) the vehicle has achieved positive overall investment returns since its inception, in excess of performance hurdles where applicable; and (iii) with respect to investments with a fair value below cost, cost has been returned to fund investors in an amount sufficient to reduce remaining cost to the investments' fair value. As of March 31, 2015, certain of our funds had met the first and second criteria, as described above, but did not meet the third criteria. In these cases, carried interest accrues on the consolidated statement of operations, but will not be distributed in cash to us as the general partner of an investment fund upon a realization event. For a fund that has a fair value above cost, overall, but has one or more investments where fair value is below cost, the shortfall between cost and fair value for such investments is referred to as a "netting hole." When netting holes are present, realized gains on individual investments that would otherwise allow the general partner to receive carried interest distributions are instead used to return invested capital to our funds' limited partners in an amount equal to the netting hole. Once netting holes have been filled with either (a) return of capital equal to the netting hole for those investments where fair value is below cost, or (b) increases in the fair value of those investments where fair value is below cost, then realized carried interest will be distributed to the general partner upon a realization event. A fund that is in a position to pay cash carry refers to a fund for which carried interest is expected to be paid to the general partner upon the next material realization event, which includes funds with no netting holes as well as funds with a netting hole that is sufficiently small in size such that the next material realization event would be expected to result in the payment of carried interest.

As of March 31, 2015, netting holes in excess of \$50 million existed at five of our private equity funds, the most significant of which were our European Fund II and North America Fund XI, which had netting holes of approximately \$394 million and \$103 million, respectively. In accordance with the criteria set forth above, funds may develop netting holes in the future and netting holes for those and other funds may otherwise increase or decrease in the future.

We have access to funding under various credit facilities and other borrowing arrangements that we have entered into with major financial institutions or which we receive from the capital markets. The following is a summary of the principal terms of these sources of funding.

### Revolving Credit Agreements

The following is a summary of KKR's revolving credit agreements, which may be used in the normal course of our operations.

On October 22, 2014, Kohlberg Kravis Roberts & Co. L.P. and the KKR Group Partnerships., as borrowers, entered into a credit agreement (the "Corporate Credit Agreement") with certain lending institutions and HSBC Bank USA, National Association, as Administrative Agent and simultaneously terminated its existing credit agreement dated February 26, 2008, as amended from time to time, with no amounts outstanding at the time of termination. The Corporate Credit Agreement provides the borrowers with a senior unsecured multicurrency revolving credit facility in an aggregate principal amount of \$1.0 billion, as of the closing date, with the option to request an increase in the facility amount of up to an additional \$250 million, for an aggregate principal amount of \$1.25 billion, subject to certain conditions, including obtaining new or increased commitments from new or existing lenders. The credit facility is a five-year facility, scheduled to mature on October 22, 2019, with the borrowers' option to extend the maturity date, subject to the consent of the applicable lenders, and the borrowers may prepay, terminate or reduce the commitments under the credit facility at any time without penalty. Interest on borrowings under the credit facility will be based on either London Interbank Offered Rate (LIBOR) or Alternate Base Rate, with the applicable margin per annum in excess of LIBOR or the Alternate Base Rate based on a corporate ratings-based pricing grid ranging from

69 basis points to 120 basis points (for LIBOR borrowings). Borrowings under the credit facility are guaranteed by KKR & Co. L.P. and any other entity (other than the borrowers) that guarantees the 2020 Senior Notes, 2043 Senior Notes or the 2044 Senior Notes. As of April 20, 2015, a letter of credit in the amount of \$20.0 million was outstanding under the Corporate Credit Agreement. Other than this letter of credit, no borrowings were outstanding under the Corporate Credit Agreement for the three months ended March 31, 2015.

On February 27, 2008, KKR Capital Markets Holdings L.P. entered into a credit agreement with a major financial institution (the "KCM Credit Agreement") for use in KKR's capital markets business. The KCM Credit Agreement, as amended, provides for revolving borrowings of up to \$500 million with a \$500 million sublimit for letters of credit. On March 30, 2012, an agreement was made to extend the maturity of the KCM Credit Agreement from February 27, 2013 to March 30, 2017. In addition to extending the terms, certain other terms of the KCM Credit Agreement were renegotiated including a reduction of the cost of funding on amounts drawn and a reduced commitment fee. Borrowings under this facility may only be used for our capital markets business, and its only obligors are entities

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involved in our capital markets business, and its liabilities are non-recourse to other parts of KKR's business. For the three months ended March 31, 2015, a total of \$97 million was borrowed under the KCM Credit Agreement. In addition, a total of \$27 million that was borrowed during 2014 was fully repaid during the three months ended March 31, 2015. As of April 20, 2015, the \$97 million of borrowings were repaid and there were no outstanding borrowings under the KCM Credit Agreement.

### Senior Notes

On September 29, 2010, KKR Group Finance Co. LLC, a subsidiary of KKR Management Holdings Corp., issued \$500 million aggregate principal amount of 6.375% Senior Notes (the "2020 Senior Notes"), which were issued at a price of 99.584%. The 2020 Senior Notes are unsecured and unsubordinated obligations of the issuer and will mature on September 29, 2020, unless earlier redeemed or repurchased. The 2020 Senior Notes are fully and unconditionally guaranteed, jointly and severally, by KKR & Co. L.P. and the KKR Group Partnerships. The guarantees are unsecured and unsubordinated obligations of the guarantors. The 2020 Senior Notes bear interest at a rate of 6.375% per annum, accruing from September 29, 2010. Interest is payable semi-annually in arrears on March 29 and September 29 of each year.

The indenture, as supplemented, relating to the 2020 Senior Notes includes covenants, including limitations on the issuer's and the guarantors' ability to, subject to exceptions, incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The indenture, as supplemented, also provides for events of default and further provides that the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding 2020 Senior Notes may declare the 2020 Senior Notes immediately due and payable upon the occurrence and during the continuance of any event of default after expiration of any applicable grace period. In the case of specified events of bankruptcy, insolvency, receivership or reorganization, the principal amount of the 2020 Senior Notes and any accrued and unpaid interest on the 2020 Senior Notes automatically becomes due and payable. All or a portion of the 2020 Senior Notes may be redeemed at the issuer's option in whole or in part, at any time, and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the 2020 Senior Notes. If a change of control repurchase event occurs, the 2020 Senior Notes are subject to repurchase by the issuer at a repurchase price in cash equal to 101% of the aggregate principal amount of the 2020 Senior Notes repurchased plus any accrued and unpaid interest on the 2020 Senior Notes repurchased to, but not including, the date of repurchase.

On February 1, 2013, KKR Group Finance Co. II LLC, a subsidiary of KKR Management Holdings Corp., issued \$500 million aggregate principal amount of 5.50% Senior Notes (the "2043 Senior Notes"), which were issued at a price of 98.856%. The 2043 Senior Notes are unsecured and unsubordinated obligations of the issuer and will mature on February 1, 2043, unless earlier redeemed or repurchased. The 2043 Senior Notes are fully and unconditionally guaranteed, jointly and severally, by KKR & Co. L.P. and the KKR Group Partnerships. The guarantees are unsecured and unsubordinated obligations of the guarantors. The 2043 Senior Notes bear interest at a rate of 5.50% per annum, accruing from February 1, 2013. Interest is payable semi-annually in arrears on February 1 and August 1 of each year. The indenture, as supplemented, relating to the 2043 Senior Notes includes covenants, including limitations on the issuer's and the guarantors' ability to, subject to exceptions, incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The indenture, as supplemented, also provides for events of default and further provides that the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding 2043 Senior Notes may declare the 2043 Senior Notes immediately due and payable upon the occurrence and during the continuance of any event of default after expiration of any applicable grace period. In the case of specified events of bankruptcy, insolvency, receivership or reorganization, the principal amount of the 2043 Senior Notes and any accrued and unpaid interest on the 2043 Senior Notes automatically becomes due and payable. All or a portion of the 2043 Senior Notes may be redeemed at the issuer's option in whole or in part, at any time, and from time to time, prior to their stated maturity, at the make-whole

redemption price set forth in the 2043 Senior Notes. If a change of control repurchase event occurs, the 2043 Senior Notes are subject to repurchase by the issuer at a repurchase price in cash equal to 101% of the aggregate principal amount of the 2043 Senior Notes repurchased plus any accrued and unpaid interest on the 2043 Senior Notes repurchased to, but not including, the date of repurchase.

On May 29, 2014, KKR Group Finance Co. III LLC, a subsidiary of KKR Management Holdings Corp., issued \$500 million aggregate principal amount of 5.125% Senior Notes due 2044 (together with any subsequently issued notes of the same series, the "2044 Senior Notes"), which were issued at a price of 98.612%. The 2044 Senior Notes are unsecured and unsubordinated obligations of the issuer and will mature on June 1, 2044, unless earlier redeemed or

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repurchased. The 2044 Senior Notes are fully and unconditionally guaranteed, jointly and severally, by KKR & Co. L.P. and the KKR Group Partnerships. The guarantees are unsecured and unsubordinated obligations of the guarantors. The 2044 Senior Notes bear interest at a rate of 5.125% per annum, accruing from May 29, 2014. Interest is payable semi-annually in arrears on June 1 and December 1 of each year, commencing on December 1, 2014.

On March 18, 2015, KKR Group Finance Co. III LLC issued an additional \$500 million aggregate principal amount of its 2044 Senior Notes, which were priced at 101.062%. The 2044 Senior Notes issued in March 2015 constitute an additional issuance of the issuer's 2044 Senior Notes issued in May 2014. The terms of the 2044 Senior Notes issued in March 2015 are identical to the terms of the 2044 Notes issued in May 2014, except for the issue date, issue price, the first payment date, June 1, 2015 and the date from which interest began to accrue.

The indenture, as supplemented, relating to the 2044 Senior Notes includes covenants, including limitations on the issuer's and the guarantors' ability to, subject to exceptions, incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The indenture, as supplemented, also provides for events of default and further provides that the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding 2044 Senior Notes may declare the 2044 Senior Notes immediately due and payable upon the occurrence and during the continuance of any event of default after expiration of any applicable grace period. In the case of specified events of bankruptcy, insolvency, receivership or reorganization, the principal amount of the 2044 Senior Notes and any accrued and unpaid interest on the 2044 Senior Notes automatically becomes due and payable. All or a portion of the 2044 Senior Notes may be redeemed at the issuer's option in whole or in part, at any time, and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the 2044 Senior Notes. If a change of control repurchase event occurs, the 2044 Senior Notes are subject to repurchase by the issuer at a repurchase price in cash equal to 101% of the aggregate principal amount of the 2044 Senior Notes repurchased plus any accrued and unpaid interest on the 2044 Senior Notes repurchased to, but not including, the date of repurchase.

KFN Securities

KFN has two issuances of senior notes outstanding that are non-recourse to KKR beyond the assets of KFN:

On March 20, 2012, KFN issued \$115.0 million par amount of 7.500% Senior Notes ("KFN 2042 Senior Notes"), resulting in net proceeds to KFN of \$111.4 million. The notes trade under the ticker symbol "KFI" on the NYSE. Interest on the 7.500% Senior Notes is payable quarterly in arrears on June 20, September 20, December 20 and March 20 of each year. The KFN 2042 Senior Notes will mature on March 20, 2042 unless previously redeemed or repurchased in accordance with their terms prior to such date. KFN may redeem the KFN 2042 Senior Notes, in whole or in part, at any time on or after March 20, 2017 at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date. Upon a change of control and reduction in the KFN 2042 Senior Notes' ratings to below investment grade by two nationally recognized statistical ratings organizations, all terms as defined in the applicable indenture, KFN will be required to make an offer to repurchase all outstanding KFN 2042 Senior Notes at a price in cash equal to 101% of the principal amount of the notes, plus accrued and unpaid interest to, but not including, the repurchase date. The KFN 2042 Senior Notes contain certain restrictions on KFN's ability to create liens over its equity interests in its subsidiaries and to merge, consolidate or sell all or substantially all of its assets, subject to qualifications and limitations set forth in the applicable indenture. Otherwise, the Indenture does not contain any provisions that would limit the Company's ability to incur indebtedness. If an event of default with respect to the KFN 2042 Senior Notes occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the notes then outstanding may declare the principal of the notes to be due and payable immediately.

On November 15, 2011, KFN issued \$258.8 million par amount of 8.375% Senior Notes ("KFN 2041 Senior Notes"), resulting in net proceeds to KFN of \$250.7 million. The notes trade under the ticker symbol "KFH" on the NYSE.



Interest on the 8.375% Senior Notes is payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year. The KFN 2041 Senior Notes will mature on November 15, 2041 unless previously redeemed or repurchased in accordance with their terms prior to such date. KFN may redeem the KFN 2041 Senior Notes, in whole or in part, at any time on or after November 15, 2016 at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date. Upon a change of control and reduction in the KFN 2041 Senior Notes' ratings to below investment grade by two nationally recognized statistical ratings organizations, as defined in the indenture, KFN will be required to make an offer to repurchase all outstanding KFN 2041 Senior Notes at a price in

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cash equal to 101% of the principal amount of the notes, plus accrued and unpaid interest to, but not including, the repurchase date. The KFN 2041 Senior Notes contain certain restrictions on KFN's ability to create liens over its equity interests in its subsidiaries and to merge, consolidate or sell all or substantially all of its assets. If an event of default with respect to the KFN 2041 Senior Notes occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the notes then outstanding may declare the principal of the notes to be due and payable immediately.

KFN has also established six 30-year trusts from 2006 through 2007 for the sole purpose of issuing trust preferred securities. These trusts issued preferred securities to unaffiliated investors and common securities to KFN. The combined proceeds were invested by the trusts in junior subordinated notes issued by KFN. The junior subordinated notes are the sole assets of trusts and mature between 2036 and 2037. Interest is payable quarterly and are fixed, floating or a combination among the six trusts. As of March 31, 2015, \$283.5 million par amount was outstanding with weighted average years to maturity of 21.5 years and a weighted average borrowing rate of 5.40%.

On January 17, 2013, KFN issued 14.95 million of Series A LLC Preferred Shares (the "KFN Preferred Shares") at a price of \$25 per share. The KFN Preferred Shares trade on the NYSE under the ticker symbol "KFN.PR" and began trading on January 28, 2013. Distributions on the KFN Preferred Shares are cumulative and are payable by KFN, when, as, and if declared by KFN's board of directors, quarterly on January 15, April 15, July 15 and October 15 of each year at a rate per annum equal to 7.375%. Unless distributions have been declared and paid or declared and set apart for payment on the KFN Preferred Shares for the then-current quarterly distribution period and all past quarterly distribution periods, subject to certain exceptions, KFN may not declare or pay or set apart payment for distributions on the KFN's common shares or other junior shares, including payments to KKR. If KFN experiences a dissolution event, then the holders of the KFN Preferred Shares outstanding at such time will be entitled to receive a payment out of the KFN's assets available for distribution to such holders equal to the sum of the \$25 liquidation preference per KFN Preferred Share and accumulated and unpaid distributions (whether or not declared), if any, to, but excluding, the date of the dissolution event (the "Series A Liquidation Value"), to the extent that KFN has sufficient gross income (excluding any gross income attributable to the sale or exchange of capital assets) in the year of the dissolution event and in the prior years in which the KFN Preferred Shares have been outstanding to ensure that each holder of KFN Preferred Shares will have a capital account balance equal to the Series A Liquidation Value. The KFN Preferred Shares are not convertible into shares of any other class or series of the KFN's shares. Except under limited circumstances relating to an event of default in the payment of distributions, holders of the KFN Preferred Shares have no voting rights. At any time or from time to time on or after January 15, 2018, KFN may, at its option, redeem the KFN Preferred Shares, in whole or in part, upon not less than 30 nor more than 60 days' notice, at a price of \$25 per KFN Preferred Share plus accumulated and unpaid distributions (whether or not declared), if any, to, but excluding, the redemption date, if any. Holders of the KFN Preferred Shares have no right to require the redemption of the KFN Preferred Shares.

## Common Units

On May 16, 2014, KKR & Co. L.P. filed a registration statement with the Securities and Exchange Commission for the sale by us from time to time of up to 5,000,000 common units of KKR & Co. L.P. to generate cash proceeds (a) up to (1) the amount of withholding taxes, social benefit payments or similar payments payable by us in respect of awards granted pursuant to the Equity Incentive Plan, the KKR Financial Holdings LLC 2007 Share Incentive Plan (the "KFN Share Incentive Plan") and the KKR Asset Management LLC 2011 Share Incentive Plan (the "KAM Share Incentive Plan"), and together with the Equity Incentive Plan and the KFN Share Incentive Plan, the "Plans", and (2) the amount of cash delivered in respect of awards granted pursuant to the Plans that are settled in cash instead of common units; and (b) to the extent the net proceeds from the sale of common units exceeds the amounts due under clause (a), for general corporate purposes. The administrator of the Equity Incentive Plan is expected to reduce the maximum number of common units eligible to be issued under the Equity Incentive Plan by the number of common

units issued and sold pursuant to this Registration Statement, as applicable, unless such reduction is already provided for with respect to such awards under the terms of the Equity Incentive Plan. No additional equity awards will be issued under the KFN Share Incentive Plan or the KAM Share Incentive Plan. The Securities and Exchange Commission declared the registration statement effective on June 4, 2014. As of March 31, 2015, 861,731 common units have been issued and sold under the registration statement and are included in our basic common units outstanding as of March 31, 2015.

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Liquidity Needs

We expect that our primary liquidity needs will consist of cash required to:

- continue to grow our business, including seeding new strategies and funding our capital commitments made to existing and future funds, co-investments and any net capital requirements of our capital markets companies;
- warehouse an investment in a portfolio company or other investments for the benefit of one or more of our funds, accounts or CLOs pending the contribution of committed capital by the investors in such vehicles;
- service debt obligations, as well as any contingent liabilities that may give rise to future cash payments;
- fund cash operating expenses and amounts recorded for litigation matters;
- pay amounts that may become due under our tax receivable agreement with KKR Holdings;
- make cash distributions in accordance with our distribution policy;
- underwrite commitments within our capital markets business;
- fund our equity commitment to joint ventures such as Merchant Capital Solutions LLC;
- make future purchase price payments in connection with our proprietary acquisitions or investments, such as our acquisition of Prisma and minority interest in Nephila; and
- acquire additional principal assets, including other businesses.

See "—Liquidity—Contractual Obligations, Commitments and Contingencies on an Unconsolidated Basis." We believe that the sources of liquidity described above will be sufficient to fund our working capital requirements for at least the next 12 months.

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## Capital Commitments

The agreements governing our active investment funds generally require the general partners of the funds to make minimum capital commitments to such funds, which usually range from 2% to 4% of a fund's total capital commitments at final closing, but may be greater for certain funds pursuing newer strategies. In addition, we are responsible for certain limited partner interests in some of our private equity funds. The following table presents our uncalled commitments to our active investment funds as of March 31, 2015:

	Uncalled Commitments (\$ in thousands)
Private Markets	
European Fund IV	\$184,700
Energy Income and Growth Fund	157,200
North America Fund XI	156,700
Infrastructure II	121,600
Real Estate Partners Americas	118,500
Asian Fund II	53,200
European Fund III	52,100
2006 Fund	23,400
Co-Investment Vehicles	30,500
Other Private Markets Funds	14,600
Total Private Markets Commitments	912,500
Public Markets	
Special Situations Vehicles	187,900
Direct Lending Vehicles	82,500
Mezzanine Fund	9,600
Total Public Markets Commitments	280,000
Total Uncalled Commitments	\$1,192,500

As of March 31, 2015, KKR had unfunded commitments consisting of (i) \$1,192.5 million, as shown above, to its active private equity and other investment vehicles, (ii) \$374.6 million in connection with commitments by KKR's capital markets business, (iii) \$128.6 million relating to Merchant Capital Solutions as described below and (iv) other investment commitments of \$157.2 million. Whether these amounts are actually funded, in whole or in part depends on the terms of such commitments, including the satisfaction or waiver of any conditions to funding.

## Prisma Capital Partners

On October 1, 2012, KKR acquired all of the equity interests of Prisma subject to potential purchase price payments in 2014 and 2017. KKR may become obligated to make future purchase price payments in 2017 based on whether the Prisma business grows to achieve certain operating performance metrics when measured in such year. KKR has the right in its sole discretion to pay a portion of such future purchase price payment, if any, in KKR & Co. L.P. common units rather than in cash. See "—Liquidity—Contractual Obligations, Commitments and Contingencies on an Unconsolidated Basis."

## Merchant Capital Solutions

Merchant Capital Solutions LLC (MCS, formerly known as MerchCap Solutions LLC) is a joint venture partnership with Stone Point Capital and CPPIB Credit Investments, Inc. MCS seeks to provide capital markets services to mid-market and sponsor-backed companies as well as make certain balance sheet investments to support client needs. KKR and Stone Point each committed \$150 million of equity and CPPIB committed an additional \$50 million to MCS to support its business. KKR's remaining commitment is approximately \$128.6 million as of March 31, 2015. KKR expects that certain capital markets activities for third parties (other than KKR and its portfolio companies) will be principally conducted by MCS.

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### Tax Receivable Agreement

We and certain intermediate holding companies that are taxable corporations for U.S. federal, state and local income tax purposes, may be required to acquire KKR Group Partnership Units from time to time pursuant to our exchange agreement with KKR Holdings. KKR Management Holdings L.P. made an election under Section 754 of the Internal Revenue Code that will remain in effect for each taxable year in which an exchange of KKR Group Partnership Units for common units occurs, which may result in an increase in our intermediate holding companies' share of the tax basis of the assets of the KKR Group Partnerships at the time of an exchange of KKR Group Partnership Units. Certain of these exchanges are expected to result in an increase in our intermediate holding companies' share of the tax basis of the tangible and intangible assets of the KKR Group Partnerships, 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 deductions for tax purposes and therefore reduce the amount of income tax our intermediate holding companies 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 have entered into a tax receivable agreement with KKR Holdings, which requires our intermediate holding companies to pay to KKR Holdings, or to current and former principals who have exchanged KKR Holdings units for KKR common units as transferees of KKR 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 companies realize as a result of the increase in tax basis described above, as well as 85% of the amount of any such savings the intermediate holding companies realize as a result of increases in tax basis that arise due to future payments under the agreement. We expect our intermediate holding companies to benefit from the remaining 15% of cash savings, if any, in income tax that they realize. A termination of the agreement or a change of control could give rise to similar payments based on tax savings that we would be deemed to realize in connection with such events. In the event that other of our current or future subsidiaries become taxable as corporations and acquire KKR 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.

These payment obligations are obligations of our intermediate holding companies and not the KKR Group Partnerships. As such, cash payments received by common unitholders may vary from those received by holders of KKR Group Partnership Units held by KKR Holdings and its current and former principals to the extent payments are made to those parties under the tax receivable agreement. Payments made under the tax receivable agreement are required to be made within 90 days of the filing of the tax returns of our intermediate holding companies, which may result in a timing difference between the tax savings received by KKR's intermediate holdings companies and the cash payments made to the selling holders of KKR Group Partnership Units.

For the three months ended March 31, 2015, no cash payments have been made under the tax receivable agreement. We expect our intermediate holding companies to benefit from the remaining 15% of cash savings, if any, in income tax that they realize. As of March 31, 2015, \$2.3 million of cumulative income tax savings have been realized. See "—Liquidity-Other Liquidity Needs— Contractual Obligations, Commitments and Contingencies" for a discussion of amounts payable and cumulative cash payments made under this agreement.

### Distributions

Our current distribution policy is to make quarterly cash distributions in amounts that in the aggregate are expected to constitute substantially all of the cash earnings of our investment management business, 40% of the net realized investment income of KKR (other than KFN), and 100% of the net realized investment income of KFN, in each case in excess of amounts determined by us to be necessary or appropriate to provide for the conduct of our business, to

make appropriate investments in our business and our investment funds and to comply with applicable law and any of our debt instruments or other obligations. For purposes of our distribution policy, our distributions are expected to consist of (i) FRE (as defined below), (ii) carry distributions received from our investment funds which have not been allocated as part of our carry pool, (iii) 40% of the net realized investment income from KKR (other than KFN) and (iv) 100% of the net realized investment income from KFN. This amount is expected to be reduced by (i) corporate and applicable local taxes, if any, (ii) segment non-controlling interests, and (iii) amounts determined by us to be necessary or appropriate for the conduct of our business and other matters as discussed above.

The declaration and payment of any distributions are subject to the discretion of the board of directors of the general partner of KKR & Co. L.P., which may change the distribution policy at any time, and the terms of its limited partnership agreement. There can be no assurance that distributions will be made as intended or at all or that unitholders will receive sufficient distributions to satisfy payment of their tax liabilities as limited partners of KKR & Co. L.P. When KKR & Co. L.P.



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receives distributions from the KKR Group Partnerships (the holding companies of the KKR business), KKR Holdings receives its pro rata share of such distributions from the KKR Group Partnerships.

The following table presents our distribution calculation for the three months ended March 31, 2015 and 2014 as described above.

(\$ in thousands except per unit data)	Quarter Ended	
	March 31, 2015	March 31, 2014
Total Distributable Earnings	\$516,531	\$446,808
Less: estimated current corporate income taxes	(28,855 )	(33,445 )
Distributable Earnings, net of taxes	487,676	413,363
Less: Undistributed net realized investment income - KKR (ex-KFN)	(114,886 )	(115,735 )
Distributed Earnings	\$372,790	\$297,628
Distributable Earnings, net of taxes per KKR & Co. L.P. common unit	\$0.60	\$0.59
Distribution per KKR & Co. L.P. common unit	\$0.46	\$0.43
Components of Distribution per KKR & Co. L.P. Common Unit		
After-tax FRE	\$0.10	\$0.15
Realized Cash Carry	\$0.22	\$0.17
Distributed Net Realized Investment Income - KKR (ex-KFN)	\$0.09	\$0.11
Distributed Net Realized Investment Income - KFN	\$0.05	\$—
Fee and yield earnings distribution per KKR & Co. L.P. common unit	\$0.15	\$0.16
Adjusted Units Eligible For Distribution	813,796,584	696,070,615
Payout Ratio	76.4	% 72.0 %

The following table provides a reconciliation of KKR's Adjusted Units to Adjusted Units Eligible for Distribution:

	As of March 31, 2015
Adjusted Units	852,445,671
Adjustments:	
Unvested Common Units	(36,953,115 )
Unvested Other Exchangeable Securities	(1,695,972 )
Adjusted Units Eligible For Distribution	813,796,584

Total Distributable Earnings

Total distributable earnings is the sum of (i) FRE, (ii) carry distributions received from KKR's investment funds which have not been allocated as part of its carry pool, (iii) net realized investment income—KKR (ex-KFN) and (iv) net

realized investment income—KFN; less (i) applicable local income taxes, if any, and (ii) noncontrolling interests. We believe this measure is useful to unitholders as it provides a supplemental measure to assess performance, excluding the impact of mark-to-market gains (losses), and amounts available for distribution to KKR unitholders. However, total distributable earnings is not a measure that calculates actual distributions under KKR's current distribution policy. See our distribution table above for the actual cash distribution declared for the three months ended March 31, 2015 and 2014.

Total distributable earnings were \$516.5 million for the three months ended March 31, 2015, an increase of \$69.7 million, compared to \$446.8 million for the three months ended March 31, 2014. The increase was primarily attributable

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to an increase in realized cash carry net of realized cash carry allocated to carry pool of \$65.3 million and an increase in net realized investment income of KFN of \$39.9 million, partially offset by a decrease in fees of \$27.5 million and an increase in other operating expenses of \$8.1 million.

Distribution per KKR & Co. L.P. common unit was \$0.46 for the three months ended March 31, 2015, an increase of \$0.03 per common unit, compared to \$0.43 per common unit for the three months ended March 31, 2014. The increase was primarily attributable to an increase in realized cash carry per common unit of \$0.05 and distributable net realized investment income-KFN per common unit of \$0.05 as a result of our acquisition of KFN on April 30, 2014. This increase was partially offset by a decrease in after-tax FRE primarily due to a decrease in FRE and to a lesser extent an increase in adjusted units eligible for distribution primarily as a result of the KFN acquisition on April 30, 2014.

### Fee Related Earnings (“FRE”)

Fee related earnings is comprised of (i) total management, monitoring and transaction fees, net, plus incentive fees, less (ii) cash compensation and benefits, occupancy and related charges and other operating expenses. It is a measure of the operating earnings of KKR and its business segments before carried interest and related carry pool allocations and investment income and comprises a portion of KKR's quarterly distribution. The components of FRE on a segment basis differ from the equivalent GAAP amounts on a consolidated basis as a result of: (i) the inclusion of management fees earned from consolidated funds that were eliminated in consolidation; (ii) the exclusion of fees and expenses of certain consolidated entities; (iii) the exclusion of charges relating to the amortization of intangible assets; (iv) the exclusion of charges relating to carry pool allocations; (v) the exclusion of non-cash equity-based charges and other non-cash compensation charges borne by KKR Holdings or incurred under the Equity Incentive Plan; (vi) the exclusion of certain reimbursable expenses; and (vii) the exclusion of certain non-recurring items. After tax FRE represents FRE after deductions for current corporate and local income taxes and non-controlling interests.

### Net Realized Investment Income — KKR (ex - KFN)

Net realized investment income—KKR (ex-KFN) refers to net cash income from (i) realized investment gains and losses excluding certain realized investment losses to the extent unrealized losses on these investments were recognized prior to the combination with KPE on October 1, 2009, (ii) dividend income, and (iii) interest income net of interest expense in each case generated by KKR (excluding KFN). This term describes a portion of KKR's quarterly distribution and excludes net realized investment income of KFN. Realized investment losses from balance sheet investments that were already written down as of October 1, 2009 that have been excluded from net realized investment income as described above in (i) above amounted to approximately \$55.5 million for the three months ended March 31, 2014, respectively.

### Net Realized Investment Income - KFN

Net realized investment income—KFN refers to net cash income from (i) realized investment gains and losses, (ii) dividend income and (iii) interest income net of interest expense less certain general and administrative expenses incurred in the generation of net realized investment income in each case generated by KFN. This term describes a portion of KKR's quarterly distribution.

### Fee and Yield Earnings

Fee and yield earnings is comprised of FRE and net interest and dividends from KKR's business segments. This measure is used by management as a measure of the cash earnings of KKR and its business segments' investment income. We believe this measure is useful to unitholders as it provides insight into the amount of KKR's cash

earnings, significant portions of which tend to be more recurring than realized carried interest and net realized gains from quarter to quarter.

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A reconciliation of Net Income (Loss) Attributable to KKR & Co. L.P. on a GAAP basis to ENI, FRE, Fee and Yield Earnings, Fee and Yield EBITDA, Total Distributable Earnings and Total EBITDA is provided below.

	Three Months Ended	
	March 31, 2015	March 31, 2014
	(\$ in thousands)	
Net income (loss) attributable to KKR & Co. L.P.	\$270,507	\$210,041
Plus: Net income (loss) attributable to noncontrolling interests held by KKR Holdings L.P.	239,008	300,814
Plus: Non-cash equity based charges	76,550	77,528
Plus: Amortization of intangibles and other, net	(2,790)	) 20,169
Plus: Income taxes	16,138	21,702
Economic net income (loss)	599,413	630,254
Plus: Income attributable to segment noncontrolling interests	3,622	3,202
Less: Total investment income (loss)	220,621	278,651
Less: Net carried interest	265,108	203,087
Fee related earnings	117,306	151,718
Plus: Net interest and dividends	50,675	11,164
Fee and yield earnings	167,981	162,882
Plus: Depreciation and amortization	3,881	4,035
Plus: Core interest expense	25,332	18,400
Fee and yield EBITDA	197,194	185,317
Less: Depreciation and amortization	3,881	4,035
Less: Core interest expense	25,332	18,400
Less: Net interest and dividends	50,675	11,164
Plus: Realized cash carry, net of realized cash carry allocated to carry pool	181,455	116,130
Plus: Net realized investment income - KKR (ex-KFN)	191,477	192,892
Plus: Net realized investment income - KFN	39,865	—
Less: Local income taxes and noncontrolling interests	13,572	13,932
Total distributable earnings	516,531	446,808
Plus: Depreciation and amortization	3,881	4,035
Plus: Core interest expense	25,332	18,400
Plus: Local income taxes and noncontrolling interests	13,572	13,932
Total EBITDA	\$559,316	\$483,175

## Other Liquidity Needs

We may also be required to fund various underwriting commitments in our capital markets business in connection with the underwriting of loans, securities or other financial instruments. We generally expect that these commitments will be syndicated to third parties or otherwise fulfilled or terminated, although we may in some instances elect to retain a portion of the commitments for our own investment.

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## Contractual Obligations, Commitments and Contingencies on an Unconsolidated Basis

In the ordinary course of business, we enter into contractual arrangements that may require future cash payments. The following table sets forth information relating to anticipated future cash payments as of March 31, 2015 on an unconsolidated basis before the consolidation of funds and CLOs:

Types of Contractual Obligations	Payments due by Period				Total
	<1 Year	1-3 Years	3-5 Years	>5 Years	
	(\$ in millions)				
Uncalled commitments to investment funds (1)	\$1,192.5	\$—	\$—	\$—	\$1,192.5
Debt payment obligations (2)	97.0	—	—	2,657.3	2,754.3
Interest obligations on debt (3)	159.6	301.8	296.4	2,685.9	3,443.7
Underwriting commitments (4)	300.8	—	—	—	300.8
Lending commitments (5)	73.8	—	—	—	73.8
Other commitments (6)	285.8	—	—	—	285.8
Lease obligations	51.8	93.6	75.7	52.0	273.1
Total	\$2,161.3	\$395.4	\$372.1	\$5,395.2	\$8,324.0

These uncalled commitments represent amounts committed by us to fund a portion of the purchase price paid for each investment made by our investment funds which are actively investing. Because capital contributions are due (1) on demand, the above commitments have been presented as falling due within one year. However, given the size of such commitments and the rates at which our investment funds make investments, we expect that the capital commitments presented above will be called over a period of several years. See "—Liquidity—Liquidity Needs."

Represents the 2020 Senior Notes, 2043 Senior Notes, 2044 Senior Notes, KFN 2041 Senior Notes, KFN 2042 (2) Senior Notes, KFN Junior Subordinated Notes and borrowings outstanding on the KCM Credit Agreement which are presented gross of unamortized discounts and net of unamortized premiums. KFN's debt obligations are non-recourse to KKR beyond the assets of KFN.

These interest obligations on debt represent estimated interest to be paid over the maturity of the related debt obligation, which has been calculated assuming the debt outstanding at March 31, 2015 is not repaid until its (3) maturity. Future interest rates are assumed to be those in effect as of March 31, 2015, including both variable and fixed rates, as applicable, provided for by the relevant debt agreements. The amounts presented above include accrued interest on outstanding indebtedness.

(4) Represents various commitments in our capital markets business in connection with the underwriting of loans, securities and other financial instruments. These commitments are shown net of amounts syndicated.

(5) Represents obligations in our capital markets business to lend under various revolving credit facilities.

(6) Represents our commitment to MCS and investment commitments of KFN. See "—Liquidity—Liquidity Needs—Merchant Capital Solutions."

The commitment table above excludes contractual amounts owed under the tax receivable agreement, because the ultimate amount and timing of the amounts due are not presently known. As of March 31, 2015, a payable of \$128.3 million has been recorded in due to affiliates in the consolidated financial statements representing management's best estimate of the amounts currently expected to be owed under the tax receivable agreement. As of March 31, 2015, approximately \$13.3 million of cumulative cash payments have been made under the tax receivable agreement. See "—Liquidity Needs—Tax Receivable Agreement."

The commitment table above excludes certain contingent consideration payments that may be owed in connection with acquisitions and other investments because the ultimate amounts due are not presently known. As of March 31, 2015, the recorded amount of contingent consideration obligations where the amounts are not currently known was approximately \$42.6 million.

The commitment table above excludes amounts recorded for litigation matters. See “Financial Statements — Note 16 “Commitments and Contingencies.”

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In the normal course of business, we enter into contracts that contain a variety of representations and warranties that provide general indemnifications. In addition, certain of our consolidated funds and KFN have provided certain indemnities relating to environmental and other matters and have provided nonrecourse carve-out guarantees for fraud, willful misconduct and other customary wrongful acts, each in connection with the financing of certain real estate investments that we have made. Our maximum exposure under these arrangements is unknown as this would involve future claims that may be made against us that have not yet occurred. However, based on prior experience, we expect the risk of material loss to be low.

The partnership documents governing our carry-paying funds, including funds and vehicles relating to private equity, mezzanine, infrastructure, energy, direct lending and special situations investments, generally include a "clawback" provision that, if triggered, may give rise to a contingent obligation requiring the general partner to return amounts to the fund for distribution to the fund investors at the end of the life of the fund. Under a clawback obligation, upon the liquidation of a fund, the general partner is required to return, typically on an after-tax basis, previously distributed carry to the extent that, due to the diminished performance of later investments, the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled, including the effects of any performance thresholds. Excluding carried interest received by the general partners of funds that were not contributed to us in the KPE Transaction, as of March 31, 2015, no carried interest was subject to this clawback obligation, assuming that all applicable carry paying funds were liquidated at their March 31, 2015 fair values. Had the investments in such funds been liquidated at zero value, the clawback obligation would have been \$2,486.8 million. Carried interest is recognized in the statement of operations based on the contractual conditions set forth in the agreements governing the fund as if the fund were terminated and liquidated at the reporting date and the fund's investments were realized at the then estimated fair values. Amounts earned pursuant to carried interest are earned by the general partner of those funds to the extent that cumulative investment returns are positive and where applicable, preferred return thresholds have been met. If these investment amounts earned decrease or turn negative in subsequent periods, recognized carried interest will be reversed and to the extent that the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled, a clawback obligation would be recorded. For funds that are consolidated, this clawback obligation, if any, is reflected as an increase in noncontrolling interests in the consolidated statements of financial condition. For funds that are not consolidated, this clawback obligation, if any, is reflected as a reduction of our investment balance as this is where carried interest is initially recorded.

Certain private equity funds that were contributed to us in the KPE Transaction in 2009 also include a "net loss sharing provision." Upon the liquidation of an investment vehicle to which a net loss sharing obligation applies, the general partner is required to contribute capital to the vehicle, to fund 20% of the net losses on investments. In these vehicles, such losses would be required to be paid by us to the fund investors in those vehicles in the event of a liquidation of the fund regardless of whether any carried interest had previously been distributed, and a greater share of investment losses would be allocable to us relative to the capital that we contributed to it as general partner. Based on the fair market values as of March 31, 2015, there would have been no net loss sharing obligation. If the vehicles were liquidated at zero value, the net loss sharing obligation would have been approximately \$115.8 million as of March 31, 2015.

Prior to the KPE Transaction in 2009, certain principals who received carried interest distributions with respect to certain private equity funds contributed to us had personally guaranteed, on a several basis and subject to a cap, the contingent obligations of the general partners of such private equity funds to repay amounts to fund investors pursuant to the general partners' clawback obligations. The terms of the KPE Transaction require that principals remain responsible for any clawback obligations relating to carry distributions received prior to the KPE Transaction, up to a maximum of \$223.6 million. Through investment realizations, KKR's potential exposure has been reduced to \$184.7 million as of March 31, 2015. Using valuations as of March 31, 2015, no amounts are due with respect to the clawback obligation required to be funded by principals. Carry distributions arising subsequent to the KPE



Transaction may give rise to clawback obligations that may be allocated generally to us and to persons who participate in the carry pool. Unlike the clawback obligation, we will be responsible for amounts due under a net loss sharing obligation and will indemnify principals for any personal guarantees that they have provided with respect to such amounts. In addition, guarantees of or similar arrangements relating to clawback or net loss sharing obligations in favor of third party investors in an individual investment partnership by entities we own may limit distributions of carried interest more generally.

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## Contractual Obligations, Commitments and Contingencies on a Consolidated Basis

In the ordinary course of business, we and our consolidated funds and CLOs enter into contractual arrangements that may require future cash payments. The following table sets forth information relating to anticipated future cash payments as of March 31, 2015. This table differs from the table presented above which sets forth contractual commitments on an unconsolidated basis principally because this table includes the obligations of our consolidated funds and CLOs.

Types of Contractual Obligations	Payments due by Period				Total
	<1 Year	1-3 Years	3-5 Years	>5 Years	
	(\$ in millions)				
Uncalled commitments to investment funds (1)	\$19,264.6	\$—	\$—	\$—	\$19,264.6
Debt payment obligations (2)	655.2	1,151.4	836.2	9,099.9	11,742.7
Interest obligations on debt (3)	344.1	607.2	553.1	3,266.7	4,771.1
Underwriting commitments (4)	300.8	—	—	—	300.8
Lending commitments (5)	73.8	—	—	—	73.8
Other commitments (6)	285.8	—	—	—	285.8
Lease obligations	51.8	93.6	75.7	52.0	273.1
Total	\$20,976.1	\$1,852.2	\$1,465.0	\$12,418.6	36,711.9

(1) These uncalled commitments represent amounts committed by our consolidated investment funds, which include amounts committed by KKR and our fund investors, to fund the purchase price paid for each investment made by our investment funds which are actively investing. Because capital contributions are due on demand, the above commitments have been presented as falling due within one year. However, given the size of such commitments and the rates at which our investment funds make investments, we expect that the capital commitments presented above will be called over a period of several years. See "—Liquidity—Liquidity Needs."

(2) Amounts include (i) the 2020 Senior Notes, 2043 Senior Notes and 2044 Senior Notes of \$2.0 billion gross of unamortized discount, (ii) KFN 2041 Senior Notes and KFN 2042 Senior Notes of \$0.4 billion, net of unamortized premium, (iii) KFN Junior Subordinated Notes of \$0.3 billion, gross of unamortized discount, (iv) financing arrangements entered into by our consolidated funds with the objective of enhancing returns or providing liquidity to the funds of \$1.8 billion and (v) debt securities issued by our consolidated CLOs of \$7.2 billion. KFN's debt obligations are non-recourse to KKR beyond the assets of KFN. Debt securities issued by consolidated CLOs are supported solely by the investments held at the CLO vehicles and are not collateralized by assets of any other KKR entity. Obligations under financing arrangements entered into by our consolidated funds are generally limited to our pro-rata equity interest in such funds. Our management companies bear no obligations to repay any financing arrangements at our consolidated funds.

(3) These interest obligations on debt represent estimated interest to be paid over the maturity of the related debt obligation, which has been calculated assuming the debt outstanding at March 31, 2015 is not repaid until its maturity. Future interest rates are assumed to be those in effect as of March 31, 2015, including both variable and fixed rates, as applicable, provided for by the relevant debt agreements. The amounts presented above include accrued interest on outstanding indebtedness.

(4) Represents various commitments in our capital markets business in connection with the underwriting of loans, securities and other financial instruments. These commitments are shown net of amounts syndicated.

(5) Represents obligations in our capital markets business to lend under various revolving credit facilities.

(6) Represents our commitment to MCS and investment commitments of KFN. See "Liquidity—Liquidity Needs—Merchant Capital Solutions."

The commitment table above excludes contractual amounts owed under the tax receivable agreement because the ultimate amount and timing of the amounts due are not presently known. As of March 31, 2015, a payable of \$128.3 million has been recorded in due to affiliates in the consolidated financial statements representing management's best estimate of the amounts currently expected to be owed under the tax receivable agreement. As of March 31, 2015, approximately \$13.3 million of cumulative cash payments have been made under the tax receivable agreement. See "Liquidity Needs—Tax Receivable Agreement."

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The commitment table above excludes certain contingent consideration payments that may be owed in connection with acquisitions and other investments because the ultimate amounts due are not presently known. As of March 31, 2015, the recorded amount of contingent consideration obligations where the amounts are not currently known was approximately \$42.6 million.

The commitment table above excludes amounts recorded for litigation. See “Financial Statements — Note 16 “Commitments and Contingencies.”

## 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.

## Condensed Consolidated Statement of Cash Flows

The accompanying condensed consolidated statements of cash flows include the cash flows of our consolidated entities which, in particular, include our consolidated funds and CLOs notwithstanding the fact that we may hold only a minority economic interest in those funds and CLOs. The assets of our consolidated funds and CLOs, 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 condensed consolidated statements of cash flows. The primary cash flow activities of our consolidated funds and CLOs involve: (i) capital contributions 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 and CLOs are treated as investment companies for accounting purposes, certain of these cash flow amounts are included in our cash flows from operations.

## Net Cash Provided by (Used in) Operating Activities

Our net cash provided by (used in) operating activities was \$943.4 million and \$(903.4) million during the three months ended March 31, 2015 and 2014, respectively. These amounts primarily included: (i) proceeds from sales of investments and principal payments net of purchases of investments by our funds and CLOs of \$0.4 billion and \$(1.0) billion during the three months ended March 31, 2015 and 2014, respectively; (ii) net realized gains (losses) on investments of \$1.8 billion and \$0.8 billion during the three months ended March 31, 2015 and 2014, respectively; and (iii) change in unrealized gains (losses) on investments of \$114.0 million and \$1.2 billion during the three months ended March 31, 2015 and 2014, respectively. Certain KKR funds and CLOs are, for GAAP purposes, investment companies and reflect their investments and other financial instruments at fair value.

## Net Cash Provided by (Used in) Investing Activities

Our net cash provided by (used in) investing activities was \$7.9 million and \$(68.5) million during the three months ended March 31, 2015 and 2014, respectively. Our investing activities included a change in restricted cash and cash equivalents (that primarily funds collateral requirements) of \$49.6 million and \$(7.7) million, the purchases of furniture, computer hardware and leasehold improvements of \$(3.8) million and \$(1.9) million during the three months ended March 31, 2015 and 2014, respectively, as well as proceeds from sales of oil and natural gas properties, net of development of oil and natural gas properties of \$(37.9) million for the three months ended March 31, 2015 and cash paid for acquisitions of \$(58.9) million for the three months ended March 31, 2014.

## Net Cash Provided by (Used in) Financing Activities

Our net cash provided by (used in) financing activities was \$(0.6) billion and \$1.0 billion during the three months ended March 31, 2015 and 2014, respectively. Our financing activities primarily included: (i) distributions to, net of contributions by our noncontrolling and redeemable noncontrolling interests, of \$(1.4) billion and \$0.9 billion during the three months ended March 31, 2015 and 2014, respectively; (ii) proceeds received net of repayment of debt obligations of \$970.9 million and \$175.1 million during the three months ended March 31, 2015 and 2014, respectively; and (iii) distributions to our partners of \$(151.7) million and \$(138.3) million during the three months ended March 31, 2015 and 2014, respectively.

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### Critical Accounting Policies

The preparation of our condensed consolidated 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 fees, expenses and investment income. Our management bases these estimates and judgments on available information, historical experience and other assumptions that we believe are reasonable under the circumstances. However, these estimates, judgments and assumptions 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 the consolidated financial statements in 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 consolidated financial statements included elsewhere in this report for further detail regarding our critical accounting policies.

### Principles of Consolidation

The types of entities with which KKR is involved generally include (i) subsidiaries, including management companies, broker-dealers and general partners of investment funds that KKR manages, (ii) entities that have all the attributes of an investment company like investment funds, (iii) CLOs and (iv) other entities, including entities that employ non-employee operating consultants. Each of these entities is assessed for consolidation on a case by case basis depending on the specific facts and circumstances surrounding that entity.

Pursuant to its consolidation policy, KKR first considers whether an entity is considered a variable interest entity ("VIE") and therefore whether to apply the consolidation guidance under the VIE model. Entities that do not qualify as VIEs are generally assessed for consolidation as voting interest entities ("VOEs") under the voting interest model.

The consolidation rules were revised effective January 1, 2010 which had the effect of changing the criteria for determining whether a reporting entity is the primary beneficiary of a VIE. However, the adoption of these new consolidation rules was indefinitely deferred (the "Deferral") for a reporting entity's interests in certain entities. In particular, entities that have all the attributes of an investment company such as investment funds generally meet the conditions necessary for the Deferral. Entities that are securitization or asset-backed financing entities such as CLOs would generally not qualify for the Deferral. Accordingly, when making the assessment of whether an entity is a VIE, KKR considers whether the entity being assessed meets the conditions for the Deferral and therefore would be subject to the rules that existed prior to January 1, 2010. Under both sets of rules, VIEs for which KKR is determined to be the primary beneficiary are consolidated and such VIEs generally include certain CLO vehicles and entities that employ non-employee operating consultants.

With respect to KKR's consolidated funds that are not CLOs, KKR meets the criteria for the Deferral and therefore applies the consolidation rules that existed prior to January 1, 2010. For these funds, KKR generally has operational discretion and control, and fund investors have no substantive rights to impact ongoing governance and operating activities of the fund, including the ability to remove the general partner, also known as kick-out rights. As a result, a fund should be consolidated unless KKR has a nominal level of equity at risk. To the extent that KKR commits a nominal amount of equity to a given fund and has no obligation to fund any future losses, the equity at risk to KKR is not considered substantive and the fund is typically considered a VIE. In these cases, the fund investors are generally deemed to be the primary beneficiaries, and KKR does not consolidate the fund. In cases when KKR's equity at risk is deemed to be substantive, the fund is generally considered to be a VOE and KKR generally consolidates the fund under the VOE model.

With respect to CLOs, which are generally VIEs, the criteria for the Deferral are not met and therefore KKR applies the consolidation rules issued on January 1, 2010. In its role as collateral manager, KKR generally has the power to direct the activities of the CLO entities that most significantly impact the economic performance of the entity. In some, but not all cases, KKR, through both its residual interest in the CLO and the potential to earn an incentive fee, may have variable interests that represent an obligation to absorb losses of or a right to receive benefits from the CLO that could potentially be significant to KKR. In cases where KKR has both (a) the power to direct the activities of the CLO that most significantly impact the CLOs economic performance and (b) the obligation to absorb losses of the CLO or the right to receive benefits from the CLO that could potentially be significant to the CLO, KKR consolidates the CLO.

Certain of KKR's funds and CLOs are consolidated by KKR notwithstanding the fact that KKR has only a minority economic interest in those funds and vehicles. KKR's financial statements reflect the assets, liabilities, fees, expenses, investment income (loss) and cash flows of the consolidated KKR funds and vehicles on a gross basis, and the majority of the economic interests in those funds, which are held by fund investors or other stakeholders, are attributed to noncontrolling interests in the accompanying financial statements. All of the management fees and certain other amounts earned by KKR from

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those funds and entities are eliminated in consolidation. However, because the eliminated amounts are earned from, and funded by, noncontrolling interests, KKR's attributable share of the net income (loss) from those funds is increased by the amounts eliminated. Accordingly, the elimination in consolidation of such amounts has no effect on net income (loss) attributable to KKR or KKR partners' capital.

KKR's funds are, for GAAP purposes, investment companies and therefore are not required to consolidate their investments, including investments in portfolio companies, even if majority-owned and controlled. Rather, the consolidated funds and vehicles reflect their investments at fair value as described below in "Fair Value Measurements". All intercompany transactions and balances have been eliminated.

### Investments

Investments consist primarily of private equity, real assets, credit, investments of consolidated CLOs, equity method and other investments. Investments are carried at their estimated fair values, with unrealized gains or losses resulting from changes in fair value reflected as a component of Net Gains (Losses) from Investment Activities in the consolidated statements of operations. Investments denominated in currencies other than the U.S. dollar are valued based on the spot rate of the respective currency at the end of the reporting period with changes related to exchange rate movements reflected as a component of Net Gains (Losses) from Investment Activities in the consolidated statements of operations. Security and loan transactions are recorded on a trade date basis. Further disclosure on investments is presented in Note 4, "Investments."

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

**Private Equity** —Consists primarily of equity investments in operating businesses.

**Real Assets** —Consists primarily of investments in (i) energy related assets, principally oil and natural gas producing properties, (ii) infrastructure assets, and (iii) real estate, principally residential and commercial real estate assets and businesses.

**Credit** —Consists primarily of investments in below investment grade corporate debt (primarily high yield bonds and syndicated bank loans), distressed and opportunistic debt and interests in unconsolidated CLOs.

**Investments of Consolidated CLOs** — Consists primarily of investments in below investment grade corporate debt securities (primarily high yield bonds and syndicated bank loans) held directly by the consolidated CLO vehicles.

**Equity Method** —Consists primarily of investments in which KKR has significant influence, including investments in unconsolidated investment funds.

**Other** —Consists primarily of investments in common stock, preferred stock, warrants and options of companies that are not private equity, real assets, credit or equity method investments.

### Fair Value Measurements

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



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

The carrying amounts of Other Assets, Accounts Payable, Accrued Expenses and Other Liabilities recognized on the consolidated statements of financial condition (excluding fixed assets, goodwill, intangible assets, oil and gas assets, net,

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contingent consideration and certain debt obligations) approximate fair value due to their short term maturities. Further information on Fixed Assets is presented in Note 7, "Other Assets and Accounts Payable, Accrued Expenses and Other Liabilities". Further information on Goodwill and Intangible Assets is presented in Note 15 "Goodwill and Intangible Assets." Further information on contingent consideration is presented in Note 14 "Acquisitions." Further information on KKR's debt obligations is presented in Note 9, "Debt Obligations".

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

### Level I

Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. The type of investments and other financial instruments included in this category are publicly-listed equities and debt and securities sold short. We classified 12.5% of total investments measured and reported at fair value as Level I at March 31, 2015.

### Level II

Inputs are other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level II inputs include quoted prices for similar instruments in active markets, and inputs other than quoted prices that are observable for the asset or liability. The type of investments and other financial instruments included in this category are credit investments, convertible debt securities indexed to publicly-listed securities, and certain over-the-counter derivatives. We classified 26.6% of total investments measured and reported at fair value as Level II at March 31, 2015.

### Level III

Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The types of assets and liabilities generally included in this category are private portfolio companies, real assets investments and credit investments for which a sufficiently liquid trading market does not exist. We classified 60.9% of total investments measured and reported at fair value as Level III at March 31, 2015. The valuation of our Level III investments at March 31, 2015 represents management's best estimate of the amounts that we would anticipate realizing on the sale of these investments at such date.

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

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

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

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Investments and other financial instruments that have readily observable market prices (such as those traded on a securities exchange) are stated at the last quoted sales price as of the reporting date. We do not adjust the quoted price for these investments, even in situations where we hold a large position and a sale could reasonably affect the quoted price.

### Level II Valuation Methodologies

Financial assets and liabilities categorized as Level II consist primarily of credit investments, investments of consolidated CLOs, convertible debt securities indexed to publicly-listed securities, less liquid and restricted equity securities and certain over-the-counter derivatives such as foreign currency option and forward contracts.

**Credit investments and investments of consolidated CLOs:** These investments generally have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that KKR and others are willing to pay for an asset. Ask prices represent the lowest price that KKR and others are willing to accept for an asset. For financial assets and liabilities whose inputs are based on bid-ask prices obtained from third party pricing services, fair value may not always be a predetermined point in the bid-ask range. KKR's policy is generally to allow for mid-market pricing and adjusting to the point within the bid-ask range that meets KKR's best estimate of fair value.

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

**Restricted Equity Securities:** The valuation of certain equity securities is based on an observable price for an identical security adjusted for the effect of a restriction.

**Derivatives:** The valuation incorporates observable inputs comprising yield curves, foreign currency rates and credit spreads.

**CLO Debt Obligations:** Beginning on January 1, 2015 with the adoption of ASU 2014-13, KKR measures CLO debt obligations on the basis of the fair value of the financial assets of the CLO.

### Level III Valuation Methodologies

Management's determination of fair value is based upon the best information available for a given circumstance and may incorporate assumptions that are management's best estimates after consideration of a variety of internal and external factors.

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

**Private Equity Investments:** We generally employ two valuation methodologies when determining the fair value of a private equity investment. The first methodology is typically a market comparables analysis that considers key financial inputs and recent public and private transactions and other available measures. The second methodology

utilized is typically a discounted cash flow analysis, which incorporates significant assumptions and judgments. Estimates of key inputs used in this methodology include the weighted average cost of capital for the investment and assumed inputs used to calculate terminal values, such as exit EBITDA multiples. Other inputs are also used in both methodologies. For valuations determined for periods other than at year end, various inputs may be estimated prior to the end of the relevant period. Also, as discussed in greater detail under "—Business Environment" and "Risk Factors—Risks Related to the Assets We Manage—Our investments are impacted by various economic conditions that are difficult to quantify or predict, but may have a significant adverse impact on the value of our investments" in our Annual Report on Form 10-K, a change in interest rates could have a significant impact on valuations. In certain cases the results of the discounted cash flow approach can be significantly impacted by these estimates. In addition, when a definitive agreement has been executed to sell an investment, KKR generally considers a significant determinant of fair value to be the consideration to be received by KKR pursuant to the executed definitive agreement.

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Upon completion of the valuations conducted using these methodologies, a weighting is ascribed to each method, and an illiquidity discount is typically applied where appropriate. The ultimate fair value recorded for a particular investment will generally be within a range suggested by the two methodologies, except that the value may be higher or lower than such range in the case of investments being sold pursuant to an executed definitive agreement.

When determining the weighting ascribed to each valuation methodology, we consider, among other factors, the availability of direct market comparables, the applicability of a discounted cash flow analysis, the expected hold period and manner of realization for the investment, and in the case of investments being sold pursuant to an executed definitive agreement, the probability of such sale being completed. These factors can result in different weightings among investments in the portfolio and in certain instances may result in up to a 100% weighting to a single methodology. Across the Level III private equity investment portfolio, approximately 55.4% of the fair value is derived from investments that are valued based exactly 50% on market comparables and 50% on a discounted cash flow analysis. Less than 5% of the fair value of the Level III private equity investment portfolio is derived from investments that are valued either based 100% on market comparables or 100% on a discounted cash flow analysis. As of March 31, 2015, the overall weights ascribed to the market comparables methodology, the discounted cash flow methodology and a methodology based on pending sales for our Level III private equity investments were 41% and 43% and 16%, respectively. As of March 31, 2015, we believe that the approach of using the market multiples methodology, the discounted cash flow methodology and valuations based on pending sales resulted in valuations of our aggregate Level III private equity portfolio that were only 2.3% higher than if only the discounted cash flow methodology had been used and only 5.0% lower than if only the market comparables methodology had been used.

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

**Real Assets Investments:** Real asset investments in infrastructure, energy and real estate are valued using one or more of the discounted cash flow analysis, market comparables analysis and direct income capitalization, which in each case incorporates significant assumptions and judgments. Infrastructure investments are generally valued using the discounted cash flow analysis. Key inputs used in this methodology include the weighted average cost of capital and assumed inputs used to calculate terminal values, such as exit EBITDA multiples. Energy investments are generally valued using a discounted cash flow analysis. Key inputs used in this methodology that require estimates include the weighted average cost of capital. In addition, the valuations of energy investments generally incorporate both commodity prices as quoted on indices and long-term commodity price forecasts, which may be substantially different from, and are currently higher than, commodity prices on certain indices for equivalent future dates. Certain energy investments do not include an illiquidity discount. Long-term commodity price forecasts are utilized to capture

the value of the investments across a range of commodity prices within the energy investment portfolio associated with future development and to reflect a range of price expectations. Real estate investments are generally valued using a combination of direct income capitalization and discounted cash flow analysis. Key inputs used in such methodologies that require estimates include an unlevered discount rate and current capitalization rate, and certain real estate investments do not include a minimum illiquidity discount. The valuations of real assets investments also use other inputs.

On a segment basis, our energy real asset investments in oil and gas producing properties as of March 31, 2015 had a fair value of approximately \$684 million. Based on this fair value, we estimate that an immediate, hypothetical 10% decline in the fair value of these energy investments from one or more adverse movements to the investments' valuation inputs would result in a decline in investment income of \$68.4 million and a decline in net income attributable to KKR & Co. L.P. of \$36.7 million, after deducting amounts that are attributable to noncontrolling interests held by KKR Holdings L.P. As of March 31, 2015, if we were to value our energy investments using only the commodity prices as quoted on indices and did not use long-term

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commodity price forecasts, and also held all other inputs to their valuation constant, we estimate that investment income would have been approximately \$6 million lower for the three months ended March 31, 2015, resulting in a lower amount of net income attributable to KKR & Co. L.P. of approximately 53.6% of the overall decrease in investment income, after deducting amounts that are attributable to noncontrolling interests held by KKR Holdings L.P.

These hypothetical declines relate only to investment income. There would be no current impact on KKR's carried interest since all of the investment funds which hold these types of energy investments have investment values that are below their cost and as such are not currently accruing carried interest. Additionally, there would be no impact on fees since fees earned from investment funds which hold investments in oil and gas producing properties are based on either committed capital or capital invested.

For GAAP purposes, where KKR holds energy investments consisting of working interests in oil and gas producing properties directly and not through an investment fund, such working interests are consolidated based on the proportion of the working interests held by us. Accordingly, we reflect the assets, liabilities, revenues, expenses, investment income and cash flows of the consolidated working interests on a gross basis and changes in the value of these energy investments are not reflected as unrealized gains and losses in the consolidated statements of operations. Accordingly, a change in fair value for these investments does not result in a decrease in net gains (losses) from investment activities. For segment purposes, these directly held working interests are treated as investments and changes in value are reflected in our segment results as unrealized gains and losses.

**Credit Investments:** Credit investments are valued using values obtained from dealers or market makers, and where these values are not available, credit investments are valued by us based on ranges of values determined by an independent valuation firm. Valuation models are based on discounted cash flow analyses, for which the key inputs are determined based on market comparables, which incorporate similar instruments from similar issuers.

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

**CLO Debt Obligations:** Prior to January 1, 2015 and the adoption of ASU 2014-13, collateralized loan obligation senior secured and subordinated notes were initially valued at the transaction price and were subsequently valued using a third party valuation service. The approach used to estimate the fair values was the discounted cash flow method, which includes consideration of the cash flows of the debt obligation based on projected quarterly interest payments and quarterly amortization. The debt obligations were discounted based on the appropriate yield curve given the debt obligation's respective maturity and credit rating. The most significant inputs to the valuation of these financial instruments were default and loss expectations and discount margins. Beginning on January 1, 2015, with the adoption of ASU 2014-13, KKR measures CLO debt obligations on the basis of the fair value of the financial assets of the CLO.

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

## Level III Valuation Process



The valuation process involved for Level III measurements is completed on a quarterly basis and is designed to subject the valuation of Level III investments to an appropriate level of consistency, oversight, and review. We have a Private Markets valuation committee for private equity and real assets investments and a valuation committee for credit (including investments held by consolidated CLOs) and other investments. The Private Markets valuation committee is assisted by subcommittees in the valuation of real asset investments. Each of the Private Markets valuation committee and the credit valuation committee is assisted by a valuation team, which, except as noted below, is comprised only of employees who are not investment professionals responsible for preparing preliminary valuations or for oversight of the investments being valued. The valuation teams or subcommittees for real asset investments include investment professionals who participate in the preparation of preliminary valuations and oversight for those investments. The valuation committees and teams are responsible for coordinating and consistently implementing our quarterly valuation policies, guidelines and processes. For Private Markets investments classified as Level III, investment professionals prepare preliminary valuations based on their evaluation of financial and operating data, company specific developments, market valuations of comparable companies and other factors.

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These preliminary valuations are reviewed with the investment professionals by the applicable valuation team and are also reviewed by an independent valuation firm engaged by us to perform certain procedures in order to assess the reasonableness of our valuations annually for all Level III investments in Private Markets and quarterly for investments other than investments which are less than pre-set value thresholds and which in the aggregate comprise less than 5% of the total value of our Level III Private Markets investments. For most investments classified as Level III in Public Markets, in general, an independent valuation firm is engaged by us to provide third party valuations, or ranges of valuations from which our investment professionals select a point in the range to determine the preliminary valuation, or an independent valuation firm is engaged by us to perform certain procedures in order to assess the reasonableness and provide positive assurance of our valuations. Approximately 5% of the total value of our Level III credit investments are not valued with the engagement of an independent valuation firm. All preliminary valuations in Private Markets and credit are then reviewed by the applicable valuation committee, and after reflecting any input by their respective valuation committees, the preliminary valuations are presented to the firm's management committee. When these valuations are approved by this committee after reflecting any input from it, the valuations of Level III investments, as well as the valuations of Level I and Level II investments, are presented to the audit committee of our board of directors and are then reported on to the board of directors.

As of March 31, 2015, upon completion by, where applicable, an independent valuation firm of certain limited procedures requested to be performed by them, the independent valuation firm concluded that the fair values, as determined by KKR, of Private Markets investments reviewed by them were reasonable. The limited procedures did not involve an audit, review, compilation or any other form of examination or attestation under generally accepted auditing standards and were not conducted on all Level III investments. We are responsible for determining the fair value of investments in good faith, and the limited procedures performed by an independent valuation firm are supplementary to the inquiries and procedures that we are required to undertake to determine the fair value of the commensurate investments.

As described above, Level II and Level III investments were valued using internal models with significant unobservable inputs and our determinations of the fair values of these investments may differ materially from the values that would have resulted if readily observable inputs had existed. Additional external factors may cause those values, and the values of investments for which readily observable inputs 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 the net gains (losses) from investment activities of our private equity funds as described under "—Key Financial Measures—Investment Income (Loss)—Net Gains (Losses) from Investment Activities." Based on the investments of our private equity funds as of March 31, 2015, we estimate that an immediate 10% decrease in the fair value of the funds' investments generally would result in a commensurate change in the amount of net gains (losses) from investment activities (except that carried interest would likely be more significantly impacted), regardless of whether the investment was valued using observable market prices or management estimates with significant unobservable pricing inputs. The impact that the consequential decrease in investment income would have on net income attributable to KKR would generally be significantly less than the amount described above, given that a majority of the change in fair value would be attributable to noncontrolling interests and therefore we are only impacted to the extent of our carried interest and our balance sheet investments.

As of March 31, 2015, investments which represented greater than 5% of consolidated investments consisted of Walgreens Boots Alliance Inc. and First Data Corporation valued at \$4.4 billion and \$4.2 billion, respectively. On a segment basis, as of March 31, 2015, investments which represented greater than 5% of total reportable segments investments consisted of First Data Corporation and Walgreens Boots Alliance Inc. valued at \$1,248.2 million and \$594.8 million, respectively.

## Revenue Recognition

Fees consist primarily of (i) transaction fees earned in connection with successful investment transactions and from capital markets activities, (ii) management and incentive fees from providing investment management services to unconsolidated funds, CLOs and other vehicles and separately managed accounts, (iii) monitoring fees from providing services to portfolio companies, (iv) revenue earned by oil and gas-producing entities that are consolidated and (v) consulting fees earned by entities that employ non-employee operating consultants. These fees are based on the contractual terms of the governing agreements and are recognized when earned, which coincides with the period during which the related services are performed and in the case of transaction fees, upon closing of the transaction. Monitoring fees may provide for a termination payment following an initial public offering or change of control. These termination payments are recognized in the period when the related transaction closes.

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### Recognition of Investment Income

Investment income consists primarily of the net impact of: (i) realized and unrealized gains and losses on investments, (ii) dividends, (iii) interest income, (iv) interest expense and (v) foreign exchange gains and losses relating to mark-to-market activity on foreign exchange forward contracts, foreign currency options, foreign denominated debt and debt securities issued by consolidated CLOs. Unrealized gains or losses resulting from the aforementioned activities are included in net gains (losses) from investment activities. Upon disposition of an instrument that is marked-to-market, previously recognized unrealized gains or losses are reversed and a realized gain or loss is recognized. While this reversal generally does not significantly impact the net amounts of gains (losses) that we recognize from investment activities, it affects the manner in which we classify our gains and losses for reporting purposes.

Due to the consolidation of the majority of our funds, the portion of our funds' investment income that is allocable to our carried interests and capital investments is not shown in the consolidated financial statements. For funds that are consolidated, all investment income (loss), including the portion of a funds' investment income (loss) that is allocable to KKR's carried interest, is included in investment income (loss) on the consolidated statements of operations. The carried interest that KKR retains in net income (loss) attributable to KKR & Co. L.P. is reflected as an adjustment to net income (loss) attributable to noncontrolling interests. Because the substantial majority of our funds are consolidated and because we hold only a minority economic interest in our funds' investments, our share of the investment income generated by our funds' investment activities is significantly less than the total amount of investment income presented in the consolidated financial statements.

### Recognition of Carried Interest in the Statement of Operations

Carried interest entitles the general partner of a fund to a greater allocable share of the fund's earnings from investments relative to the capital contributed by the general partner and correspondingly reduces noncontrolling interests' attributable share of those earnings. Amounts earned pursuant to carried interest are included as investment income (loss) in net gains (losses) from investment activities and are earned by the general partner of those funds to the extent that cumulative investment returns are positive and where applicable, preferred return thresholds have been met. If these investment returns decrease or turn negative in subsequent periods, recognized carried interest will be reversed and reflected as investment losses in net gains (losses) from investment activities.

Carried interest is recognized in the statement of operations based on the contractual conditions set forth in the agreements governing the fund as if the fund were terminated and liquidated at the reporting date and the fund's investments were realized at the then estimated fair values. Due to the extended durations of our private equity funds, we believe that this approach results in income recognition that best reflects our periodic performance in the management of those funds. Amounts earned pursuant to carried interest are earned by the general partner of those funds to the extent that cumulative investment returns are positive and where applicable, preferred return thresholds have been met. If these investment amounts earned decrease or turn negative in subsequent periods, recognized carried interest will be reversed and to the extent that the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled, a clawback obligation would be recorded. For funds that are consolidated, this clawback obligation, if any, is reflected as an increase in noncontrolling interests in the consolidated statements of financial condition. For funds that are not consolidated, this clawback obligation, if any, is reflected as a reduction of our investment balance as this is where carried interest is initially recorded.

### Clawback Provision

The partnership documents governing our carry-paying funds, including funds relating to private equity, mezzanine, infrastructure, energy, real estate, direct lending and special situations investments, generally include a "clawback" provision that, if triggered, may give rise to a contingent obligation requiring the general partner to return amounts to the fund for distribution to the fund investors at the end of the life of the fund. Under a clawback obligation, upon the liquidation of a carry-paying fund, the general partner is required to return, typically on an after-tax basis, previously distributed carry to the extent that, due to the diminished performance of later investments, the aggregate amount of carry distributions received by the general partner during the term of the fund exceed the amount to which the general partner was ultimately entitled including the effects of any performance hurdle.

Prior to the KPE Transaction, certain principals who received carried interest distributions with respect to certain private equity funds contributed to KKR had personally guaranteed, on a several basis and subject to a cap, the contingent obligations of the general partners of such private equity funds to repay amounts to fund investors pursuant to the general partners' clawback obligations. The terms of the KPE Transaction require that principals remain responsible for any clawback obligations relating to carry distributions received prior to the KPE Transaction, up to a maximum of \$223.6 million. Through

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investment realizations, this amount has been reduced to \$184.7 million as of March 31, 2015. Carry distributions arising subsequent to the KPE Transaction may give rise to clawback obligations that may be allocated generally to KKR and persons who participate in the carry pool.

### Net Loss Sharing Provision

Certain private equity funds that were contributed to KKR in the KPE Transaction also include a "net loss sharing provision." Upon the liquidation of an investment vehicle to which a net loss sharing obligation applies, the general partner is required to contribute capital to the vehicle, to fund 20% of the net losses on investments. In these vehicles, such losses would be required to be paid by KKR to fund investors in those vehicles in the event of a liquidation of the fund regardless of whether any carried interest had previously been distributed, and a greater share of investment losses would be allocable to us relative to the capital that we contributed to it as general partner. Unlike the clawback obligation, KKR will be responsible for all amounts due under a net loss sharing obligation and will indemnify principals for any personal guarantees that they have provided with respect to such amounts.

### Recently Issued Accounting Pronouncements

#### Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers Topic 606 ("ASU 2014-09") which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. Revenue recorded under ASU 2014-09 will depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In April 2015, the FASB proposed to defer the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017 and early adoption is not permitted. A full retrospective or modified retrospective approach is required. KKR is in the process of assessing the impact that the adoption of this guidance will have on its financial statements, including with respect to the timing of the recognition of carried interest.

#### Measurement of Financial Assets and Liabilities - Consolidated Collateralized Financing Entities

In August 2014, the FASB issued ASU 2014-13, "Measuring the Financial Assets and Financial Liabilities of a Consolidated Collateralized Financing Entity" ("CFE"), such as CLOs. This standard provides that an entity with an election to measure the financial assets and financial liabilities of a consolidated CFE should be measured on the basis of either the fair value of the CFE's financial assets or financial liabilities, whichever is more observable. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted and this guidance was early adopted by KKR on January 1, 2015 using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the annual period.

### Going Concern

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). The guidance in ASU 2014-15 sets forth management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern as well as required disclosures. ASU 2014-15 indicates that, when preparing interim and annual financial statements, management should evaluate whether conditions or events, in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern for one year from the date the financial statements are issued or are available to be issued. This evaluation should

include consideration of conditions and events that are either known or are reasonably knowable at the date the financial statements are issued or are available to be issued, as well as whether it is probable that management's plans to address the substantial doubt will be implemented and, if so, whether it is probable that the plans will alleviate the substantial doubt. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods and annual periods thereafter. Early adoption is permitted, and a prospective approach is required. The adoption of this guidance is not expected to have a material impact on KKR's financial statements.

#### Derivatives and Hedging

In November 2014, the FASB issued ASU No. 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity ("ASU 2014-16"). The guidance in ASU 2014-16 states that implied substantive terms and features of a hybrid financial

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instrument issued in the form of a stock should weigh each term and feature on the basis of relevant facts and circumstances. An entity should determine the nature of the host contract by considering the economic characteristics and risks of the entire hybrid financial instrument, including the embedded derivative feature that is being evaluated for separate accounting from the host contract. ASU 2014-16 is effective for reporting periods starting after December 15, 2015 and for interim periods within the fiscal year. Early adoption is permitted, and a retrospective approach is permitted but not required. The adoption of this guidance is not expected to have a material impact on KKR's financial statements.

Consolidation

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis ("ASU 2015-02"). The guidance in ASU 2015-02 eliminates the presumption that a general partner should consolidate a limited partnership and also eliminates the consolidation model specific to limited partnerships. The amendments also clarify how to treat fees paid to an asset manager or other entity that makes the decisions for the investment vehicle and whether such fees should be considered in determining when a variable interest entity should be reported on an asset manager's balance sheet. ASU 2015-02 is effective for reporting periods starting after December 15, 2015 and for interim periods within the fiscal year. Early adoption is permitted, and a full retrospective or modified retrospective approach is required. KKR is evaluating the impact on its consolidated financial statements and expects to deconsolidate certain investment funds, vehicles and entities upon adoption of this guidance.

Interest - Imputation of Interest

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). The guidance in ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted, and a retrospective approach is required. The adoption of this guidance is not expected to have a material impact on KKR's financial statements.



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Item 3. Quantitative and Qualitative Disclosures About Market Risk

There was no material change in our market risks during the three months ended March 31, 2015. For additional information, please refer to our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on February 27, 2015.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures : We maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that the information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and such information is accumulated and communicated to management, including the Co-Chief Executive Officers and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired controls.

As of March 31, 2015, we carried out an evaluation, under the supervision and with the participation of our management, including the Co-Chief Executive Officers and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Co-Chief Executive Officers and Chief Financial Officer have concluded that, as of March 31, 2015, our disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting : There were no changes in our internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the three months ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

The section entitled “Litigation” appearing in Note 16 “Commitments and Contingencies” of our financial statements included elsewhere in this report is incorporated herein by reference.

ITEM 1A. Risk Factors.

For a discussion of our potential risks and uncertainties, see the information under the heading “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the SEC on February 27, 2015 .

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Not applicable.

ITEM 3. Defaults Upon Senior Securities.

Not applicable.

ITEM 4. Mine Safety Disclosures.

Not applicable.

ITEM 5. Other Information.

Not applicable.

ITEM 6. Exhibits.

Required exhibits are listed in the Index to Exhibits and are incorporated herein by reference.

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SIGNATURES

Pursuant to requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KKR & CO. L.P.

By: KKR Management LLC  
Its General Partner

By: /s/ William J. Janetschek  
William J. Janetschek  
Chief Financial Officer  
(principal financial and accounting officer of KKR  
Management LLC)

DATE: May 7, 2015

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INDEX TO EXHIBITS

The following is a list of all exhibits filed or furnished as part of this report:

Exhibit No.	Description of Exhibit
31.1	Certification of Co-Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Co-Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Co-Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Co-Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.3	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Statements of Financial Condition as of March 31, 2015 and December 31, 2014, (ii) the Condensed Consolidated Statements of Operations for the three months ended March 31, 2015 and March 31, 2014, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2015 and March 31, 2014; (iv) the Condensed Consolidated Statements of Changes in Equity for the three months ended March 31, 2015 and March 31, 2014, (v) the Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and March 31, 2014, and (vi) the Notes to the Consolidated Financial Statements.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.