

Carlyle Group L.P.
Form 10-Q
August 07, 2014

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, 2014

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)

Delaware
(State or other jurisdiction of
incorporation or organization)

45-2832612
(I.R.S. Employer
Identification No.)

1001 Pennsylvania Avenue, NW

Washington, D.C., 20004-2505

(Address of principal executive offices) (Zip Code)

(202) 729-5626

(Registrant's telephone number, including area code)

Not Applicable

(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

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

The number of the Registrant's common units representing limited partner interests outstanding as of July 30, 2014 was 66,923,224.

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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, should, seek, approximately 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, 2013, 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. 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), 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 material company information. For example, financial and other material information regarding our company is routinely posted on and accessible at www.carlyle.com. 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 Quarterly Report on Form 10-Q and are not incorporated by reference herein.

Prior to the reorganization on May 2, 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 the 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.

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 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) from which we only receive management fees. The NGP carry funds refers to the funds advised by NGP from which we are entitled to receive a carried interest. Our fund of funds vehicles refers to those funds, accounts and vehicles advised by AlpInvest Partners B.V. (AlpInvest), Metropolitan Real Estate Equity Management, LLC (Metropolitan), and Diversified Global Asset Management (DGAM).

Fee-earning assets under management or Fee-earning AUM refer to the assets we manage or advise 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 investment period has not expired and for Metropolitan fund of funds vehicles during the weighted-average investment period of the underlying funds, the amount of limited partner capital commitments, for AlpInvest fund of funds vehicles, the amount of external investor capital commitments during the commitment fee period, and for the NGP management fee funds and NGP carry 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 investment period has expired and for Metropolitan fund of funds vehicles after the expiration of the weighted-average investment period of the underlying funds, the remaining amount of limited partner invested capital, and for the NGP management fee funds and NGP carry 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 aggregate principal amount of the notes of our other structured products;
- (d) the external investor portion of the net asset value (pre-redemptions and subscriptions) of our long/short credit funds, emerging markets, multi-product macroeconomic, fund of hedge funds vehicles and other hedge funds;
- (e) the gross assets (including assets acquired with leverage), excluding cash and cash equivalents of our business development companies and certain carry funds; and
- (f) for AlpInvest 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 or advise. 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 and NGP carry 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 or aggregate principal amount of the notes of our CLOs and other structured products (inclusive of all positions); and

(c) the net asset value (pre-redemptions and subscriptions) of our long/short credit, emerging markets, multi-product macroeconomic, fund of hedge funds vehicles and other hedge funds; and

(d) the gross assets (including assets acquired with leverage) of our business development companies.

We include in our calculation of AUM and Fee-earning AUM certain energy and renewable resources funds that we jointly advise with Riverstone Holdings L.L.C. (Riverstone) and certain NGP management fee funds and the NGP carry funds. In addition, our Solutions segment includes certain assets under consulting relationships. Fee-earning AUM and AUM only include those assets which earn a material fee.

For our carry funds, co-investment vehicles, fund of funds vehicles, NGP management fee funds and NGP carry 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 or advise.

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

	June 30, 2014 (Unaudited)	December 31, 2013
Assets		
Cash and cash equivalents	\$ 1,278.8	\$ 966.6
Cash and cash equivalents held at Consolidated Funds	2,258.5	1,402.7
Restricted cash	62.6	129.9
Restricted cash and securities of Consolidated Funds	24.4	25.7
Accrued performance fees	3,838.0	3,653.6
Investments	771.6	765.3
Investments of Consolidated Funds	27,557.9	26,886.4
Due from affiliates and other receivables, net	181.4	175.9
Due from affiliates and other receivables of Consolidated Funds, net	480.9	626.2
Receivables and inventory of a consolidated real estate VIE	183.2	180.4
Fixed assets, net	66.7	68.8
Deposits and other	58.5	38.5
Other assets of a consolidated real estate VIE	71.2	60.1
Intangible assets, net	544.7	582.8
Deferred tax assets	134.5	59.4
Total assets	\$ 37,512.9	\$ 35,622.3
Liabilities and partners capital		
Loans payable	\$ 42.2	\$ 42.4
3.875% senior notes due 2023	499.9	499.8
5.625% senior notes due 2043	606.9	398.4
Loans payable of Consolidated Funds	16,136.4	15,220.7
Loans payable of a consolidated real estate VIE at fair value (principal amount of \$295.4 and \$305.3 as of June 30, 2014 and December 31, 2013, respectively)	147.7	122.1
Accounts payable, accrued expenses and other liabilities	245.3	265.1
Accrued compensation and benefits	2,449.3	2,253.0
Due to affiliates	278.2	403.7
Deferred revenue	104.5	64.1
Deferred tax liabilities	147.4	103.6
Other liabilities of Consolidated Funds	1,700.6	1,382.7
Other liabilities of a consolidated real estate VIE	91.6	97.7
Accrued giveback obligations	32.3	39.6

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Total liabilities	22,482.3	20,892.9
Commitments and contingencies		
Redeemable non-controlling interests in consolidated entities	4,993.1	4,352.0
Partners' capital (common units, 66,923,224 and 49,353,406 issued and outstanding as of June 30, 2014 and December 31, 2013, respectively)	509.6	357.1
Accumulated other comprehensive loss	(11.9)	(11.2)
Partners' capital appropriated for Consolidated Funds	285.0	463.6
Non-controlling interests in consolidated entities	7,399.1	7,696.6
Non-controlling interests in Carlyle Holdings	1,855.7	1,871.3
Total partners' capital	10,037.5	10,377.4
Total liabilities and partners' capital	\$ 37,512.9	\$ 35,622.3

See accompanying notes.

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

	Three Months Ended		Six Months Ended	
	2014	June 30, 2013	2014	June 30, 2013
Revenues				
Fund management fees	\$ 317.3	\$ 242.2	\$ 577.6	\$ 473.6
Performance fees				
Realized	415.6	203.2	667.0	456.0
Unrealized	126.8	55.9	495.9	445.5
Total performance fees	542.4	259.1	1,162.9	901.5
Investment income (loss)				
Realized	29.9	12.7	29.9	8.5
Unrealized	(6.2)	(1.7)	(0.1)	2.9
Total investment income (loss)	23.7	11.0	29.8	11.4
Interest and other income	3.7	4.1	7.5	6.5
Interest and other income of Consolidated Funds	243.7	252.9	494.4	521.3
Revenue of a consolidated real estate VIE	8.0		14.0	
Total revenues	1,138.8	769.3	2,286.2	1,914.3
Expenses				
Compensation and benefits				
Base compensation	220.5	173.6	425.1	352.1
Equity-based compensation	109.0	126.0	183.2	178.3
Performance fee related				
Realized	181.2	78.1	289.9	186.8
Unrealized	109.0	66.0	330.6	261.0
Total compensation and benefits	619.7	443.7	1,228.8	978.2
General, administrative and other expenses	118.7	120.3	253.0	231.7
Interest	14.5	11.6	26.7	22.1
Interest and other expenses of Consolidated Funds	252.3	201.7	516.3	451.8
Interest and other expenses of a consolidated real estate VIE	42.0		91.2	
Other non-operating (income) expenses	(4.6)	(3.3)	25.6	(5.7)

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Total expenses	1,042.6	774.0	2,141.6	1,678.1
Other income				
Net investment gains of Consolidated Funds	445.0	290.6	869.0	502.1
Income before provision for income taxes	541.2	285.9	1,013.6	738.3
Provision for income taxes	53.8	16.6	69.8	41.5
Net income	487.4	269.3	943.8	696.8
Net income attributable to non-controlling interests in consolidated entities	369.7	300.0	694.2	468.0
Net income (loss) attributable to Carlyle Holdings	117.7	(30.7)	249.6	228.8
Net income (loss) attributable to non-controlling interests in Carlyle Holdings	98.2	(27.4)	205.5	198.3
Net income (loss) attributable to The Carlyle Group L.P.	\$ 19.5	\$ (3.3)	\$ 44.1	\$ 30.5
Net income (loss) attributable to The Carlyle Group L.P. per common unit (see Note 15)				
Basic	\$ 0.30	\$ (0.07)	\$ 0.74	\$ 0.69
Diluted	\$ 0.27	\$ (0.07)	\$ 0.66	\$ 0.61
Weighted-average common units				
Basic	65,138,793	45,145,793	58,855,013	44,249,510
Diluted	70,677,702	45,145,793	65,170,359	49,881,397
Distributions declared per common unit	\$ 0.16	\$ 0.16	\$ 1.56	\$ 1.01

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

The Carlyle Group L.P.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)
(Dollars in millions)

	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Net income	\$ 487.4	\$ 269.3	\$ 943.8	\$ 696.8
Other comprehensive income (loss)				
Foreign currency translation adjustments	0.6	(141.7)	88.4	(81.9)
Cash flow hedges				
Net gains for the period				0.2
Less: reclassification adjustment for loss included in interest expense	0.5	0.9	1.1	2.4
Defined benefit plans				
Net gains (losses) for the period	1.5	(0.4)	2.3	0.6
Less: reclassification adjustment for unrecognized loss during the period, net, included in base compensation expense	0.1	0.2	0.2	0.4
Other comprehensive income (loss)	2.7	(141.0)	92.0	(78.3)
Comprehensive income	490.1	128.3	1,035.8	618.5
Less: Comprehensive (income) loss attributable to partners capital appropriated for Consolidated Funds	96.1	127.6	178.6	400.4
Less: Comprehensive (income) loss attributable to non-controlling interests in consolidated entities	(454.4)	(258.6)	(885.7)	(588.7)
Less: Comprehensive (income) loss attributable to redeemable non-controlling interests in consolidated entities	0.6	(31.9)	(66.4)	(209.1)
Comprehensive income (loss) attributable to Carlyle Holdings	132.4	(34.6)	262.3	221.1
Less: Comprehensive (income) loss attributable to non-controlling interests in Carlyle Holdings	(109.3)	30.8	(215.1)	(191.6)
Comprehensive income (loss) attributable to The Carlyle Group L.P.	\$ 23.1	\$ (3.8)	\$ 47.2	\$ 29.5

See accompanying notes.

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

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities		
Net income	\$ 943.8	\$ 696.8
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	88.6	76.4
Equity-based compensation	183.2	178.3
Excess tax benefits related to equity-based compensation	(1.4)	(1.7)
Non-cash performance fees	(515.3)	(513.8)
Other non-cash amounts	57.4	2.5
Consolidated Funds related:		
Realized/unrealized (gain) loss on investments of Consolidated Funds	(956.8)	(1,112.0)
Realized/unrealized loss from loans payable of Consolidated Funds	114.9	643.0
Purchases of investments by Consolidated Funds	(5,174.2)	(6,404.2)
Proceeds from sale and settlements of investments by Consolidated Funds	5,477.2	6,211.8
Non-cash interest income, net	(16.6)	(43.1)
Change in cash and cash equivalents held at Consolidated Funds	989.1	1,174.9
Change in other receivables held at Consolidated Funds	154.0	(62.6)
Change in other liabilities held at Consolidated Funds	315.7	176.7
Investment income	(17.4)	(1.1)
Purchases of investments and trading securities	(88.5)	(122.4)
Proceeds from the sale of investments and trading securities	449.9	198.4
Payments of contingent consideration	(43.9)	
Changes in deferred taxes, net	34.6	23.6
Change in due from affiliates and other receivables	(20.0)	(21.7)
Change in receivables and inventory of a consolidated real estate VIE	(5.3)	
Change in deposits and other	(15.8)	4.2
Change in other assets of a consolidated real estate VIE	(9.0)	
Change in accounts payable, accrued expenses and other liabilities	(13.4)	15.4
Change in accrued compensation and benefits	199.0	248.4
Change in due to affiliates	(86.4)	9.3
Change in other liabilities of a consolidated real estate VIE	(5.9)	
Change in deferred revenue	40.3	(0.6)
Net cash provided by operating activities	2,077.8	1,376.5
Cash flows from investing activities		
Change in restricted cash	67.5	(6.9)
Purchases of fixed assets, net	(8.4)	(12.3)
Acquisitions, net of cash acquired	(3.1)	

Net cash provided by (used in) investing activities	56.0	(19.2)
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The Carlyle Group L.P.**Condensed Consolidated Statements of Cash Flows****(Unaudited)****(Dollars in millions)**

	Six Months Ended June 30,	
	2014	2013
Cash flows from financing activities		
Repayments under credit facility		(386.3)
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	210.8	394.1
Payments on loans payable		(475.0)
Net payments on loans payable of a consolidated real estate VIE	(5.2)	
Net payment on loans payable of Consolidated Funds	(1,007.8)	(926.6)
Payments of contingent consideration	(29.8)	(10.9)
Excess tax benefits related to equity-based compensation	1.4	1.7
Distributions to common unitholders	(81.1)	(44.1)
Distributions to non-controlling interest holders in Carlyle Holdings	(406.7)	(289.2)
Net proceeds from issuance of common units, net of offering costs	449.5	
Acquisition of non-controlling interests in Carlyle Holdings	(303.4)	
Contributions from non-controlling interest holders	1,295.7	1,354.5
Distributions to non-controlling interest holders	(1,906.9)	(1,599.6)
Change in due to/from affiliates financing activities	1.8	12.0
Change in due to/from affiliates and other receivables of Consolidated Funds	(52.6)	143.0
Net cash used in financing activities	(1,834.3)	(1,331.1)
Effect of foreign exchange rate changes	12.7	(20.4)
Increase in cash and cash equivalents	312.2	5.8
Cash and cash equivalents, beginning of period	966.6	567.1
Cash and cash equivalents, end of period	\$ 1,278.8	\$ 572.9
Supplemental non-cash disclosures		
Increase in partners' capital related to reallocation of ownership interest in Carlyle Holdings	\$ 39.5	\$ 10.4
Non-cash contributions from non-controlling interest holders	\$ 2.7	\$ 5.4
Tax effect from acquisition of Carlyle Holdings partnership units:		
Deferred tax asset	\$ 73.5	\$
Tax receivable agreement liability	\$ 63.1	\$

Total partners' capital	\$	10.4	\$
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See accompanying notes.

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 typically 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 Solutions (see Note 18).

Basis of Presentation

The accompanying financial statements include the accounts of the Partnership and its consolidated subsidiaries. In addition, certain Carlyle-affiliated funds, related co-investment entities, certain CLOs managed by the Partnership (collectively the Consolidated Funds) and a real estate development company (see Note 17) 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. The consolidation of the Consolidated Funds 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.

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, 2013 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.

March 2014 Public Offering of Partnership Common Units

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On March 10, 2014, the Partnership completed a public offering of 13,800,000 common units priced at \$33.50 per common unit. The Partnership received net proceeds of approximately \$449.5 million, after deduction of the underwriting discount and offering expenses. The Partnership's wholly-owned subsidiaries used \$146.1 million of the net proceeds to acquire 4,500,000 newly issued Carlyle Holdings partnership units from Carlyle Holdings. These proceeds will be used by Carlyle Holdings for general corporate purposes, including investments in Carlyle's funds as well as investment capital for acquisitions of new fund platforms and strategies or other growth initiatives, to drive innovation across the broader Carlyle platform. The Partnership's wholly-owned subsidiaries used the remaining net proceeds of \$303.4 million to acquire 9,300,000 Carlyle Holding partnership units from the other limited partners of Carlyle Holdings, including certain of the Partnership's directors and executive officers.

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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 consolidated financial statements. As it relates to the 4,500,000 newly issued Carlyle Holdings partnership units that the Partnership acquired, because the Partnership acquired these partnership units at a valuation in excess of the proportion of the book value of the net assets acquired, the Partnership incurred an immediate dilution of approximately \$116.8 million. This dilution was reflected within partners' capital as a reallocation from partners' capital to non-controlling interests in Carlyle Holdings.

As it relates to the 9,300,000 Carlyle Holdings partnership units that the Partnership acquired from the other limited partners of Carlyle Holdings, the Partnership accounted for this transaction as an acquisition of ownership interests in a subsidiary while retaining a controlling interest in the subsidiary. Accordingly, the carrying value of the non-controlling interest was adjusted to reflect the change in the ownership interests in Carlyle Holdings. The excess of the fair value of the consideration issued by the Partnership over the carrying amount of the non-controlling interest acquired was recognized directly as a reduction to partners' capital. The adjustment to partners' capital was derived as follows (Dollars in millions):

Acquisition-date fair value of consideration transferred:	
Cash	\$ 303.4
Carrying value of non-controlling interest acquired	(66.4)
Excess of fair value of consideration transferred over carrying value of non-controlling interest acquired	\$ 237.0

The following summarizes the adjustments within partners' capital related to the March 2014 public offering (Dollars in millions):

	Partners' Capital	Non-controlling interests in Carlyle Holdings	Total Partners' Capital
Proceeds from The Carlyle Group L.P. common units issued	\$ 449.5	\$	\$ 449.5
Dilution associated with the acquisition of 4,500,000 Carlyle Holdings partnership units	(116.8)	116.8	
Acquisition of non-controlling interest in Carlyle Holdings	(237.0)	(66.4)	(303.4)
Total increase	\$ 95.7	\$ 50.4	\$ 146.1

Additionally, the acquisition by the Partnership of the 9,300,000 Carlyle Holdings partnership units from the other limited partners of Carlyle Holdings is subject to the terms of the tax receivable agreement. Accordingly, the Partnership recorded a deferred tax asset of \$70.0 million, an increase to the liability owed under the tax receivable agreement of \$60.1 million, and an increase in partners' capital of \$9.9 million based on estimated tax information available at the time. The Partnership recorded subsequent adjustments for this exchange due to updated relevant tax calculations, which increased the deferred tax asset by \$3.5 million, increased the liability to the limited partners by \$3.0 million and increased partners' capital by \$0.5 million. The liability is expected to be paid as the deferred tax asset is realized as a reduction in taxes payable.

Following the issuance of common units from the March 2014 public offering, the issuance of common units for the acquisition of Diversified Global Asset Management Corporation ("DGAM" , see Note 3) and the vesting of deferred restricted common units, the total number of Partnership common units outstanding as of June 30, 2014 was 66,923,224 common units.

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Notes to the Condensed Consolidated Financial Statements

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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 and a real estate development company, 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.

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.

As of June 30, 2014, assets and liabilities of consolidated VIEs reflected in the condensed consolidated balance sheets were \$25.6 billion and \$18.0 billion, respectively. Except to the extent of the assets of the VIEs which are consolidated, the holders of the consolidated VIEs' liabilities generally do not have recourse to the Partnership. The assets and liabilities of the consolidated VIEs that are Consolidated Funds 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, 2014, the Partnership held \$107.5 million of investments in these CLOs which represent 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.

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements

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Investments in Unconsolidated Variable Interest Entities

The Partnership holds variable interests in certain VIEs that 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:

	As of	
	June 30, 2014	December 31, 2013
	(Dollars in millions)	
Investments	\$ 372.4	\$ 364.8
Receivables	54.6	132.4
Maximum Exposure to Loss	\$ 427.0	\$ 497.2

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.

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 and other income of the Consolidated Funds as well as interest expense and other expenses of the Consolidated Funds are included 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 consolidated financial statements and the resulting impact on performance fees. Actual results could differ from these estimates and such differences could be material.

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Notes to the Condensed Consolidated Financial Statements

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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 or at the lower of cost or aggregate remaining fair value, (c) 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.

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 1.5% to 2.0% of NAV per year. Management fees for the Partnership's business development companies are due quarterly in arrears at annual rates that range from 0.25% to 1.0% of gross assets, excluding cash and cash equivalents. Management fees for the CLOs and other structured products typically range from 0.15% to 1.00% on the total par amount of assets or the aggregate principal amount of the notes 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/structured products and credit opportunities 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.

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Management fees for our private equity and real estate 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 or the weighted-average investment period of the underlying funds. Following the expiration of the commitment fee period or weighted-average investment 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, the net asset value for unrealized investments, or the contributions for unrealized investments. The management fees for our fund of hedge fund vehicles generally range from 0.2% to 1.5% of net asset value. Management fees for our Solutions segment are generally due quarterly and recognized over the related quarter.

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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 \$33.2 million and \$12.5 million for the three months ended June 30, 2014 and 2013, respectively, and \$40.2 million and \$27.5 million for the six months ended June 30, 2014 and 2013, 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 10% to 20% on external coinvestment vehicles, with some earning no carried interest, 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 and closed-end carry funds in the global market strategies segment. 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, 2014 and December 31, 2013, the Partnership has recognized \$32.3 million and \$39.6 million, respectively, for giveback obligations.

In addition to its performance fees from its corporate private equity and real assets funds and closed-end carry funds in the global market strategies segment, 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.

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.

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Interest Income

Interest income is recognized when earned. Interest income earned by the Partnership was \$0.4 million and \$0.6 million for the three months ended June 30, 2014 and 2013, respectively, and \$0.7 million and \$1.1 million for the six months ended June 30, 2014 and 2013, respectively, and is included in interest and other income in the accompanying condensed consolidated statements of operations. Interest income of the Consolidated Funds was \$214.8 million and \$221.7 million for the three months ended June 30, 2014 and 2013, respectively, and \$436.0 million and \$452.3 million for the six months ended June 30, 2014 and 2013, 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. The compensation expense for awards that contain performance conditions is recognized when it is probable that the performance conditions will be achieved; in certain instances, such compensation expense may be recognized prior to the grant date of the award.

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, 2014 and December 31, 2013, the Partnership had recorded a liability of \$1.8 billion and \$1.7 billion, 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.

Income Taxes

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.

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The Partnership accounts for income taxes under the provisions of Accounting Standards Codification (ASC) 740, *Income Taxes* (ASC 740), using the liability method. ASC 740 requires the recognition of deferred tax liabilities and assets for the expected future consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement reporting and the tax basis of assets and liabilities using enacted tax rates in effect for the period in which the difference is expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period of the change in the provision for income taxes. Further, deferred tax assets are recognized for the expected realization of available net operating loss and tax credit carry forwards. A valuation allowance is recorded on the Partnership's gross deferred tax assets when it is more likely than not that such asset 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 and will assess the probability that the related liability owed under the tax receivable agreement will be paid. 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.

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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

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. Any change in ownership of a subsidiary while the controlling financial interest is retained is accounted for as an equity transaction between the controlling and non-controlling interests. Transaction costs incurred in connection with such changes in ownership of a subsidiary are recorded as a direct charge to partners' capital.

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, 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.

Non-controlling interests in Carlyle Holdings relate to the ownership interests of the other limited partners of the Carlyle Holdings partnerships. The Partnership, through wholly-owned subsidiaries, is the sole general partner of Carlyle Holdings. Accordingly, the Partnership consolidates Carlyle Holdings into its consolidated financial statements, and the other ownership interests in Carlyle Holdings are reflected as non-controlling interests in the Partnership's condensed consolidated financial statements. Any change to the Partnership's ownership interest in Carlyle Holdings while it retains the controlling financial interest in Carlyle Holdings is accounted for as a transaction within partners' capital as a reallocation of ownership interests in Carlyle Holdings.

Earnings Per Common Unit

The Partnership computes earnings per common unit in accordance with ASC 260, *Earnings Per Share* (ASC 260). Basic earnings per common unit is calculated by dividing net income (loss) attributable to the common units of 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. Net income (loss) attributable to the common units excludes net income (loss) and dividends attributable to any participating securities under the two-class method of ASC 260.

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.

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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.

Equity-Method Investments

The Partnership accounts for all investments in which it has or is otherwise presumed to have 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 \$24.8 million and \$55.2 million at June 30, 2014 and December 31, 2013, 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 is included in restricted cash at June 30, 2014 and December 31, 2013. Restricted cash at June 30, 2014 also includes \$8.9 million of cash received on behalf of certain non-consolidated Carlyle funds that was paid out in July 2014. Also included in restricted cash at June 30, 2014 and December 31, 2013 is 4.4 million (\$6.0 million and \$6.1 million as of June 30, 2014 and December 31, 2013, 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, 2014 and December 31, 2013 primarily represents cash held by the Partnership's foreign subsidiaries due to certain government regulatory capital requirements.

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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 \$12.2 million and \$13.4 million is included in restricted cash and securities of Consolidated Funds at June 30, 2014 and December 31, 2013, respectively.

Certain CLOs hold U.S. Treasury notes and corporate bonds as collateral for specific classes of loans payable in the CLOs. As of June 30, 2014 and December 31, 2013, securities of \$12.2 million and \$12.3 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 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.

The Carlyle Group L.P.**Notes to the Condensed Consolidated Financial Statements****(Unaudited)****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 AlInvest. The components of accumulated other comprehensive income (loss) as of June 30, 2014 and December 31, 2013 were as follows:

	June 30, 2014	As of December 31, 2013
	(Dollars in millions)	
Unrealized losses on cash flow hedge instruments	\$ (1.1)	\$ (1.0)
Currency translation adjustments	(9.0)	(8.5)
Unrealized losses on defined benefit plans	(1.8)	(1.7)
Total	\$ (11.9)	\$ (11.2)

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 losses resulting from transactions outside of the functional currency of an entity of \$3.9 million and \$0.2 million for the three months ended June 30, 2014 and 2013, respectively, and \$4.5 million and \$1.1 million for the six months ended June 30, 2014 and 2013, respectively, are included in general, administrative and other expenses in the condensed consolidated statements of operations.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 provides comprehensive guidance for recognizing revenue from contracts with customers. Entities will be able to recognize revenue when the entity transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The guidance includes a five-step framework that requires an entity to: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when the entity satisfies a performance obligation. The guidance in ASU 2014-09 is effective for the Partnership beginning on January 1, 2017. The Partnership is still assessing the potential impact of this guidance on its balance sheet and results of operations.

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 Partnership adopted this guidance as of January 1, 2014 and the adoption did not have a material impact on the Partnership's condensed consolidated financial statements.

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

3. Acquisitions

Acquisition of Diversified Global Asset Management Corporation

On February 3, 2014, the Partnership acquired 100% of the equity interests in DGAM, a Toronto, Canada-based alternative investment manager with \$2.9 billion in fee-earning assets under management. DGAM also advises on \$3.6 billion in assets, for which it earns a nominal advisory fee. The purchase price consisted of approximately \$8.0 million in cash and 662,134 newly issued common units (approximately \$23.1 million). The transaction also included contingent compensation of up to \$23.7 million in cash and \$47.3 million in common units, which are issuable through 2021 upon the achievement of certain performance and service-based requirements. The Partnership consolidated the financial position and results of operations of DGAM effective February 3, 2014 and accounted for this transaction as a business combination. DGAM is the Partnership's fund of hedge funds platform and is included in the Partnership's Solutions business segment. In connection with this transaction, the Partnership incurred approximately \$1.3 million of acquisition costs that were recorded as expenses.

The acquisition-date fair value of the consideration transferred for the DGAM acquisition, and the estimated fair values of the assets acquired and liabilities assumed at the acquisition date are as follows (Dollars in millions):

Acquisition-date fair value of consideration transferred	
Cash	\$ 8.0
The Carlyle Group L.P. common units	23.1
Total	\$ 31.1
Estimated fair value of assets acquired and liabilities assumed	
Cash	\$ 4.9
Other assets	3.9
Finite-lived intangible assets - contractual rights	29.0
Goodwill	8.6
Deferred tax liabilities	(7.7)
Other liabilities	(7.6)
Total	\$ 31.1

The finite-lived intangible assets are amortized over a seven-year period.

The Partnership recognized a dilution in partners' capital associated with the issuance of Carlyle common units and the portion of this transaction allocable to the non-controlling interests in Carlyle Holdings. The effect of the dilution was an increase to non-controlling interests in Carlyle Holdings of approximately \$19.4 million and a corresponding decrease to partners' capital.

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The amount of revenue and earnings of DGAM since the acquisition date and the pro forma impact to the Partnership's condensed consolidated financial results for the six months ended June 30, 2014 and 2013, as if the acquisition had been consummated as of January 1, 2013, was not significant.

The fair value of The Carlyle Group L.P. common units was based on the quoted price of the Partnership's common units on the NASDAQ exchange. This fair value measurement was based on inputs that are directly observable and thus represented a Level I measurement as defined in the accounting guidance for fair value measurement.

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Notes to the Condensed Consolidated Financial Statements

(Unaudited)

Acquisition of Metropolitan Real Estate Equity Management

On November 1, 2013, the Partnership acquired 100% of the equity interests in Metropolitan Real Estate Equity Management, LLC (Metropolitan), a global manager of real estate fund of funds with more than \$2.6 billion in capital commitments at the acquisition date. The purchase price consisted of approximately \$12.8 million in cash and 67,338 newly issued common units (approximately \$2.1 million). The transaction also included contingent consideration that is payable through 2018 upon the achievement of performance conditions of up to \$5.0 million in cash and common units equivalent to \$10.0 million at the time of vesting. Additionally, the transaction included compensation of 52,889 newly issued Carlyle Holdings partnership units (approximately \$1.6 million) that vest ratably over a period of five years, up to \$10.4 million of cash payable through 2018 based on the achievement of performance conditions, and \$10.6 million and \$10.0 million of Carlyle Holdings partnership units and common units, respectively, that are issuable through 2023 based on the achievement of performance conditions and time vesting. The Partnership consolidated the financial position and results of operations of Metropolitan effective November 1, 2013 and accounted for this transaction as a business combination. Metropolitan is included in the Partnership's Solutions business segment.

See Note 3 to the consolidated financial statements included in the Partnership's 2013 Annual Report on Form 10-K for additional information on the Metropolitan acquisition.

Acquisition of Remaining 40% Equity Interest in AlpInvest

On August 1, 2013, Carlyle Holdings, a controlled subsidiary of the Partnership, acquired the remaining 40% equity interest in AlpInvest for an aggregate of 2,887,970 newly issued common units of the Partnership (approximately \$80.8 million) and approximately 4.5 million in cash (approximately \$6.0 million). Of the 2,887,970 common units issued in this transaction, 914,087 common units (approximately \$25.5 million) were issued to AlpInvest sellers who are employees of the Partnership and are subject to vesting over a period up to five years (see Note 16). The remaining 1,973,883 common units issued in the transaction (approximately \$55.3 million) were not subject to any vesting conditions. The Partnership accounted for this transaction as an acquisition of ownership interests in a subsidiary while retaining a controlling interest in the subsidiary. Accordingly, the carrying value of the non-controlling interest was adjusted to reflect the change in the ownership interests in AlpInvest. The excess of the fair value of the consideration paid by the Partnership (excluding any elements of the transaction deemed to be compensatory) over the carrying amount of the non-controlling interest acquired was recognized directly as a reduction to partners' capital.

See Note 3 to the consolidated financial statements included in the Partnership's 2013 Annual Report on Form 10-K for additional information on the acquisition of remaining 40% equity interest in AlpInvest.

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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 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.

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.

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.

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, 2014:

(Dollars in millions)	Level I	Level II	Level III	Total
Assets				
Investments of Consolidated Funds:				
Equity securities	\$ 483.0	\$ 29.3	\$ 2,582.4	\$ 3,094.7
Bonds			1,345.8	1,345.8
Loans			14,344.7	14,344.7
Partnership and LLC interests ⁽¹⁾			3,761.8	3,761.8
Hedge funds		5,009.4		5,009.4
Other			1.5	1.5
	483.0	5,038.7	22,036.2	27,557.9
Trading securities			4.7	4.7
Restricted securities of Consolidated Funds	3.8		8.4	12.2
Total	\$ 486.8	\$ 5,038.7	\$ 22,049.3	\$ 27,574.8
Liabilities				
Loans payable of Consolidated Funds	\$	\$	\$ 16,136.4	\$ 16,136.4
Loans payable of a consolidated real estate VIE			147.7	147.7
Interest rate swaps		4.8		4.8
Derivative instruments of the CLOs			15.2	15.2
Contingent consideration ⁽²⁾		26.2	132.3	158.5
Total	\$	\$ 31.0	\$ 16,431.6	\$ 16,462.6

(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, Vermillion, and Metropolitan, excluding employment-based contingent consideration (see Note 9).

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, 2013:

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(Dollars in millions)	Level I	Level II	Level III	Total
Assets				
Investments of Consolidated Funds:				
Equity securities	\$ 610.5	\$ 24.0	\$ 2,714.1	\$ 3,348.6
Bonds			1,249.5	1,249.5
Loans			14,067.8	14,067.8
Partnership and LLC interests ⁽¹⁾			3,815.2	3,815.2
Hedge funds		4,403.3		4,403.3
Other			2.0	2.0
	610.5	4,427.3	21,848.6	26,886.4
Trading securities			6.9	6.9
Restricted securities of Consolidated Funds	3.7		8.6	12.3
Total	\$ 614.2	\$ 4,427.3	\$ 21,864.1	\$ 26,905.6
Liabilities				
Loans payable of Consolidated Funds	\$	\$	\$ 15,220.7	\$ 15,220.7
Loans payable of a consolidated real estate VIE			122.1	122.1
Interest rate swaps		6.3		6.3
Derivative instruments of the CLOs			13.1	13.1
Contingent consideration ⁽²⁾		15.7	185.9	201.6
Total	\$	\$ 22.0	\$ 15,541.8	\$ 15,563.8

- (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, Vermillion, and Metropolitan, excluding employment-based contingent consideration (see Note 9).

The Carlyle Group L.P.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

Investment professionals with responsibility for the underlying investments are responsible for preparing the investment valuations pursuant to the policies, methodologies and templates prepared by the Partnership's valuation group, which is a team made up of individuals with previous valuation experience reporting to the Partnership's chief financial officer. The valuation group is responsible for maintaining the Partnership's valuation policy and related guidance, templates and systems that are designed to be consistent with the guidance found in ASC 820, *Fair Value Measurement*. These valuations, inputs and preliminary conclusions are reviewed by the fund accounting teams. The valuations are then reviewed and approved by the respective fund valuation sub-committees, which are comprised of the respective fund head, segment head, chief financial and chief accounting officers, as well as members from the valuation group. The valuation group compiles the aggregate results and significant matters and presents them for review and approval by the global valuation committee, which is comprised of the Partnership's co-chief executive officers, chief operating officer, chief risk officer, chief financial officer, chief accounting officer, deputy chief investment officer, the business segment heads, and observed by the chief compliance officer and director of internal audit. Additionally, each quarter a sample of valuations are reviewed by external valuation firms.

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

Private Equity and Real Estate Investments The fair values of 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 or sales of comparable assets, and other measures which, in many cases, are unaudited at the time received. The methods used to estimate the fair value of real estate investments include the discounted cash flow method and/or capitalization rate (cap rate) analysis. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (e.g., applying a key performance metric of the investment such as EBITDA or net operating income to a relevant valuation multiple or cap rate 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 models or other similar models. Adjustments to observable valuation measures are frequently made upon the initial investment to calibrate the initial investment valuation to industry observable inputs. Such adjustments are made to align the investment to observable industry changes for differences in size, profitability, projected growth rates, geography and capital structure, if applicable. The adjustments are reviewed with each subsequent valuation to assess how the investment has evolved relative to the observable inputs. Additionally, the investment may be subject to certain specific risks and/or development milestones which are also taken into account in the valuation assessment. Option pricing models and similar tools do not currently drive a significant portion of private equity or real estate valuations and are used primarily to value warrants, derivatives, certain restrictions and other atypical investment instruments.

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. 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. 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.

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Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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 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 loan and bond assets of 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.

Loans Payable of a Consolidated Real Estate VIE The Partnership has elected the fair value option to measure the loans payable of a consolidated real estate VIE at fair value. The fair values of the loans are primarily based on discounted cash flows analyses, which consider the liquidity and current financial condition of the consolidated real estate VIE. These loans are classified as Level III.

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 typically has 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.

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, 2014							
	Investments of Consolidated Funds				Restricted securities			
	Equity securities	Bonds	Loans	Partnership and LLC interests	Trading of securities	Other	Consolidated Funds	Total
Balance, beginning of period	\$ 2,485.0	\$ 1,223.9	\$ 14,324.6	\$ 3,723.6	\$ 1.4	\$ 5.2	\$ 8.3	\$ 21,772.0
Purchases	12.0	291.0	1,972.4	39.2				2,314.6
Sales	(186.2)	(166.9)	(825.6)	(228.4)				(1,407.1)

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Settlements									(1,053.7)	(1,053.7)
Realized and unrealized gains (losses), net	271.6	(2.2)	(73.0)	227.4	0.1	(0.5)	0.1	423.5		
Balance, end of period	\$ 2,582.4	\$ 1,345.8	\$ 14,344.7	\$ 3,761.8	\$ 1.5	\$ 4.7	\$ 8.4	\$ 22,049.3		
Changes in unrealized gains (losses) included in earnings related to financial assets still held at the reporting date	\$ 127.7	\$ 1.5	\$ (45.1)	\$ 91.9	\$ 0.1	\$ (0.5)	\$ 0.1	\$ 175.7		

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Notes to the Condensed Consolidated Financial Statements