

Carlyle Group L.P.  
Form 10-Q  
August 12, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2013**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**

**Commission File Number: 001-35538**

**The Carlyle Group L.P.**

(Exact name of registrant as specified in its charter)

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<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>45-2832612</b> (I.R.S. Employer Identification No.)
<b>1001 Pennsylvania Avenue, NW</b>	
<b>Washington, D.C., 20004-2505</b>	
(Address of principal executive offices)(Zip Code)	
<b>(202) 729-5626</b>	
(Registrant's telephone number, including area code)	
<b>Not Applicable</b>	
(Former name or former address, if changed since last report)	

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

The number of the Registrant's common units representing limited partner interests outstanding as of August 7, 2013 was 49,028,347.

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### **Forward-Looking Statements**

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as outlook, believe, expect, potential, continue, may, will, seek, approximately, predict, intend, plan, estimate, anticipate or the negative version of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012, as such factors may be updated from time to time in our periodic filings with the United States Securities and Exchange Commission (the SEC), which are accessible on the SEC's website at [www.sec.gov](http://www.sec.gov). These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

### **Website and Social Media Disclosure**

We use our website ([www.carlyle.com](http://www.carlyle.com)), our corporate Facebook page (<http://www.facebook.com/pages/The-Carlyle-Group/103519702981?rf=110614118958798>) and our corporate Twitter account (@OneCarlyle) as channels of distribution of company information. The information we post through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following our press releases, SEC filings and public conference calls and webcasts. In addition, you may automatically receive email alerts and other information about Carlyle when you enroll your email address by visiting the Email Alert Subscription section at <http://ir.carlyle.com/alerts.cfm>. The contents of our website and social media channels are not, however, a part of this report.

Prior to the reorganization in May 2012 in connection with our initial public offering, our business was owned by four holding entities: TC Group, L.L.C., TC Group Cayman, L.P., TC Group Investment Holdings, L.P. and TC Group Cayman Investment Holdings, L.P. We refer to these four holding entities collectively as the Parent Entities. The Parent Entities were under the common ownership and control of our senior Carlyle professionals and two strategic investors that owned minority interests in our business: entities affiliated with Mubadala Development Company, an Abu-Dhabi based strategic development and investment company (Mubadala), and California Public Employees Retirement System (CalPERS). Unless the context suggests otherwise, references in this report to Carlyle, the Company, we, us and our refer (1) prior to consummation of our reorganization into a holding partnership structure to Carlyle Group, which was comprised of the Parent Entities and their consolidated subsidiaries and (2) after our reorganization into a holding partnership structure, to The Carlyle Group L.P. and its consolidated subsidiaries. In addition, certain individuals engaged in our businesses own interests in the general partners of our existing carry funds. Certain of these individuals contributed a portion of these interests to us as part of the reorganization. We refer to these individuals, together with the owners of the Parent Entities prior to the reorganization and our initial public offering, collectively as our pre-IPO owners.

When we refer to the partners of The Carlyle Group L.P., we are referring specifically to the common unitholders and our general partner and any others who may from time to time be partners of that specific Delaware limited partnership. When we refer to our senior Carlyle professionals, we are referring to the partner-level personnel of our firm. Senior Carlyle professionals, together with CalPERS and Mubadala, were the owners of our Parent Entities prior to the reorganization. References in this report to the ownership of the senior Carlyle professionals include the ownership of personal planning vehicles of these individuals.

Carlyle funds, our funds and our investment funds refer to the investment funds and vehicles advised by Carlyle. Our carry funds refer to those investment funds that we advise, including the buyout funds, growth capital funds, real estate funds, infrastructure funds, certain energy funds and distressed debt and mezzanine funds (but excluding our structured credit funds, hedge funds, fund of funds vehicles and the NGP management fee funds), where we receive a special residual allocation of income, which we refer to as a carried interest, in the event that specified investment returns are achieved by the fund. The NGP management fee funds refer to those funds advised by NGP Energy Capital Management (together with its affiliates and subsidiaries, NGP). Our fund of funds vehicles refers to those funds, accounts and vehicles advised by AlpInvest Partners B.V., formerly known as AlpInvest Partners N.V. (AlpInvest).



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Fee-earning assets under management or Fee-earning AUM refer to the assets we manage from which we derive recurring fund management fees. Our Fee-earning AUM generally equals the sum of:

- (a) for carry funds and certain co-investment vehicles where the original investment period has not expired, the amount of limited partner capital commitments, for fund of funds vehicles, the amount of external investor capital commitments during the commitment fee period, and for the NGP management fee funds, the amount of investor capital commitments before the first investment realization;
- (b) for substantially all carry funds and certain co-investment vehicles where the original investment period has expired, the remaining amount of limited partner invested capital, and for the NGP management fee funds where the first investment has been realized, the amount of partner commitments less realized and written-off investments;
- (c) the amount of aggregate Fee-earning collateral balance at par of our collateralized loan obligations ( CLOs ), as defined in the fund indentures (typically exclusive of equities and defaulted positions) as of the quarterly cut-off date for each CLO, and the reference portfolio notional amount of our synthetic collateralized loan obligations ( synthetic CLOs );
- (d) the external investor portion of the net asset value (pre-redemptions and subscriptions) of our long/short credit, emerging markets, multi-product macroeconomic and other hedge funds and certain structured credit funds;
- (e) the gross assets (including assets acquired with leverage), excluding cash and cash equivalents of our business development company; and
- (f) for fund of funds vehicles where the commitment fee period has expired, and certain carry funds where the investment period has expired, the lower of cost or fair value of invested capital.

Assets under management or AUM refers to the assets we manage. Our AUM equals the sum of the following:

- (a) the fair value of the capital invested in our carry funds, co-investment vehicles, fund of funds vehicles and the NGP management fee funds plus the capital that we are entitled to call from investors in those funds and vehicles (including our commitments to those funds and vehicles and those of senior Carlyle professionals and employees) pursuant to the terms of their capital commitments to those funds and vehicles;
- (b) the amount of aggregate collateral balance and principal cash at par of our CLOs (inclusive of all positions) and the reference portfolio notional amount of our synthetic CLOs;
- (c) the net asset value (pre-redemptions and subscriptions) of our long/short credit, emerging markets, multi-product macroeconomic and other hedge funds and certain structured credit funds; and
- (d) the gross assets (including assets acquired with leverage) of our business development company.

We include in our calculation of AUM and Fee-earning AUM certain energy and renewable resources funds that we jointly advise with Riverstone Holdings LLC ( Riverstone ) and certain NGP management fee funds.

For our carry funds, co-investment vehicles, fund of funds vehicles and the NGP management fee funds, total AUM includes the fair value of the capital invested, whereas Fee-earning AUM includes the amount of capital commitments or the remaining amount of invested capital, depending on whether the investment period for the fund has expired. As such, Fee-earning AUM may be greater than total AUM when the aggregate fair value of the remaining investments is less than the cost of those investments.

Our calculations of AUM and Fee-earning AUM may differ from the calculations of other alternative asset managers. As a result, these measures may not be comparable to similar measures presented by other alternative asset managers. In addition, our calculation of AUM (but not Fee-earning AUM) includes uncalled commitments to, and the fair value of invested capital in, our investment funds from Carlyle and our personnel, regardless of whether such commitments or invested capital are subject to management or performance fees. Our calculations of AUM or Fee-earning AUM are not based on any definition of AUM or Fee-earning AUM that is set forth in the agreements governing the investment funds that we manage.

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****The Carlyle Group L.P.****Condensed Consolidated Balance Sheets****(Dollars in millions)**

	<b>June 30, 2013 (Unaudited)</b>	<b>December 31, 2012</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 572.9	\$ 567.1
Cash and cash equivalents held at Consolidated Funds	2,205.5	1,646.6
Restricted cash	41.0	34.5
Restricted cash and securities of Consolidated Funds	29.2	36.3
Accrued performance fees	2,646.9	2,192.5
Investments	811.2	881.2
Investments of Consolidated Funds	26,068.1	24,815.7
Due from affiliates and other receivables, net	184.9	190.7
Due from affiliates and other receivables of Consolidated Funds, net	431.6	331.8
Fixed assets, net	62.7	63.6
Deposits and other	47.9	48.4
Intangible assets, net	624.6	691.1
Deferred tax assets	60.7	67.1
<b>Total assets</b>	<b>\$ 33,787.2</b>	<b>\$ 31,566.6</b>
<b>Liabilities and partners' capital</b>		
Loans payable	\$ 25.0	\$ 886.3
3.875% senior notes due 2023	499.8	
5.625% senior notes due 2043	398.4	
Loans payable of Consolidated Funds	15,019.8	13,656.7
Accounts payable, accrued expenses and other liabilities	223.7	215.0
Accrued compensation and benefits	1,554.0	1,318.2
Due to affiliates	341.8	332.1
Deferred revenue	57.1	59.4
Deferred tax liabilities	78.2	61.1
Other liabilities of Consolidated Funds	1,730.2	1,385.8
Accrued giveback obligations	49.6	69.2
<b>Total liabilities</b>	<b>19,977.6</b>	<b>17,983.8</b>
<b>Commitments and contingencies</b>		
Redeemable non-controlling interests in consolidated entities	3,941.5	2,887.4
<b>Partners' capital (common units, 46,109,886 and 43,244,180 issued and outstanding as of June 30, 2013 and December 31, 2012, respectively)</b>	<b>265.2</b>	<b>235.1</b>
Accumulated other comprehensive loss	(12.1)	(4.8)
<b>Partners' capital appropriated for Consolidated Funds</b>	<b>438.2</b>	<b>838.6</b>
<b>Non-controlling interests in consolidated entities</b>	<b>7,769.3</b>	<b>8,264.8</b>

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Non-controlling interests in Carlyle Holdings	<b>1,407.5</b>	1,361.7
Total partners' capital	<b>9,868.1</b>	10,695.4
Total liabilities and partners' capital	<b>\$ 33,787.2</b>	\$ 31,566.6

See accompanying notes.



**Table of Contents****The Carlyle Group L.P.****Condensed Consolidated Statements of Operations****(Unaudited)****(Dollars in millions, except unit and per unit data)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Revenues</b>				
Fund management fees	\$ 242.2	\$ 239.9	\$ 473.6	\$ 474.3
Performance fees				
Realized	203.2	116.7	456.0	397.3
Unrealized	55.9	(337.1)	445.5	23.1
Total performance fees	259.1	(220.4)	901.5	420.4
Investment income (loss)				
Realized	12.7	2.4	8.5	1.6
Unrealized	(1.7)	4.6	2.9	26.9
Total investment income (loss)	11.0	7.0	11.4	28.5
Interest and other income	4.1	2.7	6.5	5.4
Interest and other income of Consolidated Funds	252.9	219.2	521.3	430.7
Total revenues	769.3	248.4	1,914.3	1,359.3
<b>Expenses</b>				
Compensation and benefits				
Base compensation	173.6	149.9	352.1	256.0
Equity-based compensation	126.0	94.2	178.3	94.2
Performance fee related				
Realized	78.1	32.1	186.8	66.4
Unrealized	66.0	(97.7)	261.0	(42.9)
Total compensation and benefits	443.7	178.5	978.2	373.7
General, administrative and other expenses	120.3	84.0	231.7	175.2
Interest	11.6	6.2	22.1	16.6
Interest and other expenses of Consolidated Funds	201.7	179.5	451.8	364.0
Other non-operating (income) expense	(3.3)	0.7	(5.7)	(3.4)
Total expenses	774.0	448.9	1,678.1	926.1
<b>Other income</b>				
Net investment gains of Consolidated Funds	290.6	386.6	502.1	1,258.7
Income before provision for income taxes	285.9	186.1	738.3	1,691.9
Provision for income taxes	16.6	10.6	41.5	22.3
Net income	269.3	175.5	696.8	1,669.6
Net income attributable to non-controlling interests in consolidated entities	300.0	357.9	468.0	1,222.8

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Net income (loss) attributable to Carlyle Holdings	(30.7)	(182.4)	228.8	446.8
Net income (loss) attributable to non-controlling interests in Carlyle Holdings	(27.4)	(172.1)	198.3	457.1
Net income (loss) attributable to The Carlyle Group L.P.	\$ (3.3)	\$ (10.3)	\$ 30.5	\$ (10.3)
Net income (loss) attributable to The Carlyle Group L.P. per common unit				
Basic	\$ (0.07)	\$ (0.26)	\$ 0.69	\$ (0.26)
Diluted	\$ (0.07)	\$ (0.26)	\$ 0.61	\$ (0.26)
Weighted-average common units				
Basic	45,145,793	40,160,245	44,249,510	40,160,245
Diluted	45,145,793	40,160,245	49,881,397	40,160,245
Distributions declared per common unit	\$ 0.16		\$ 1.01	

Substantially all revenue is earned from affiliates of the Partnership. See accompanying notes.

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## The Carlyle Group L.P.

### Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(Dollars in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$ 269.3	\$ 175.5	\$ 696.8	\$ 1,669.6
Other comprehensive income (loss)				
Foreign currency translation adjustments	(141.7)	70.2	(81.9)	(188.4)
Cash flow hedges				
Unrealized gains (loss) for the period		(5.3)	0.2	(6.9)
Less: reclassification adjustment for loss included in interest expense	0.9	1.8	2.4	3.7
Defined benefit plans				
Unrealized gains (loss) for the period	(0.4)		0.6	
Less: reclassification adjustment for unrecognized loss during the period, net, included in base compensation expense	0.2		0.4	
Other comprehensive income (loss)	(141.0)	66.7	(78.3)	(191.6)
Comprehensive income	128.3	242.2	618.5	1,478.0
Less: Comprehensive (income) loss attributable to partners' capital appropriated for Consolidated Funds	127.6	216.8	400.4	101.2
Less: Comprehensive (income) loss attributable to non-controlling interests in consolidated entities	(258.6)	(629.3)	(588.7)	(1,154.4)
Less: Comprehensive (income) loss attributable to redeemable non-controlling interests in consolidated entities	(31.9)	(11.6)	(209.1)	9.2
Comprehensive income (loss) attributable to Carlyle Holdings	(34.6)	(181.9)	221.1	434.0
Less: Comprehensive income (loss) attributable to non-controlling interests in Carlyle Holdings	30.8	169.7	(191.6)	(446.2)
Comprehensive income (loss) attributable to The Carlyle Group L.P.	\$ (3.8)	\$ (12.2)	\$ 29.5	\$ (12.2)

See accompanying notes.

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## The Carlyle Group L.P.

### Condensed Consolidated Statements of Cash Flows

(Unaudited)

(Dollars in millions)

	Six Months Ended June 30, 2013	2012
<b>Cash flows from operating activities</b>		
Net income	\$ 696.8	\$ 1,669.6
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	76.4	48.2
Amortization of deferred financing fees	0.7	0.8
Equity -based compensation	178.3	94.2
Excess tax benefits related to equity -based compensation	(1.7)	
Non-cash performance fees	(513.8)	(55.9)
Other non-cash amounts	1.8	(3.4)
Consolidated Funds related:		
Realized/unrealized gain on investments of Consolidated Funds	(1,112.0)	(1,553.5)
Realized/unrealized loss from loans payable of Consolidated Funds	643.0	351.9
Purchases of investments by Consolidated Funds	(6,404.2)	(3,821.1)
Proceeds from sale and settlements of investments by Consolidated Funds	6,211.8	4,309.5
Non-cash interest income, net	(43.1)	(31.3)
Change in cash and cash equivalents held at Consolidated Funds	1,174.9	153.6
Change in other receivables held at Consolidated Funds	(62.6)	28.7
Change in other liabilities held at Consolidated Funds	176.7	(211.2)
Investment income	(1.1)	(25.7)
Purchases of investments	(92.1)	(20.3)
Proceeds from the sale of investments	179.7	149.8
Purchases of trading securities	(30.3)	(10.1)
Proceeds from sale of trading securities	18.7	
Changes in deferred taxes	23.6	0.1
Change in due from affiliates and other receivables	(21.7)	(1.8)
Change in deposits and other	4.2	2.3
Change in accounts payable, accrued expenses and other liabilities	15.4	(7.2)
Change in accrued compensation and benefits	248.4	(127.0)
Change in due to affiliates	9.3	(3.8)
Change in deferred revenue	(0.6)	(28.4)
Net cash provided by operating activities	1,376.5	908.0
<b>Cash flows from investing activities</b>		
Change in restricted cash	(6.9)	(5.1)
Purchases of fixed assets, net	(12.3)	(18.3)
Purchases of intangible assets		(41.0)
Net cash used in investing activities	(19.2)	(64.4)

**Table of Contents****The Carlyle Group L.P.****Condensed Consolidated Statements of Cash Flows****(Unaudited)****(Dollars in millions)**

	<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash flows from financing activities</b>		
Borrowings under credit facility	\$	\$ 433.7
Repayments under credit facility	(386.3)	(744.6)
Issuance of 3.875% senior notes due 2023, net of financing costs	495.3	
Issuance of 5.625% senior notes due 2043, net of financing costs	394.1	
Payments on loans payable	(475.0)	(310.0)
Net payment on loans payable of Consolidated Funds	(926.6)	(507.0)
Payments of contingent consideration	(10.9)	
Distributions to common unitholders	(44.1)	
Net proceeds from issuance of common units in initial public offering		615.8
Excess tax benefits related to equity -based compensation	1.7	
Contributions from predecessor owners		9.3
Distributions to predecessor owners		(452.3)
Contributions from non-controlling interest holders	1,354.5	1,227.8
Distributions to non-controlling interest holders	(1,888.8)	(1,198.2)
Change in due to/from affiliates financing activities	12.0	14.6
Change in due to/from affiliates and other receivables of Consolidated Funds	143.0	18.9
Net cash used in financing activities	(1,331.1)	(892.0)
Effect of foreign exchange rate changes	(20.4)	(11.7)
Increase (decrease) in cash and cash equivalents	5.8	(60.1)
Cash and cash equivalents, beginning of period	567.1	509.6
Cash and cash equivalents, end of period	\$ 572.9	\$ 449.5
<b>Supplemental non-cash disclosures</b>		
Increase in partners' capital related to change in The Carlyle Group L.P.'s ownership interest	\$ 10.4	\$
Net assets related to consolidation of the CLOs	\$	\$ 357.3
Non-cash distributions to predecessor owners	\$	\$ 402.5
Non-cash contributions from non-controlling interest holders	\$ 5.4	\$ 69.9
Non-cash distributions to non-controlling interest holders	\$	\$ 12.2
<b>Reorganization:</b>		
Transfer of partners' capital to non-controlling interests in consolidated entities	\$	\$ 120.3
Deferred taxes from transfer of ownership interests	\$	\$ 9.4

**Exchange of CalPERS equity interests:**

Deferred tax asset	\$	\$	21.5
Tax receivable agreement liability	\$	\$	18.3
Total partners' capital	\$	\$	3.2

See accompanying notes.

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**The Carlyle Group L.P.**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

**1. Organization and Basis of Presentation**

The Carlyle Group L.P., together with its consolidated subsidiaries, (the Partnership or Carlyle) is one of the world's largest global alternative asset management firms that originates, structures and acts as lead equity investor in management-led buyouts, strategic minority equity investments, equity private placements, consolidations and buildups, growth capital financings, real estate opportunities, bank loans, high-yield debt, distressed assets, mezzanine debt and other investment opportunities. The Partnership is a Delaware limited partnership formed on July 18, 2011. The Partnership is managed and operated by its general partner, Carlyle Group Management L.L.C., which is in turn wholly-owned and controlled by Carlyle's founders and other senior Carlyle professionals.

Carlyle provides investment management services to, and has transactions with, various private equity funds, real estate funds, collateralized loan obligations (CLOs), hedge funds and other investment products sponsored by the Partnership for the investment of client assets in the normal course of business. Carlyle serves as the general partner, investment manager or collateral manager, making day-to-day investment decisions concerning the assets of these products. Carlyle operates its business through four reportable segments: Corporate Private Equity, Global Market Strategies, Real Assets, and Global Solutions (see Note 17).

**Basis of Presentation**

The accompanying financial statements include (1) subsequent to the reorganization as described below, the accounts of the Partnership and (2) prior to the reorganization, the combined accounts of TC Group, L.L.C., TC Group Cayman, L.P., TC Group Investment Holdings, L.P. and TC Group Cayman Investment Holdings, L.P. as well as their majority-owned subsidiaries (collectively, Carlyle Group), which were engaged in the above businesses under common ownership and control by Carlyle's individual partners (senior Carlyle professionals), the California Employees Public Retirement System (CalPERS), and Mubadala Development Company (Mubadala). In addition, certain Carlyle-affiliated funds, related co-investment entities, and certain CLOs managed by the Partnership (collectively the Consolidated Funds) have been consolidated in the accompanying financial statements pursuant to accounting principles generally accepted in the United States (U.S. GAAP), as described in Note 2. This consolidation generally has a gross-up effect on assets, liabilities and cash flows, and has no effect on the net income attributable to the Partnership. The majority economic ownership interests of the investors in the Consolidated Funds are reflected as non-controlling interests in consolidated entities, partners' capital appropriated for Consolidated Funds, and redeemable non-controlling interests in consolidated entities in the accompanying condensed consolidated financial statements.

Prior to the reorganization and initial public offering in May 2012, all compensation for services rendered by senior Carlyle professionals was reflected as distributions from partners' capital rather than as compensation expense. Subsequent to the reorganization and initial public offering, all compensation attributable to senior Carlyle professionals is recognized as compensation expense, consistent with all other Carlyle employees.

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. These statements, including notes, have not been audited, exclude some of the disclosures required for annual financial statements, and should be read in conjunction with the audited consolidated financial statements included in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission. 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. In the opinion of management, the condensed consolidated financial statements reflect all adjustments, consisting of normal recurring accruals, which are necessary for the fair presentation of the financial condition and results of operations for the interim periods presented.

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**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

**Reorganization and Initial Public Offering**

In May 2012, a series of reorganization transactions were executed to facilitate the acquisition by the Partnership of an indirect equity interest in Carlyle Group. As part of these reorganization transactions, the senior Carlyle professionals (excluding retired senior Carlyle professionals), CalPERS, and Mubadala contributed all of their interests in TC Group, L.L.C., TC Group Cayman, L.P., TC Group Investment Holdings, L.P. and TC Group Cayman Investment Holdings, L.P. (the Former Parent Entities) and senior Carlyle professionals and other individuals engaged in Carlyle's business contributed a portion of the equity interests they owned in the general partners of Carlyle's existing carry funds, to Carlyle Holdings I L.P., Carlyle Holdings II L.P. and Carlyle Holdings III L.P. (collectively, Carlyle Holdings) in exchange for Carlyle Holdings partnership units.

After the completion of the reorganization transactions, Carlyle Group is a consolidated subsidiary of Carlyle Holdings. Carlyle Group is considered the predecessor of the Partnership for accounting purposes, and accordingly, Carlyle Group's combined and consolidated financial statements are the Partnership's historical financial statements. The historical combined and consolidated financial statements of Carlyle Group are reflected herein based on the historical ownership interests of the senior Carlyle professionals, CalPERS, and Mubadala in Carlyle Group.

In May 2012, the Partnership completed an initial public offering of 30,500,000 common units priced at \$22.00 per unit. The common units are listed on the NASDAQ Global Select Market under the symbol "CG". The net proceeds to the Partnership from the initial public offering were approximately \$615.8 million, after deducting underwriting discounts and offering expenses. The Partnership used all of the proceeds to purchase an equivalent number of newly issued Carlyle Holdings partnership units from Carlyle Holdings. As the sole general partner of Carlyle Holdings, the Partnership consolidates the financial position and results of operations of Carlyle Holdings into its financial statements, and the other ownership interests in Carlyle Holdings are reflected as non-controlling interests in the Partnership's financial statements.

For additional information on the reorganization and initial public offering, see Note 1 to the consolidated financial statements included in the Partnership's 2012 Annual Report on Form 10-K.

**2. Summary of Significant Accounting Policies**  
**Principles of Consolidation**

The Partnership consolidates all entities that it controls through a majority voting interest or otherwise. In addition, the accompanying condensed consolidated financial statements consolidate: 1) Carlyle-affiliated funds and co-investment entities, for which the Partnership is the sole general partner and the presumption of control by the general partner has not been overcome and 2) variable interest entities (VIEs), including certain CLOs, for which the Partnership is deemed to be the primary beneficiary; consolidation of these entities is a requirement under U.S. GAAP. All significant inter-entity transactions and balances have been eliminated.

For entities that are determined to be VIEs, the Partnership consolidates those entities where it is deemed to be the primary beneficiary. An entity is determined to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a VIE that most significantly impact the entity's business and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The revised consolidation rules require an analysis to (a) determine whether an entity in which the Partnership holds a variable interest is a VIE and (b) whether the Partnership's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., management and performance related fees), would give it a controlling financial interest. In evaluating whether the Partnership is the primary beneficiary, the Partnership evaluates its economic interests in the entity held either directly or indirectly by the Partnership. The consolidation analysis is generally performed qualitatively. This analysis, which requires judgment, is performed at each reporting date.



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In February 2010, Accounting Standards Update ( ASU ) No. 2010-10, *Amendments for Certain Investment Funds*, was issued. This ASU defers the application of the revised consolidation rules for a reporting enterprise's interest in an entity if certain conditions are met, including if the entity has the attributes of an investment company and is not a securitization or asset-backed financing entity. An entity that qualifies for the deferral will continue to be assessed for consolidation under the overall guidance on VIEs, before its amendment, and other applicable consolidation guidance.

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As of June 30, 2013, assets and liabilities of consolidated VIEs reflected in the condensed consolidated balance sheets were \$24.7 billion and \$16.6 billion, respectively. Except to the extent of the assets of the VIEs which are consolidated, the holders of the consolidated VIEs' liabilities do not have recourse to the Partnership. The assets and liabilities of the consolidated VIEs are comprised primarily of investments and loans payable, respectively.

The loans payable issued by the CLOs are backed by diversified collateral asset portfolios consisting primarily of loans or structured debt. In exchange for managing the collateral for the CLOs, the Partnership earns investment management fees, including in some cases subordinated management fees and contingent incentive fees. In cases where the Partnership consolidates the CLOs, those management fees have been eliminated as intercompany transactions. As of June 30, 2013, the Partnership held \$48.0 million of investments in these CLOs which represents its maximum risk of loss. The Partnership's investments in these CLOs are generally subordinated to other interests in the entities and entitle the Partnership to receive a pro rata portion of the residual cash flows, if any, from the entities. Investors in the CLOs have no recourse against the Partnership for any losses sustained in the CLO structure.

For all Carlyle-affiliated funds and co-investment entities (collectively the Funds) that are not determined to be VIEs, the Partnership consolidates those funds where, as the sole general partner, it has not overcome the presumption of control pursuant to U.S. GAAP. Most Carlyle funds provide a dissolution right upon a simple majority vote of the non-Carlyle affiliated limited partners such that the presumption of control by Carlyle is overcome. Accordingly, these funds are not consolidated in the Partnership's condensed consolidated financial statements.

**Investments in Unconsolidated Variable Interest Entities**

The Partnership holds variable interests in certain VIEs which are not consolidated because the Partnership is not the primary beneficiary. The Partnership's involvement with such entities is in the form of direct equity interests and fee arrangements. The maximum exposure to loss represents the loss of assets recognized by the Partnership relating to these unconsolidated entities. The assets recognized in the Partnership's condensed consolidated balance sheets related to the Partnership's interests in these non-consolidated VIEs and the Partnership's maximum exposure to loss relating to non-consolidated VIEs were as follows:

	June 30, 2013	As of December 31, 2012
	(Dollars in millions)	
Investments	\$ 385.2	\$ 398.2
Receivables	136.0	43.5
Maximum Exposure to Loss	\$ 521.2	\$ 441.7

**Basis of Accounting**

The accompanying financial statements are prepared in accordance with U.S. GAAP. Management has determined that the Partnership's Funds are investment companies under U.S. GAAP for the purposes of financial reporting. U.S. GAAP for an investment company requires investments to be recorded at estimated fair value and the unrealized gains and/or losses in an investment's fair value are recognized on a current basis in the statements of operations. Additionally, the Funds do not consolidate their majority-owned and controlled investments (the Portfolio Companies). In the preparation of these condensed consolidated financial statements, the Partnership has retained the specialized accounting for the Funds, pursuant to U.S. GAAP.



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**(Unaudited)**

All of the investments held and notes issued by the Consolidated Funds are presented at their estimated fair values in the Partnership's condensed consolidated balance sheets. Interest income and other income of the Consolidated Funds is included in interest and other income of Consolidated Funds and interest expense and other expenses of the Consolidated Funds is included in interest and other expenses of Consolidated Funds in the Partnership's condensed consolidated statements of operations. The excess of the CLO assets over the CLO liabilities upon consolidation is reflected in the Partnership's condensed consolidated balance sheets as partners' capital appropriated for Consolidated Funds. Net income attributable to the investors in the CLOs is included in net income (loss) attributable to non-controlling interests in consolidated entities in the condensed consolidated statements of operations and partners' capital appropriated for Consolidated Funds in the condensed consolidated balance sheets.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management's estimates are based on historical experiences and other factors, including expectations of future events that management believes to be reasonable under the circumstances. It also requires management to exercise judgment in the process of applying the Partnership's accounting policies. Assumptions and estimates regarding the valuation of investments and their resulting impact on performance fees involve a higher degree of judgment and complexity and these assumptions and estimates may be significant to the condensed consolidated financial statements and the resulting impact on performance fees. Actual results could differ from these estimates and such differences could be material.

**Business Combinations**

The Partnership accounts for business combinations using the acquisition method of accounting, under which the purchase price of the acquisition is allocated to the assets acquired and liabilities assumed using the fair values determined by management as of the acquisition date. Contingent consideration obligations that are elements of consideration transferred are recognized as of the acquisition date as part of the fair value transferred in exchange for the acquired business. Acquisition-related costs incurred in connection with a business combination are expensed.

**Revenue Recognition**

***Fund Management Fees***

The Partnership provides management services to funds in which it holds a general partner interest or has a management agreement. For corporate private equity, certain global market strategies funds and real assets funds, management fees are calculated based on (a) limited partners' capital commitments to the funds, (b) limited partners' remaining capital invested in the funds at cost, (c) average daily gross assets, excluding cash and cash equivalents or (d) the net asset value (NAV) of certain of the funds, less offsets for the non-affiliated limited partners share of transaction advisory and portfolio fees earned, as defined in the respective partnership agreements.

Management fees for corporate private equity, closed-end carry funds in the global market strategies segment and real assets funds generally range from 1% to 2% of commitments during the investment period of the relevant fund. Following the expiration or termination of the investment period of such funds, the management fees generally step-down to between 0.6% and 2.0% of contributions for unrealized investments. The Partnership will receive management fees for corporate private equity and real assets funds during a specified period of time, which is generally ten years from the initial closing date, or in some instances, from the final closing date, but such termination date may be earlier in certain limited circumstances or later if extended for successive one-year periods, typically up to a maximum of two years. Depending upon the contracted terms of investment advisory or investment management and related agreements, these fees are generally called semi-annually in advance and are recognized as earned over the subsequent six month period.

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For certain global market strategies funds, management fees are calculated based on assets under management of the funds with generally lower fee rates. Hedge funds typically pay management fees quarterly that generally range from

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1.5% to 3.0% of NAV per year. Management fees for our business development company are due quarterly in arrears at the annual rate of 1.0% of average daily gross assets, excluding cash and cash equivalents. Management fees for the CLOs typically range from 0.4% to 0.6% on the total par amount of assets in the fund and are due quarterly or semi-annually based on the terms and recognized over the respective period. Management fees for the CLOs and credit opportunities funds are governed by indentures and collateral management agreements. The Partnership will receive management fees for the CLOs until redemption of the securities issued by the CLOs, which is generally five to ten years after issuance. Open-ended funds typically do not have stated termination dates.

Management fees from fund of funds vehicles generally range from 0.3% to 1.0% on the vehicle's capital commitments during the commitment fee period of the relevant fund. Following the expiration of the commitment fee period of such funds, the management fees generally range from 0.3% to 1.0% on the lower of cost or fair value of the capital invested. These fees are due quarterly and recognized over the related quarter.

The Partnership also provides transaction advisory and portfolio advisory services to the Portfolio Companies, and where covered by separate contractual agreements, recognizes fees for these services when the service has been provided and collection is reasonably assured. Fund management fees includes transaction and portfolio advisory fees of \$12.5 million and \$10.7 million for the three months ended June 30, 2013 and 2012, respectively, and \$27.5 million and \$21.4 million for the six months ended June 30, 2013 and 2012, respectively, net of any offsets as defined in the respective partnership agreements.

***Performance Fees***

Performance fees consist principally of the allocation of profits from certain of the funds to which the Partnership is entitled (commonly known as carried interest). The Partnership is generally entitled to a 20% allocation (or approximately 2% to 10% in the case of most of the Partnership's fund of funds vehicles) of the net realized income or gain as a carried interest after returning the invested capital, the allocation of preferred returns and return of certain fund costs (generally subject to catch-up provisions) from its corporate private equity and real assets funds. Carried interest is recognized upon appreciation of the funds' investment values above certain return hurdles set forth in each respective partnership agreement. The Partnership recognizes revenues attributable to performance fees based upon the amount that would be due pursuant to the fund partnership agreement at each period end as if the funds were terminated at that date. Accordingly, the amount recognized as total performance fees reflects the Partnership's share of the gains and losses of the associated funds' underlying investments measured at their then-current fair values. Because of the inherent uncertainty, these estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and it is reasonably possible that the difference could be material.

Carried interest is ultimately realized when: (i) an underlying investment is profitably disposed of, (ii) certain costs borne by the limited partner investors have been reimbursed, (iii) the fund's cumulative returns are in excess of the preferred return and (iv) the Partnership has decided to collect carry rather than return additional capital to limited partner investors. Realized carried interest may be required to be returned by the Partnership in future periods if the funds' investment values decline below certain levels. When the fair value of a fund's investments remains constant or falls below certain return hurdles, previously recognized performance fees are reversed. In all cases, each fund is considered separately in this regard, and for a given fund, performance fees can never be negative over the life of a fund. If upon a hypothetical liquidation of a fund's investments at their then current fair values, previously recognized and distributed carried interest would be required to be returned, a liability is established for the potential giveback obligation. As of June 30, 2013 and December 31, 2012, the Partnership has recognized \$49.6 million and \$69.2 million, respectively, for giveback obligations.

In addition to its performance fees from its corporate private equity and real assets funds, the Partnership is also entitled to receive performance fees from certain of its global market strategies funds and fund of funds vehicles when the return on assets under management exceeds certain benchmark returns or other performance targets. In such arrangements, performance fees are recognized when the performance benchmark has been achieved, and are included in performance fees in the accompanying condensed consolidated statements of operations.

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***Investment Income (Loss)***

Investment income (loss) represents the unrealized and realized gains and losses resulting from the Partnership's equity method investments and other principal investments. Equity method investment income (loss) includes the related amortization of the basis difference between the Partnership's carrying value of its investment and the Partnership's share of underlying net assets of the investee, as well as the compensation expense associated with compensatory arrangements provided by the Partnership to employees of its equity method investee. Investment income (loss) is realized when the Partnership redeems all or a portion of its investment or when the Partnership receives or is due cash income, such as dividends or distributions. Unrealized investment income (loss) results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

***Interest Income***

Interest income is recognized when earned. Interest income earned by the Partnership was \$0.6 million and \$1.3 million for the three months ended June 30, 2013 and 2012, respectively, and \$1.1 million and \$2.7 million for the six months ended June 30, 2013 and 2012, respectively, and is included in interest and other income in the accompanying condensed consolidated statements of operations. Interest income of the Consolidated Funds was \$221.7 million and \$185.9 million for the three months ended June 30, 2013 and 2012, respectively, and \$452.3 million and \$369.9 million for the six months ended June 30, 2013 and 2012, respectively, and is included in interest and other income of Consolidated Funds in the accompanying condensed consolidated statements of operations.

**Compensation and Benefits**

***Base Compensation*** Base compensation includes salaries, bonuses (discretionary awards and guaranteed amounts), performance payment arrangements and benefits paid and payable to Carlyle employees. Bonuses are accrued over the service period to which they relate.

***Equity-Based Compensation*** Compensation expense relating to the issuance of equity-based awards to Carlyle employees is measured at fair value on the grant date. The compensation expense for awards that vest over a future service period is recognized over the relevant service period on a straight-line basis, adjusted for estimated forfeitures of awards not expected to vest. The compensation expense for awards that do not require future service is recognized immediately. Upon the end of the service period, compensation expense is adjusted to account for the actual forfeiture rate. Cash settled equity-based awards are classified as liabilities and are re-measured at the end of each reporting period.

Equity-based awards issued to non-employees are recognized as general, administrative and other expenses. The grant-date fair value of equity-based awards granted to Carlyle's non-employee directors is expensed on a straight-line basis over the vesting period. The cost of services received in exchange for an equity-based award issued to consultants is measured at each vesting date, and is not measured based on the grant-date fair value of the award unless the award is vested at the grant date. Equity-based awards that require the satisfaction of future service criteria are recognized over the relevant service period, adjusted for estimated forfeitures of awards not expected to vest, based on the fair value of the award on each reporting date and adjusted for the actual fair value of the award at each vesting date. Accordingly, the measured value of the award will not be finalized until the vesting date.

***Performance Fee Related Compensation*** A portion of the performance fees earned is due to employees and advisors of the Partnership. These amounts are accounted for as compensation expense in conjunction with the recognition of the related performance fee revenue and, until paid, are recognized as a component of the accrued compensation and benefits liability. Accordingly, upon any reversal of performance fee revenue, the related compensation expense is also reversed. As of June 30, 2013 and December 31, 2012, the Partnership had recorded a liability of \$1.1 billion and \$912.0 million, respectively, in accrued compensation related to the portion of accrued performance fees due to employees and advisors, which was included in accrued compensation and benefits in the accompanying condensed consolidated financial statements.

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**Income Taxes**

For periods prior to the reorganization and initial public offering in May 2012, no provision was made for U.S. federal income taxes in the condensed consolidated financial statements since the profits and losses were allocated to the senior Carlyle professionals who were individually responsible for reporting such amounts. During those periods, based on applicable foreign, state and local tax laws, a provision for income taxes was recorded for certain entities.

For periods subsequent to the reorganization and initial public offering in May 2012, certain of the wholly-owned subsidiaries of the Partnership and the Carlyle Holdings partnerships are subject to federal, state and local corporate income taxes at the entity level and the related tax provision attributable to the Partnership's share of this income is reflected in the condensed consolidated financial statements. Based on applicable foreign, state and local tax laws, the Partnership records a provision for income taxes for certain entities. AlpInvest Partners B.V. (AlpInvest), a subsidiary of the Partnership, is subject to entity level income taxes in the Netherlands. Tax positions taken by the Partnership are subject to periodic audit by U.S. federal, state, local and foreign taxing authorities.

The Partnership uses the liability method of accounting for deferred income taxes pursuant to U.S. GAAP. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying value of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the statutory tax rates expected to be applied in the periods in which those temporary differences are settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period of the change. A valuation allowance is recorded on the Partnership's net deferred tax assets when it is more likely than not that such assets will not be realized. When evaluating the realizability of the Partnership's deferred tax assets, all evidence, both positive and negative is evaluated. Items considered in this analysis include the ability to carry back losses, the reversal of temporary differences, tax planning strategies, and expectations of future earnings.

Under U.S. GAAP for income taxes, the amount of tax benefit to be recognized is the amount of benefit that is more likely than not to be sustained upon examination. The Partnership analyzes its tax filing positions in all of the U.S. federal, state, local and foreign tax jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. If, based on this analysis, the Partnership determines that uncertainties in tax positions exist, a liability is established, which is included in accounts payable, accrued expenses and other liabilities in the condensed consolidated financial statements. The Partnership recognizes accrued interest and penalties related to unrecognized tax positions in the provision for income taxes. If recognized, the entire amount of unrecognized tax positions would be recorded as a reduction in the provision for income taxes.

**Tax Receivable Agreement**

Exchanges of Carlyle Holdings partnership units for the Partnership's common units that are executed by the limited partners of the Carlyle Holdings partnerships result in transfers of and increases in the tax basis of the tangible and intangible assets of Carlyle Holdings, primarily attributable to a portion of the goodwill inherent in the business. These transfers and increases in tax basis will increase (for tax purposes) depreciation and amortization and therefore reduce the amount of tax that certain of the Partnership's subsidiaries, including Carlyle Holdings I GP Inc., which are referred to as the corporate taxpayers, 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. The Partnership has entered into a tax receivable agreement with the limited partners of the Carlyle Holdings partnerships whereby the corporate taxpayers have agreed to pay to the limited partners of the Carlyle Holdings partnerships involved in any exchange transaction 85% of the amount of cash tax savings, if any, in U.S. federal, state and local income tax or foreign or franchise tax that the corporate taxpayers realize as a result of these increases in tax basis and, in limited cases, transfers or prior increases in tax basis. The corporate taxpayers expect to benefit from the remaining 15% of cash tax savings, if any, in income tax they realize. Payments under the tax receivable agreement will be based on the tax reporting positions that the Partnership will determine. The corporate taxpayers will not be reimbursed for any payments previously made under the tax receivable agreement if a tax basis increase is successfully challenged by the Internal Revenue Service.





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The Partnership records an increase in deferred tax assets for the estimated income tax effects of the increases in tax basis based on enacted federal and state tax rates at the date of the exchange. To the extent that the Partnership estimates that the corporate taxpayers will not realize the full benefit represented by the deferred tax asset, based on an analysis that will consider, among other things, its expectation of future earnings, the Partnership will reduce the deferred tax asset with a valuation allowance. The Partnership records 85% of the estimated realizable tax benefit (which is the recorded deferred tax asset less any recorded valuation allowance) as an increase to the liability due under the tax receivable agreement, which is included in due to affiliates in the accompanying condensed consolidated financial statements. The remaining 15% of the estimated realizable tax benefit is initially recorded as an increase to the Partnership's partners' capital. All of the effects to the deferred tax asset of changes in any of the Partnership's estimates after the tax year of the exchange will be reflected in the provision for income taxes. Similarly, the effect of subsequent changes in the enacted tax rates will be reflected in the provision for income taxes.

#### **Non-controlling Interests in Consolidated Entities**

Non-controlling interests in consolidated entities represent the component of equity in consolidated entities held by third party investors. These interests are adjusted for general partner allocations and by subscriptions and redemptions in hedge funds which occur during the reporting period. Non-controlling interests related to hedge funds are subject to quarterly or monthly redemption by investors in these funds following the expiration of a specified period of time (typically one year), or may be withdrawn subject to a redemption fee during the period when capital may not be withdrawn. As limited partners in these types of funds have been granted redemption rights, amounts relating to third-party interests in such consolidated funds are presented as redeemable non-controlling interests in consolidated entities within the condensed consolidated balance sheets. When redeemable amounts become contractually payable to investors, they are classified as a liability and included in other liabilities of Consolidated Funds in the condensed consolidated balance sheets.

#### **Earnings Per Common Unit**

The Partnership computes earnings per common unit in accordance with Accounting Standards Codification (ASC) 260, *Earnings Per Share*. Basic earnings per common unit is calculated by dividing net income (loss) attributable to the Partnership by the weighted-average number of common units outstanding for the period. Diluted earnings per common unit reflects the assumed conversion of all dilutive securities.

#### **Investments**

Investments include (i) the Partnership's ownership interests (typically general partner interests) in the Funds, (ii) the investments held by the Consolidated Funds (all of which are presented at fair value in the Partnership's condensed consolidated financial statements), (iii) strategic investments made by the Partnership and (iv) certain credit-oriented investments. The valuation procedures utilized for investments of the Funds vary depending on the nature of the investment. The fair value of investments in publicly-traded securities is based on the closing price of the security with adjustments to reflect appropriate discounts if the securities are subject to restrictions. Upon the sale of a security, the realized net gain or loss is computed on a weighted average cost basis, with the exception of the CLOs, which compute the realized net gain or loss on a first in, first out basis. Securities transactions are recorded on a trade date basis.

The fair value of non-equity securities, which may include instruments that are not listed on an exchange, considers, among other factors, external pricing sources, such as dealer quotes or independent pricing services, recent trading activity or other information that, in the opinion of the Partnership, may not have been reflected in pricing obtained from external sources.

When valuing private securities or assets without readily determinable market prices, the Partnership gives consideration to operating results, financial condition, economic and/or market events, recent sales prices and other pertinent information. These valuation procedures may vary by investment but include such techniques as comparable public market valuation, comparable acquisition valuation and discounted cash flow analysis. Because of the inherent uncertainty, these estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and it is reasonably possible that the difference could be material. Furthermore, there is no assurance that, upon liquidation, the Partnership will realize the values presented herein.



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**Equity-Method Investments**

The Partnership accounts for all investments in which it has significant influence, including investments in the unconsolidated Funds and strategic investments, using the equity method of accounting. The carrying value of equity-method investments is determined based on amounts invested by the Partnership, adjusted for the equity in earnings or losses of the investee allocated based on the respective partnership agreement, less distributions received. The Partnership evaluates its equity-method investments for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investments may not be recoverable.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash held at banks and cash held for distributions, including temporary investments with original maturities of less than three months when purchased. Included in cash and cash equivalents is cash withheld from carried interest distributions for potential giveback obligations of \$39.1 million and \$59.2 million at June 30, 2013 and December 31, 2012, respectively.

**Cash and Cash Equivalents Held at Consolidated Funds**

Cash and cash equivalents held at Consolidated Funds consists of cash and cash equivalents held by the Consolidated Funds, which, although not legally restricted, is not available to fund the general liquidity needs of the Partnership.

**Restricted Cash**

In addition to the unrestricted cash held for potential giveback obligations discussed above, the Partnership is required to withhold a certain portion of the carried interest proceeds from one of its corporate private equity funds to provide a reserve for potential giveback obligations. In connection with this agreement, cash and cash equivalents of \$13.2 million and \$13.0 million is included in restricted cash at June 30, 2013 and December 31, 2012, respectively. Also included in restricted cash at June 30, 2013 and December 31, 2012 is 4.4 million (\$5.7 million and \$5.8 million as of June 30, 2013 and December 31, 2012, respectively) in escrow related to a tax contingency at one of the Partnership's real estate funds (see Note 11). The remaining balance in restricted cash at June 30, 2013 and December 31, 2012 primarily represents cash held by the Partnership's foreign subsidiaries due to certain government regulatory capital requirements.

**Restricted Cash and Securities of Consolidated Funds**

Certain CLOs receive cash from various counterparties to satisfy collateral requirements on derivative transactions. Cash received to satisfy these collateral requirements of \$16.8 million and \$35.7 million is included in restricted cash and securities of Consolidated Funds at June 30, 2013 and December 31, 2012, respectively.

Certain CLOs hold U.S. Treasury notes, Obligation Assimilable du Tresor Securities (OATS) Strips, French government securities, guaranteed investment contracts and other highly liquid asset-backed securities as collateral for specific classes of loans payable in the CLOs. As of June 30, 2013 and December 31, 2012, securities of \$12.4 million and \$0.6 million, respectively, are included in restricted cash and securities of Consolidated Funds.

**Derivative Instruments**

Derivative instruments are recognized at fair value in the condensed consolidated balance sheets with changes in fair value recognized in the condensed consolidated statements of operations for all derivatives not designated as hedging instruments. For all derivatives where hedge accounting is applied, effectiveness testing and other procedures to assess the ongoing validity of the hedges are performed at least quarterly. For instruments designated as cash flow hedges, the Partnership records changes in the estimated fair value of the derivative, to the extent that the hedging relationship is



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effective, in other comprehensive income (loss). If the hedging relationship for a derivative is determined to be ineffective, due to changes in the hedging instrument or the hedged items, the fair value of the portion of the hedging relationship determined to be ineffective will be recognized as a gain or loss in the condensed consolidated statements of operations.

**Fixed Assets**

Fixed assets consist of furniture, fixtures and equipment, leasehold improvements, and computer hardware and software and are stated at cost, less accumulated depreciation and amortization. Depreciation is recognized on a straight-line method over the assets' estimated useful lives, which for leasehold improvements are the lesser of the lease terms or the life of the asset, and three to seven years for other fixed assets. Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

**Intangible Assets and Goodwill**

The Partnership's intangible assets consist of acquired contractual rights to earn future fee income, including management and advisory fees, customer relationships, and acquired trademarks. Finite-lived intangible assets are amortized over their estimated useful lives, which range from three to ten years, and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

Goodwill represents the excess of cost over the identifiable net assets of businesses acquired and is recorded in the functional currency of the acquired entity. Goodwill is recognized as an asset and is reviewed for impairment annually as of October 1st and between annual tests when events and circumstances indicate that impairment may have occurred.

**Deferred Revenue**

Deferred revenue represents management fees and other revenue received prior to the balance sheet date, which has not yet been earned.

**Comprehensive Income (Loss)**

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). The Partnership's other comprehensive income is comprised of unrealized gains and losses on cash flow hedges, foreign currency translation adjustments and gains / losses on defined benefit plans sponsored by AlpInvest. The components of accumulated other comprehensive income (loss) as of June 30, 2013 and December 31, 2012 were as follows:

	June 30, 2013	As of December 31, 2012
	(Dollars in millions)	
Unrealized losses on cash flow hedge instruments	\$ (1.2)	\$ (0.1)
Currency translation adjustments	(9.5)	(3.3)
Unrecognized losses on defined benefit plans	(1.4)	(1.4)
Total	\$ (12.1)	\$ (4.8)



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### **The Carlyle Group L.P.**

#### **Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

#### **Foreign Currency Translation**

Non-U.S. dollar denominated assets and liabilities are translated at period-end rates of exchange, and the condensed consolidated statements of operations are translated at rates of exchange in effect throughout the period. Foreign currency gains (losses) resulting from transactions outside of the functional currency of an entity of \$(0.2) million and \$0.2 million for the three months ended June 30, 2013 and 2012, respectively, and \$(1.1) million and \$(3.5) million for the six months ended June 30, 2013 and 2012, respectively, are included in general, administrative and other expenses in the condensed consolidated statements of operations.

#### **Recent Accounting Pronouncement**

In December 2011, the FASB amended its guidance for offsetting financial instruments. The amended guidance, included in ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*, is effective for the Partnership for its interim reporting periods beginning on or after January 1, 2013. The amended guidance requires additional disclosure about netting arrangements to enable financial statement users to evaluate the effect or potential effect of such arrangements on an entity's financial position. The Partnership adopted this guidance as of January 1, 2013 and the adoption did not have a material impact on the Partnership's financial statements.

In June 2013, the FASB issued ASU 2013-08, *Financial Services - Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*. ASU 2013-08 provides additional guidance on the characteristics necessary to qualify as an investment company. The Partnership currently consolidates entities that are investment companies and the Partnership retains the specialized accounting for those investment companies in its consolidated financial statements. The guidance in ASU 2013-08 is effective for the Partnership beginning on January 1, 2014. The Partnership does not expect the adoption of this guidance to change the status of the Partnership's investment companies or have a material impact on the Partnership's consolidated financial statements.

### **3. Acquisitions**

#### **Acquisition of Vermillion**

On October 1, 2012, the Partnership acquired 55% of Vermillion Asset Management, LLC and its consolidated subsidiaries, Viridian Partners, LLC, Crimson Physical Commodities Partners, LLC, Celadon Partners, LLC, and Indigo Partners, LLC, (collectively, "Vermillion"), a New York-based commodities investment manager. The purchase price consisted of \$50.0 million in cash, 1,440,276 contingently issuable Carlyle Holdings partnership units, which are issuable over a period of 4.25 years based on the achievement of performance-based conditions, and performance-based contingent cash payments of up to \$131.3 million, which is the maximum amount of additional cash consideration that would be paid within 5.25 years of closing. The Partnership consolidated the financial position and results of operations of Vermillion effective October 1, 2012 and accounted for this transaction as a business combination. Vermillion is included in the Partnership's Global Market Strategies business segment.

See Note 3 to the consolidated financial statements included in the Partnership's 2012 Annual Report on Form 10-K for additional information on the Vermillion acquisition.

### **4. Fair Value Measurement**

The fair value measurement accounting guidance establishes a hierarchical disclosure framework which ranks the observability of market price inputs used in measuring financial instruments at fair value. The observability of inputs is impacted by a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily available quoted prices, or for which fair value can



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be measured from quoted prices in active markets, will generally have a higher degree of market price observability and a lesser degree of judgment applied in determining fair value.

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**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

Financial instruments measured and reported at fair value are classified and disclosed based on the observability of inputs used in the determination of fair values, as follows:

*Level I* inputs to the valuation methodology are quoted prices available in active markets for identical instruments as of the reporting date. The type of financial instruments included in Level I include unrestricted securities, including equities and derivatives, listed in active markets. The Partnership does not adjust the quoted price for these instruments, even in situations where the Partnership holds a large position and a sale could reasonably impact the quoted price.

*Level II* inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date. The type of financial instruments in this category includes less liquid and restricted securities listed in active markets, securities traded in other than active markets, government and agency securities, and certain over-the-counter derivatives where the fair value is based on observable inputs. Investments in hedge funds are classified in this category when their net asset value is redeemable without significant restriction.

*Level III* inputs to the valuation methodology are unobservable and significant to overall fair value measurement. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category include investments in privately-held entities, non-investment grade residual interests in securitizations, collateralized loan obligations, and certain over-the-counter derivatives where the fair value is based on unobservable inputs. Investments in fund of funds are generally included in this category.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

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### The Carlyle Group L.P.

#### Notes to the Condensed Consolidated Financial Statements

(Unaudited)

The following table summarizes the Partnership's assets and liabilities measured at fair value on a recurring basis by the above fair value hierarchy levels as of June 30, 2013:

(Dollars in millions)	Level I	Level II	Level III	Total
<b>Assets</b>				
Investments of Consolidated Funds:				
Equity securities	\$ 788.7	\$ 18.6	\$ 2,617.6	\$ 3,424.9
Bonds			1,058.9	1,058.9
Loans			13,771.2	13,771.2
Partnership and LLC interests <sup>(1)</sup>			3,840.6	3,840.6
Hedge funds		3,961.0		3,961.0
Other			11.5	11.5
	788.7	3,979.6	21,299.8	26,068.1
Trading securities			10.0	10.0
Restricted securities of Consolidated Funds	12.4			12.4
Total	\$ 801.1	\$ 3,979.6	\$ 21,309.8	\$ 26,090.5
<b>Liabilities</b>				
Loans payable of Consolidated Funds	\$	\$	\$ 15,019.8	\$ 15,019.8
Interest rate swaps		7.8		7.8
Derivative instruments of the CLOs			8.9	8.9
Contingent consideration <sup>(2)</sup>		56.9	172.2	229.1
Total	\$	\$ 64.7	\$ 15,200.9	\$ 15,265.6

(1) Balance represents Fund Investments that the Partnership consolidates one fiscal quarter in arrears.

(2) Related to contingent cash and equity consideration associated with the acquisitions of Claren Road, AlpInvest, ESG and Vermillion, excluding employment-based contingent consideration (see Note 9).

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The following table summarizes the Partnership's assets and liabilities measured at fair value on a recurring basis by the above fair value hierarchy levels as of December 31, 2012:

<b>(Dollars in millions)</b>	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>	<b>Total</b>
<b>Assets</b>				
Investments of Consolidated Funds:				
Equity securities	\$ 872.8	\$ 32.0	\$ 2,475.1	\$ 3,379.9
Bonds			934.2	934.2
Loans			13,290.1	13,290.1
Partnership and LLC interests <sup>(1)</sup>			4,315.5	4,315.5
Hedge funds		2,888.7		2,888.7
Other			7.3	7.3
	872.8	2,920.7	21,022.2	24,815.7
Trading securities			20.0	20.0
Restricted securities of Consolidated Funds	0.6			0.6
Total	\$ 873.4	\$ 2,920.7	\$ 21,042.2	\$ 24,836.3
<b>Liabilities</b>				
Loans payable of Consolidated Funds	\$	\$	\$ 13,656.7	\$ 13,656.7
Interest rate swaps		10.5		10.5
Derivative instruments of the CLOs			15.8	15.8
Contingent consideration <sup>(2)</sup>		57.6	186.7	244.3
Total	\$	\$ 68.1	\$ 13,859.2	\$ 13,927.3

(1) Balance represents Fund Investments that the Partnership consolidates one fiscal quarter in arrears.

(2) Related to contingent cash and equity consideration associated with the acquisitions of Claren Road, AlpInvest, ESG and Vermillion, excluding employment-based contingent consideration (see Note 9).

Transfers from Level II to Level I during the six months ended June 30, 2013 were due to the expiration of transferability restrictions on certain securities that were classified as Level II at December 31, 2012.

In certain cases, debt and equity securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices, market transactions in comparable investments and various relationships between investments.

In the absence of observable market prices, the Partnership values its investments using valuation methodologies applied on a consistent basis. For some investments little market activity may exist. Management's determination of fair value is then based on the best information available in the circumstances and may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks.

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Investments for which market prices are not observable include private investments in the equity of operating companies, real estate properties, and certain debt positions. The valuation technique for each of these investments is described below:

*Corporate Private Equity Investments* The fair values of corporate private equity investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization ( EBITDA ), the discounted cash flow method, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are unaudited at the time received. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (e.g., multiplying a key performance metric of the investee company such as EBITDA by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing

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**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

models or other similar models. Certain fund investments in the Partnership's Global Market Strategies, Real Assets and Global Solutions segments are comparable to corporate private equity investments and are valued in accordance with these policies.

***Real Estate Investments*** The fair values of real estate investments are determined by considering projected operating cash flows, sales of comparable assets, if any, and replacement costs, among other measures. The methods used to estimate the fair value of real estate investments include the discounted cash flow method and/or capitalization rates ( "cap rates" ) analysis. Valuations may be derived by reference to observable valuation measures for comparable assets (e.g., multiplying a key performance metric of the investee asset, such as net operating income, by a relevant cap rate observed in the range of comparable transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to pricing models or other similar methods.

***Credit-Oriented Investments*** The fair values of credit-oriented investments are generally determined on the basis of prices between market participants provided by reputable dealers or pricing services. Specifically, for investments in distressed debt and corporate loans and bonds, the fair values are generally determined by valuations of comparable investments. In some instances, the Partnership may utilize other valuation techniques, including the discounted cash flow method.

***CLO Investments and CLO Loans Payable*** The Partnership has elected the fair value option to measure the loans payable of the CLOs at fair value, as the Partnership has determined that measurement of the loans payable and preferred shares issued by the CLOs at fair value better correlates with the value of the assets held by the CLOs, which are held to provide the cash flows for the note obligations. The investments of the CLOs are also carried at fair value.

The fair values of the CLO loan and bond assets are primarily based on quotations from reputable dealers or relevant pricing services. In situations where valuation quotations are unavailable, the assets are valued based on similar securities, market index changes, and other factors. The Partnership corroborates quotations from pricing services either with other available pricing data or with its own models. Generally, the bonds and loans in the CLOs are not actively traded and are classified as Level III.

The fair values of the CLO loans payable and the CLO structured asset positions are determined based on both discounted cash flow analyses and third-party quotes. Those analyses consider the position size, liquidity, current financial condition of the CLOs, the third-party financing environment, reinvestment rates, recovery lags, discount rates, and default forecasts and are compared to broker quotations from market makers and third party dealers.

***Fund Investments*** The Partnership's investments in funds are valued based on its proportionate share of the net assets provided by the third party general partners of the underlying fund partnerships based on the most recent available information which is typically a lag of up to 90 days. The terms of the investments generally preclude the ability to redeem the investment. Distributions from these investments will be received as the underlying assets in the funds are liquidated, the timing of which cannot be readily determined.

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The changes in financial instruments measured at fair value for which the Partnership has used Level III inputs to determine fair value are as follows (Dollars in millions):

Financial Assets Three Months Ended June 30, 2013 Investments of Consolidated Funds							
	Equity securities	Bonds	Loans	Partnership and LLC interests	Other	Trading securities and other	Total
Balance, beginning of period	\$ 2,573.1	\$ 909.2	\$ 13,507.4	\$ 4,002.2	\$ 8.8	\$ 22.0	\$ 21,022.7
Initial consolidation of funds					10.4		10.4
Purchases	39.2	239.9	2,414.6	44.7			2,738.4
Sales	(59.0)	(117.1)	(740.3)	(259.3)	(9.0)	(13.6)	(1,198.3)
Settlements			(1,559.4)				(1,559.4)
Realized and unrealized gains (losses), net	64.3	26.9	148.9	53.0	1.3	1.6	296.0
Balance, end of period	\$ 2,617.6	\$ 1,058.9	\$ 13,771.2	\$ 3,840.6	\$ 11.5	\$ 10.0	\$ 21,309.8

Changes in unrealized gains (losses) included in earnings related to financial assets still held at the reporting date

\$ 34.2	\$ 17.0	\$ 92.7	\$ 43.9	\$ (2.3)	\$ 1.1	\$ 186.6
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Financial Assets Six Months Ended June 30, 2013 Investments of Consolidated Funds							
	Equity securities	Bonds	Loans	Partnership and LLC interests	Other	Trading securities and other	Total
Balance, beginning of period	\$ 2,475.1	\$ 934.2	\$ 13,290.1	\$ 4,315.5	\$ 7.3	\$ 20.0	\$ 21,042.2
Initial consolidation of funds					10.4		10.4
Transfers out <sup>(1)</sup>	(4.3)						(4.3)
Purchases	107.3	415.1	4,670.1	133.1			5,325.6
Sales	(128.7)	(326.5)	(1,360.6)	(838.6)	(9.0)	(13.6)	(2,677.0)
Settlements			(2,977.8)				(2,977.8)
Realized and unrealized gains (losses), net	168.2	36.1	149.4	230.6	2.8	3.6	590.7
Balance, end of period	\$ 2,617.6	\$ 1,058.9	\$ 13,771.2	\$ 3,840.6	\$ 11.5	\$ 10.0	\$ 21,309.8
Changes in unrealized gains (losses) included in earnings related to financial assets still held at the reporting date	\$ 152.7	\$ 38.0	\$ 169.0	\$ (225.5)	\$ (2.4)	\$ 1.1	\$ 132.9

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**Financial Assets**  
**Three Months Ended June 30, 2012**  
**Investments of Consolidated Funds**

	<b>Equity securities</b>	<b>Bonds</b>	<b>Loans</b>	<b>Partnership and LLC interests</b>	<b>Other</b>	<b>Trading securities and other</b>	<b>Total</b>
Balance, beginning of period	\$ 1,861.6	\$ 876.7	\$ 12,750.3	\$ 4,149.1	\$ 11.6	\$ 32.4	\$ 19,681.7
Transfers out <sup>(1)</sup>	(20.2)						(20.2)
Purchases	19.1	127.0	1,961.7	148.8			2,256.6
Sales	(25.7)	(80.3)	(670.8)	(233.4)	(0.3)		(1,010.5)
Settlements			(1,151.8)				(1,151.8)
Realized and unrealized gains (losses), net	305.2	(32.4)	(246.3)	402.6	0.1	3.1	432.3
Balance, end of period	\$ 2,140.0	\$ 891.0	\$ 12,643.1	\$ 4,467.1	\$ 11.4	\$ 35.5	\$ 20,188.1
Changes in unrealized gains (losses) included in earnings related to financial assets still held at the reporting date	\$ 318.7	\$ (1.8)	\$ (25.0)	\$ 127.8	\$ 2.8	\$ 3.1	\$ 425.6



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## The Carlyle Group L.P.

### Notes to the Condensed Consolidated Financial Statements

(Unaudited)

	Financial Assets						
	Six Months Ended June 30, 2012						
	Investments of Consolidated Funds						
	Equity securities	Bonds	Loans	Partnership and LLC interests	Other	Trading securities and other	Total
Balance, beginning of period	\$ 1,868.9	\$ 557.0	\$ 10,152.6	\$ 4,198.6	\$ 20.8	\$ 30.6	\$ 16,828.5
Initial consolidation of funds	25.2	262.6	2,256.4				2,544.2
Transfers out <sup>(1)</sup>	(145.6)						(145.6)
Purchases	41.0	199.5	3,310.8	309.8			3,861.1
Sales	(316.0)	(140.7)	(1,284.3)	(418.1)	(2.0)		(2,161.1)
Settlements			(1,862.8)				(1,862.8)
Realized and unrealized gains (losses), net	666.5	12.6	70.4	376.8	(7.4)	4.9	1,123.8
Balance, end of period	\$ 2,140.0	\$ 891.0	\$ 12,643.1	\$ 4,467.1	\$ 11.4	\$ 35.5	\$ 20,188.1
Changes in unrealized gains included in earnings related to financial assets still held at the reporting date	\$ 503.7	\$ 25.2	\$ 117.2	\$ 207.3	\$ 1.5	\$ 4.9	\$ 859.8

- (1) Transfers out of Level III financial assets were due to changes in the observability of market inputs used in the valuation of such assets. Transfers are measured as of the beginning of the quarter in which the transfer occurs.

	Financial Liabilities Three Months Ended June 30, 2013			
	Loans Payable of Consolidated Funds	Derivative Instruments of Consolidated Funds	Contingent Consideration	Total
Balance, beginning of period	\$ 14,312.7	\$ 10.3	\$ 166.8	\$ 14,489.8
Borrowings	966.1			966.1
Paydowns	(588.0)		(0.9)	(588.9)
Sales		(0.9)		(0.9)
Realized and unrealized (gains) losses, net	329.0	(0.5)	6.3	334.8
Balance, end of period	\$ 15,019.8	\$ 8.9	\$ 172.2	\$ 15,200.9
Changes in unrealized losses included in earnings related to financial liabilities still held at the reporting date	\$ 243.5	\$ 2.7	\$ 6.3	\$ 252.5

## Financial Liabilities

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	Six Months Ended June 30, 2013			
	Loans Payable of Consolidated Funds	Derivative Instruments of Consolidated Funds	Contingent Consideration	Total
Balance, beginning of period	\$ 13,656.7	\$ 15.8	\$ 186.7	\$ 13,859.2
Borrowings	2,202.5			2,202.5
Paydowns	(1,408.7)		(10.9)	(1,419.6)
Sales		(0.8)		(0.8)
Realized and unrealized (gains) losses, net	569.3	(6.1)	(3.6)	559.6
Balance, end of period	\$ 15,019.8	\$ 8.9	\$ 172.2	\$ 15,200.9
Changes in unrealized (gains) losses included in earnings related to financial liabilities still held at the reporting date	\$ 607.2	\$ (4.5)	\$ (3.6)	\$ 599.1

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	<b>Financial Liabilities</b>			
	<b>Three Months Ended June 30, 2012</b>			
	<b>Loans Payable of Consolidated Funds</b>	<b>Derivative Instruments of Consolidated Funds</b>	<b>Contingent Consideration</b>	<b>Total</b>
Balance, beginning of period	\$ 12,454.6	\$ 4.8	\$ 170.5	\$ 12,629.9
Borrowings	498.9			498.9
Paydowns	(324.4)		(0.5)	(324.9)
Sales		(0.3)		(0.3)
Realized and unrealized (gains) losses, net	(64.1)	12.2	0.6	(51.3)
Balance, end of period	\$ 12,565.0	\$ 16.7	\$ 170.6	\$ 12,752.3
Changes in unrealized (gains) losses included in earnings related to financial liabilities still held at the reporting date	\$ 179.4	\$ (8.5)	\$ 0.6	\$ 171.5

	<b>Financial Liabilities</b>				
	<b>Six Months Ended June 30, 2012</b>				
	<b>Loans Payable of Consolidated Funds</b>	<b>Derivative Instruments of Consolidated Funds</b>	<b>Subordinated Loan Payable to Affiliate</b>	<b>Contingent Consideration</b>	<b>Total</b>
Balance, beginning of period	\$ 9,689.9	\$	\$ 262.5	\$ 169.2	\$ 10,121.6
Initial consolidation of funds	2,215.8	4.6			2,220.4
Borrowings	989.0				989.0
Paydowns	(507.3)		(260.0)	(1.2)	(768.5)
Sales		(0.3)			(0.3)
Realized and unrealized (gains) losses, net	177.6	12.4	(2.5)	2.6	190.1
Balance, end of period	\$ 12,565.0	\$ 16.7	\$	\$ 170.6	\$ 12,752.3
Changes in unrealized (gains) losses included in earnings related to financial liabilities still held at the reporting date	\$ 329.2	\$ (19.2)	\$	\$ (0.2)	\$ 309.8

Total realized and unrealized gains and losses included in earnings for Level III investments for trading securities are included in investment income (loss), and such gains and losses for investments of Consolidated Funds and loans payable and derivative instruments of the CLOs are included in net investment gains (losses) of Consolidated Funds in the condensed consolidated statements of operations.

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**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

The following table summarizes quantitative information about the Partnership's Level III inputs as of June 30, 2013:

<i>(Dollars in millions)</i>	<b>Fair Value at June 30, 2013</b>	<b>Valuation Technique(s)</b>	<b>Unobservable Input(s)</b>	<b>Range (Weighted Average)</b>
<b>Assets</b>				
Investments of Consolidated Funds:				
Equity securities	<b>\$ 2,442.8</b>	Comparable Multiple	LTM EBITDA Multiple	5.6x - 14.8x (10.7x)
	<b>82.0</b>	Comparable Multiple	Price Earnings Multiple	(14.0x)
	<b>12.2</b>	Comparable Multiple	Book Value Multiple	(1.0x)
	<b>28.0</b>	Consensus Pricing	Indicative Quotes (\$ per Share)	(1)
	<b>52.6</b>	Discounted Cash Flow	Discount Rate	7% - 11% (9%)
			Exit Cap Rate	5% - 9% (7%)
Bonds	<b>1,058.9</b>	Consensus Pricing	Indicative Quotes (% of Par)	