

**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 SEPTEMBER 30, 2013**

**OR**

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

**FOR THE TRANSITION PERIOD FROM TO**

**Commission File Number: 001-35538**

**The Carlyle Group L.P.**  
(Exact name of registrant as specified in its charter)

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

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

The number of the Registrant's common units representing limited partner interests outstanding as of November 8, 2013 was 49,286,225.

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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,” “predict,” “intend,” “plan,” “estimate,” “anticipate” or the negative version of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2012, as such factors may be updated from time to time in our periodic filings with the United States Securities and Exchange Commission (the “SEC”), which are accessible on the SEC’s website at [www.sec.gov](http://www.sec.gov). These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

## **Website and Social Media Disclosure**

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

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

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

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

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

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

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

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

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

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

# PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

### The Carlyle Group L.P. Condensed Consolidated Balance Sheets (Dollars in millions)

	September 30, 2013 (Unaudited)	December 31, 2012
<b>Assets</b>		
Cash and cash equivalents	\$ 855.7	\$ 567.1
Cash and cash equivalents held at Consolidated Funds	1,494.9	1,646.6
Restricted cash	79.6	34.5
Restricted cash and securities of Consolidated Funds	25.7	36.3
Accrued performance fees	2,877.7	2,192.5
Investments	794.0	881.2
Investments of Consolidated Funds	26,118.0	24,815.7
Due from affiliates and other receivables, net	176.1	190.7
Due from affiliates and other receivables of Consolidated Funds, net	493.6	331.8
Receivables and inventory of a consolidated real estate VIE	191.4	—
Fixed assets, net	63.3	63.6
Deposits and other	43.3	48.4
Other assets of a consolidated real estate VIE	42.7	—
Intangible assets, net	580.3	691.1
Deferred tax assets	69.0	67.1
Total assets	<u>\$ 33,905.3</u>	<u>\$ 31,566.6</u>
<b>Liabilities and partners' capital</b>		
Loans payable	\$ 25.0	\$ 886.3
3.875% senior notes due 2023	499.8	—
5.625% senior notes due 2043	398.4	—
Loans payable of Consolidated Funds	15,070.6	13,656.7
Loans payable of a consolidated real estate VIE at fair value (principal amount of \$335.1)	123.8	—
Accounts payable, accrued expenses and other liabilities	236.5	215.0
Accrued compensation and benefits	1,797.8	1,318.2
Due to affiliates	403.2	332.1
Deferred revenue	196.9	59.4
Deferred tax liabilities	92.6	61.1
Other liabilities of Consolidated Funds	1,144.6	1,385.8
Other liabilities of a consolidated real estate VIE	110.3	—
Accrued giveback obligations	48.7	69.2
Total liabilities	<u>20,148.2</u>	<u>17,983.8</u>
Commitments and contingencies		
Redeemable non-controlling interests in consolidated entities	4,199.1	2,887.4
Partners' capital (common units, 49,209,545 and 43,244,180 issued and outstanding as of September 30, 2013 and December 31, 2012, respectively)	278.3	235.1
Accumulated other comprehensive loss	(11.5)	(4.8)
Partners' capital appropriated for Consolidated Funds	451.4	838.6
Non-controlling interests in consolidated entities	7,380.1	8,264.8
Non-controlling interests in Carlyle Holdings	1,459.7	1,361.7
Total partners' capital	<u>9,558.0</u>	<u>10,695.4</u>
Total liabilities and partners' capital	<u>\$ 33,905.3</u>	<u>\$ 31,566.6</u>

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
<b>Revenues</b>				
Fund management fees	\$ 257.9	\$ 239.8	\$ 731.5	\$ 714.1
Performance fees				
Realized	108.6	291.4	564.6	688.7
Unrealized	211.9	64.9	657.4	88.0
Total performance fees	320.5	356.3	1,222.0	776.7
Investment income				
Realized	(3.1)	9.8	5.4	11.4
Unrealized	8.1	0.4	11.0	27.3
Total investment income	5.0	10.2	16.4	38.7
Interest and other income	2.7	4.5	9.2	9.9
Interest and other income of Consolidated Funds	302.0	247.7	823.3	678.4
Total revenues	888.1	858.5	2,802.4	2,217.8
<b>Expenses</b>				
Compensation and benefits				
Base compensation	204.2	177.0	556.3	433.0
Equity-based compensation	78.7	53.2	257.0	147.4
Performance fee related				
Realized	45.4	121.9	232.2	188.3
Unrealized	113.5	41.5	374.5	(1.4)
Total compensation and benefits	441.8	393.6	1,420.0	767.3
General, administrative and other expenses	136.4	92.9	368.1	268.1
Interest	11.7	4.0	33.8	20.6
Interest and other expenses of Consolidated Funds	217.2	204.1	669.0	568.1
Other non-operating expense	7.6	10.3	1.9	6.9
Total expenses	814.7	704.9	2,492.8	1,631.0
<b>Other income (losses)</b>				
Net investment gains (losses) of Consolidated Funds	(82.0)	448.9	420.1	1,707.6
Income (loss) before provision for income taxes	(8.6)	602.5	729.7	2,294.4
Provision for income taxes	17.9	5.5	59.4	27.8
Net income (loss)	(26.5)	597.0	670.3	2,266.6
Net income (loss) attributable to non-controlling interests in consolidated entities	(26.6)	485.4	441.4	1,708.2
Net income attributable to Carlyle Holdings	0.1	111.6	228.9	558.4
Net income (loss) attributable to non-controlling interests in Carlyle Holdings	(2.2)	93.0	196.1	550.1
Net income attributable to The Carlyle Group L.P.	\$ 2.3	\$ 18.6	\$ 32.8	\$ 8.3
Net income attributable to The Carlyle Group L.P. per common unit (see Note 15)				
Basic	\$ 0.04	\$ 0.43	\$ 0.72	\$ 0.20
Diluted	\$ 0.04	\$ 0.40	\$ 0.65	\$ 0.15
<b>Weighted-average common units</b>				
Basic	47,554,246	43,235,336	45,363,194	42,097,973
Diluted	51,055,564	46,939,751	50,209,620	255,300,460
Distributions declared per common unit	\$ 0.16	\$ 0.11	\$ 1.17	\$ 0.11

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income (loss)	\$ (26.5)	\$ 597.0	\$ 670.3	\$ 2,266.6
Other comprehensive income (loss)				
Foreign currency translation adjustments	196.8	(291.0)	114.9	(479.4)
Cash flow hedges				
Unrealized gains (loss) for the period	—	(3.2)	0.2	(10.1)
Less: reclassification adjustment for loss included in interest expense	0.8	1.7	3.2	5.4
Defined benefit plans				
Unrealized gains (loss) for the period	(0.4)	—	0.2	—
Less: reclassification adjustment for unrecognized loss during the period, net, included in base compensation expense	0.1	—	0.5	—
Other comprehensive income (loss)	197.3	(292.5)	119.0	(484.1)
Comprehensive income	170.8	304.5	789.3	1,782.5
Less: Comprehensive (income) loss attributable to partners' capital appropriated for Consolidated Funds	(13.2)	138.9	387.2	240.1
Less: Comprehensive (income) loss attributable to non-controlling interests in consolidated entities	(168.8)	(345.5)	(757.5)	(1,499.9)
Less: Comprehensive (income) loss attributable to redeemable non-controlling interests in consolidated entities	21.3	18.4	(187.8)	27.6
Comprehensive income (loss) attributable to Carlyle Holdings	10.1	116.3	231.2	550.3
Less: Comprehensive income (loss) attributable to non-controlling interests in Carlyle Holdings	(6.4)	(97.0)	(198.0)	(543.2)
Comprehensive income (loss) attributable to The Carlyle Group L.P.	\$ 3.7	\$ 19.3	\$ 33.2	\$ 7.1

See accompanying notes.

**The Carlyle Group L.P.**  
**Condensed Consolidated Statements of Changes in Partners' Capital and Redeemable Non-controlling**  
**Interests in Consolidated Entities**  
**(Unaudited)**  
**(Dollars and units in millions)**

	Common Units	Partners' Capital	Accumulated Other Comprehensive Income (Loss)	Partners' Capital Appropriated for Consolidated Funds	Non- controlling Interests in Consolidated Entities	Non- controlling Interests in Carlyle Holdings	Total Partners' Capital	Redeemable Non-controlling Interests in Consolidated Entities
Balance at December 31, 2012	43.2	\$ 235.1	\$ (4.8)	\$ 838.6	\$ 8,264.8	\$ 1,361.7	\$10,695.4	\$ 2,887.4
Reallocation of ownership interests in Carlyle Holdings	0.2	17.5	(6.8)	—	—	(10.7)	—	—
Acquisition of non-controlling interests in consolidated entities	2.9	4.2	(0.3)	—	(33.1)	22.1	(7.1)	—
Initial consolidation of a Consolidated Fund	—	—	—	—	0.5	—	0.5	—
Equity-based compensation	—	40.4	—	—	—	218.1	258.5	—
Net delivery of vested common units	2.9	0.3	—	—	—	1.6	1.9	—
Contributions	—	—	—	—	358.9	—	358.9	1,556.0
Distributions	—	(52.0)	—	—	(1,968.5)	(331.1)	(2,351.6)	(432.1)
Net income (loss)	—	32.8	—	(389.5)	643.1	196.1	482.5	187.8
Currency translation adjustments	—	—	(0.1)	2.3	114.0	(1.3)	114.9	—
Defined benefit plans, net	—	—	—	—	0.4	0.3	0.7	—
Change in fair value of cash flow hedge instruments	—	—	0.5	—	—	2.9	3.4	—
<b>Balance at September 30, 2013</b>	<b>49.2</b>	<b>\$ 278.3</b>	<b>\$ (11.5)</b>	<b>\$ 451.4</b>	<b>\$ 7,380.1</b>	<b>\$ 1,459.7</b>	<b>\$ 9,558.0</b>	<b>\$ 4,199.1</b>

See accompanying notes.



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

	Nine Months Ended September 30, 2013	2012
<b>Cash flows from operating activities</b>		
Net income	\$ 670.3	\$ 2,266.6
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	131.1	74.1
Amortization of deferred financing fees	1.1	1.1
Equity-based compensation	257.0	147.4
Excess tax benefits related to equity-based compensation	(1.9)	—
Non-cash performance fees	(743.1)	(124.6)
Other non-cash amounts	8.5	7.0
Consolidated Funds related:		
Realized/unrealized gain on investments of Consolidated Funds	(956.4)	(2,336.1)
Realized/unrealized loss from loans payable of Consolidated Funds	581.2	713.6
Purchases of investments by Consolidated Funds	(8,993.1)	(5,212.5)
Proceeds from sale and settlements of investments by Consolidated Funds	8,916.5	6,409.4
Non-cash interest income, net	(65.8)	(57.1)
Change in cash and cash equivalents held at Consolidated Funds	2,326.7	886.9
Change in other receivables held at Consolidated Funds	(31.8)	104.4
Change in other liabilities held at Consolidated Funds	(347.8)	(975.9)
Investment income	(6.3)	(48.4)
Purchases of investments	(75.0)	(41.1)
Proceeds from the sale of investments	211.7	162.6
Purchases of trading securities	(37.2)	(15.1)
Proceeds from sale of trading securities	19.7	15.7
Changes in deferred taxes	28.3	(3.5)
Change in due from affiliates and other receivables	(30.0)	(14.0)
Change in deposits and other	5.0	10.8
Change in accounts payable, accrued expenses and other liabilities	26.5	3.7
Change in accrued compensation and benefits	477.7	(6.3)
Change in due to affiliates	46.6	(13.1)
Change in deferred revenue	137.1	96.7
Net cash provided by operating activities	2,556.6	2,052.3
<b>Cash flows from investing activities</b>		
Change in restricted cash	(45.2)	(3.6)
Purchases of fixed assets, net	(18.8)	(26.0)
Purchases of intangible assets	—	(41.0)
Net cash used in investing activities	(64.0)	(70.6)

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

	Nine Months Ended September 30, 2013	2012
<b>Cash flows from financing activities</b>		
Borrowings under credit facility	\$ —	\$ 433.7
Repayments under credit facility	(386.3)	(744.6)
Issuance of 3.875% senior notes due 2023, net of financing costs	495.3	—
Issuance of 5.625% senior notes due 2043, net of financing costs	394.1	—
Payments on loans payable	(475.0)	(310.0)
Net payment on loans payable of Consolidated Funds	(1,462.7)	(1,071.8)
Payments of contingent consideration	(23.6)	—
Distributions to common unitholders	(52.0)	(4.8)
Net proceeds from issuance of common units in initial public offering	—	615.8
Excess tax benefits related to equity-based compensation	1.9	—
Contributions from predecessor owners	—	9.3
Distributions to predecessor owners	—	(452.3)
Contributions from non-controlling interest holders	1,909.5	1,579.4
Distributions to non-controlling interest holders	(2,728.5)	(1,757.7)
Acquisition of non-controlling interests in consolidated entities	(7.1)	—
Change in due to/from affiliates financing activities	43.0	0.3
Change in due to/from affiliates and other receivables of Consolidated Funds	65.9	(22.2)
Net cash used in financing activities	(2,225.5)	(1,724.9)
Effect of foreign exchange rate changes	21.5	2.8
Increase in cash and cash equivalents	288.6	259.6
Cash and cash equivalents, beginning of period	567.1	509.6
Cash and cash equivalents, end of period	<u>\$ 855.7</u>	<u>\$ 769.2</u>
<b>Supplemental non-cash disclosures</b>		
Increase in partners' capital related to reallocation of ownership interest in Carlyle Holdings	\$ 10.7	\$ —
Increase to partners' capital from acquisition of non-controlling interests in consolidated entities	\$ 3.9	\$ —
Net assets related to consolidation of the CLOs	\$ —	\$ 357.3
Non-cash distributions to predecessor owners	\$ —	\$ 402.5
Non-cash contributions from non-controlling interest holders	\$ 5.4	\$ 126.1
Non-cash distributions to non-controlling interest holders	\$ 3.2	\$ 56.3
<b>Reorganization:</b>		
Transfer of partners' capital to non-controlling interests in consolidated entities	\$ —	\$ 120.3
Deferred taxes from transfer of ownership interests	\$ —	\$ 9.4
<b>Exchange of CalPERS equity interests:</b>		
Deferred tax asset	\$ —	\$ 21.8
Tax receivable agreement liability	\$ —	\$ 18.3
Total partners' capital	<u>\$ —</u>	<u>\$ 3.5</u>

See accompanying notes.

**The Carlyle Group L.P.**  
**Notes to the 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 (1) subsequent to the reorganization as described below, the accounts of the Partnership and (2) prior to the reorganization, the combined accounts of TC Group, L.L.C., TC Group Cayman, L.P., TC Group Investment Holdings, L.P. and TC Group Cayman Investment Holdings, L.P., as well as their majority-owned subsidiaries (collectively, “Carlyle Group”), which were engaged in the above businesses under common ownership and control by Carlyle’s individual partners (“senior Carlyle professionals”), the California Employees Public Retirement System (“CalPERS”) and Mubadala Development Company (“Mubadala”). In addition, certain Carlyle-affiliated funds, related co-investment entities, 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.

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

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

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**Reorganization and Initial Public Offering**

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

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

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

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

**2. Summary of Significant Accounting Policies**

**Principles of Consolidation**

The Partnership consolidates all entities that it controls through a majority voting interest or otherwise. In addition, the accompanying condensed consolidated financial statements consolidate: (1) Carlyle-affiliated funds and co-investment entities, for which the Partnership is the sole general partner and the presumption of control by the general partner has not been overcome and (2) variable interest entities (“VIE”s), 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 (x) determine whether an entity in which the Partnership holds a variable interest is a VIE and (y) 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.

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As of September 30, 2013, assets and liabilities of consolidated VIEs reflected in the condensed consolidated balance sheets were \$24.1 billion and \$16.4 billion, respectively. Except to the extent of the assets of the VIEs which are consolidated, the holders of the consolidated VIEs' liabilities do not have recourse to the Partnership. The assets and liabilities of the consolidated VIEs 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 September 30, 2013, the Partnership held \$67.3 million of investments in these CLOs which represents its maximum risk of loss. The Partnership's investments in these CLOs are generally subordinated to other interests in the entities and entitle the Partnership to receive a pro rata portion of the residual cash flows, if any, from the entities. Investors in the CLOs have no recourse against the Partnership for any losses sustained in the CLO structure.

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

**Investments in Unconsolidated Variable Interest Entities**

The Partnership holds variable interests in certain VIEs 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	
	September 30, 2013	December 31, 2012
	(Dollars in millions)	
Investments	\$ 375.3	\$ 398.2
Receivables	95.9	43.5
Maximum Exposure to Loss	<u>\$ 471.2</u>	<u>\$ 441.7</u>

**Basis of Accounting**

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

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

**Use of Estimates**

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

**Business Combinations**

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

**Revenue Recognition**

***Fund Management Fees***

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

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

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For certain global market strategies funds, management fees are calculated based on assets under management of the funds with generally lower fee rates. Hedge funds typically pay management fees quarterly that generally range from 1.5% to 3.0% of NAV per year. Management fees for our business development companies are due quarterly in arrears at annual rates that range from 0.25% to 1.0% of average daily gross assets, excluding cash and cash equivalents. Management fees for the CLOs typically range from 0.4% to 0.6% on the total par amount of assets in the fund and are due quarterly or semi-annually based on the terms and recognized over the respective period. Management fees for the CLOs and credit opportunities funds are governed by indentures and collateral management agreements. The Partnership will receive management fees for the CLOs until redemption of the securities issued by the CLOs, which is generally five to ten years after issuance. Open-ended funds typically do not have stated termination dates.

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

The Partnership also provides transaction advisory and portfolio advisory services to the Portfolio Companies, and where covered by separate contractual agreements, recognizes fees for these services when the service has been provided and collection is reasonably assured. Fund management fees includes transaction and portfolio advisory fees of \$10.9 million and \$11.8 million for the three months ended September 30, 2013 and 2012, respectively, and \$38.4 million and \$33.2 million for the nine months ended September 30, 2013 and 2012, respectively, net of any offsets as defined in the respective partnership agreements.

***Performance Fees***

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

Carried interest is ultimately realized when: (i) an underlying investment is profitably disposed of, (ii) certain costs borne by the limited partner investors have been reimbursed, (iii) the fund's cumulative returns are in excess of the preferred return and (iv) the Partnership has decided to collect carry rather than return additional capital to limited partner investors. Realized carried interest may be required to be returned by the Partnership in future periods if the funds' investment values decline below certain levels. When the fair value of a fund's investments remains constant or falls below certain return hurdles, previously recognized performance fees are reversed. In all cases, each fund is considered separately in this regard, and for a given fund, performance fees can never be negative over the life of a fund. If upon a hypothetical liquidation of a fund's investments at their then current fair values, previously recognized and distributed carried interest would be required to be returned, a liability is established for the potential giveback obligation. As of September 30, 2013 and December 31, 2012, the Partnership has recognized \$48.7 million and \$69.2 million, respectively, for giveback obligations.

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

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***Investment Income (Loss)***

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

***Interest Income***

Interest income is recognized when earned. Interest income earned by the Partnership was \$0.4 million and \$1.3 million for the three months ended September 30, 2013 and 2012, respectively, and \$1.5 million and \$4.0 million for the nine months ended September 30, 2013 and 2012, respectively, and is included in interest and other income in the accompanying condensed consolidated statements of operations. Interest income of the Consolidated Funds was \$225.4 million and \$208.4 million for the three months ended September 30, 2013 and 2012, respectively, and \$677.7 million and \$578.3 million for the nine months ended September 30, 2013 and 2012, respectively, and is included in interest and other income of Consolidated Funds in the accompanying condensed consolidated statements of operations.

***Compensation and Benefits***

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

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

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

*Performance Fee Related Compensation* – A portion of the performance fees earned is due to employees and advisors of the Partnership. These amounts are accounted for as compensation expense in conjunction with the recognition of the related performance fee revenue and, until paid, are recognized as a component of the accrued compensation and benefits liability. Accordingly, upon any reversal of performance fee revenue, the related compensation expense is also reversed. As of September 30, 2013 and December 31, 2012, the Partnership had recorded a liability of \$1.3 billion and \$0.9 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.



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**Income Taxes**

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

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

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

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

**Tax Receivable Agreement**

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

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

**Non-controlling Interests**

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 (typically one year), or may be withdrawn subject to a redemption fee during the period when capital may not be withdrawn. As limited partners in these types of funds have been granted redemption rights, amounts relating to third-party interests in such consolidated funds are presented as redeemable non-controlling interests in consolidated entities within the condensed consolidated balance sheets. When redeemable amounts become contractually payable to investors, they are classified as a liability and included in other liabilities of Consolidated Funds in the condensed consolidated balance sheets.

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 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 Accounting Standards Codification ("ASC") 260, *Earnings Per Share*. 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.

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

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

**Equity-Method Investments**

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

**Cash and Cash Equivalents**

Cash and cash equivalents include cash held at banks and cash held for distributions, including temporary investments with original maturities of less than three months when purchased. Included in cash and cash equivalents is cash withheld from carried interest distributions for potential giveback obligations of \$36.0 million and \$59.2 million at September 30, 2013 and December 31, 2012, respectively.

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

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

**Restricted Cash**

In addition to the unrestricted cash held for potential giveback obligations discussed above, the Partnership is required to withhold a certain portion of the carried interest proceeds from one of its corporate private equity funds to provide a reserve for potential giveback obligations. In connection with this agreement, cash and cash equivalents of \$13.2 million and \$13.0 million is included in restricted cash at September 30, 2013 and December 31, 2012, respectively. Also included in restricted cash at September 30, 2013 and December 31, 2012 is €4.4 million (\$6.0 million and \$5.8 million as of September 30, 2013 and December 31, 2012, respectively) in escrow related to a tax contingency at one of the Partnership's real estate funds (see Note 11). Restricted cash at September 30, 2013 also includes \$40.5 million of cash received on behalf of a non-consolidated Carlyle fund that was remitted to the fund in October 2013. The remaining balance in restricted cash at September 30, 2013 and December 31, 2012 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 \$13.4 million and \$35.7 million is included in restricted cash and securities of Consolidated Funds at September 30, 2013 and December 31, 2012, respectively.

Certain CLOs hold U.S. Treasury notes, Obligation Assimilable du Tresor Securities ("OATS") Strips and corporate bonds as collateral for specific classes of loans payable in the CLOs. As of September 30, 2013 and December 31, 2012, securities of \$12.3 million and \$0.6 million, respectively, are included in restricted cash and securities of Consolidated Funds.

**Derivative Instruments**

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

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**Comprehensive Income (Loss)**

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

	As of	
	September 30, 2013	December 31, 2012
	(Dollars in millions)	
Unrealized losses on cash flow hedge instruments	\$ (1.1)	\$ (0.1)
Currency translation adjustments	(8.6)	(3.3)
Unrecognized losses on defined benefit plans	(1.8)	(1.4)
Total	<u>\$ (11.5)</u>	<u>\$ (4.8)</u>

**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 \$2.1 million and \$3.2 million for the three months ended September 30, 2013 and 2012, respectively, and \$3.2 million and \$6.7 million for the nine months ended September 30, 2013 and 2012, respectively, are included in general, administrative and other expenses in the condensed consolidated statements of operations.

**Recent Accounting Pronouncement**

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

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

**3. Acquisitions**

**Acquisition of 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 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 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 are not subject to any vesting conditions.

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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. In connection with this transaction, the Partnership incurred approximately \$1.1 million of acquisition costs, which has been included as components of the adjustment to partners' capital. The adjustment to partners' capital was derived as follows (Dollars in millions):

Acquisition-date fair value of consideration transferred:	
The Carlyle Group L.P. common units not subject to vesting	\$ 55.3
Cash	6.0
	<u>61.3</u>
Carrying value of non-controlling interest acquired	<u>(33.1)</u>
Excess of fair value of consideration transferred over carrying value of non-controlling interests acquired	28.2
Acquisition costs	1.1
Net decrease to partners' capital	<u>\$ 29.3</u>

Historically, the carrying value of the non-controlling interests in AlpInvest was included in non-controlling interests in consolidated entities in the Partnership's consolidated financial statements. Additionally, the Partnership recognized a dilution in partners' capital associated with the portion of this transaction allocable to the non-controlling interests in Carlyle Holdings. The following summarizes the adjustments within partners' capital related to the transaction (Dollars in millions):

	Partners' capital	Non-controlling interests in Carlyle Holdings	Non-controlling interests in consolidated entities
The Carlyle Group L.P. vested common units issued not subject to vesting	\$ 55.3	\$ —	\$ —
Acquisition of non-controlling interests in AlpInvest	(29.3)	—	(33.1)
Dilution associated with non-controlling interests in Carlyle Holdings	(22.1)	22.1	—
Total increase (decrease)	<u>\$ 3.9</u>	<u>\$ 22.1</u>	<u>\$ (33.1)</u>

The fair value of the common units issued as part of this acquisition was based on the closing price of the Partnership's common units on the closing date. This fair value measurement represents a Level I measurement as defined in the accounting guidance for fair value measurement.

As a result of the Partnership's issuance of 2,887,970 newly issued common units, the Partnership concurrently acquired 2,140,434 additional Carlyle Holdings partnership units. The Partnership will acquire the remaining 747,536 Carlyle Holdings partnership units (corresponding to certain of the 914,087 unvested common units) at such time as the underlying common units vest.

#### **Acquisition of Vermillion**

On October 1, 2012, the Partnership acquired 55% of Vermillion Asset Management, LLC and its consolidated subsidiaries, Viridian Partners, LLC, Crimson Physical Commodities Partners, LLC, Celadon Partners, LLC, and Indigo Partners, LLC, (collectively, "Vermillion"), a New York-based commodities investment manager. The purchase price consisted of \$50.0 million in cash, 1,440,276 contingently issuable Carlyle Holdings partnership units, which are issuable

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over a period of 4.25 years based on the achievement of performance-based conditions, and performance-based contingent cash payments of up to \$131.3 million, which is the maximum amount of additional cash consideration that would be paid within 5.25 years of closing. The Partnership consolidated the financial position and results of operations of Vermillion effective October 1, 2012 and accounted for this transaction as a business combination. Vermillion is included in the Partnership's Global Market Strategies business segment.

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

**4. Fair Value Measurement**

The fair value measurement accounting guidance establishes a hierarchal 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.

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

<b>(Dollars in millions)</b>	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>	<b>Total</b>
<b>Assets</b>				
Investments of Consolidated Funds:				
Equity securities	\$ 602.1	\$ 17.3	\$ 2,576.9	\$ 3,196.3
Bonds	—	—	1,199.5	1,199.5
Loans	—	—	13,775.8	13,775.8
Partnership and LLC interests <sup>(1)</sup>	—	—	3,710.0	3,710.0
Hedge funds	—	4,233.1	—	4,233.1
Other	—	—	3.3	3.3
	<u>602.1</u>	<u>4,250.4</u>	<u>21,265.5</u>	<u>26,118.0</u>
Trading securities	—	—	7.1	7.1
Restricted securities of Consolidated Funds	3.7	—	8.6	12.3
Total	<u>\$ 605.8</u>	<u>\$ 4,250.4</u>	<u>\$ 21,281.2</u>	<u>\$ 26,137.4</u>
<b>Liabilities</b>				
Loans payable of Consolidated Funds	\$ —	\$ —	\$ 15,070.6	\$ 15,070.6
Loans payable of a consolidated real estate VIE	—	—	123.8	123.8
Interest rate swaps	—	7.1	—	7.1
Derivative instruments of the CLOs	—	—	10.7	10.7
Contingent consideration <sup>(2)</sup>	—	56.1	171.5	227.6
Total	<u>\$ —</u>	<u>\$ 63.2</u>	<u>\$ 15,376.6</u>	<u>\$ 15,439.8</u>

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

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



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

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

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

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

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

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

In the absence of observable market prices, the Partnership values its investments using valuation methodologies applied on a consistent basis. For some investments little market activity may exist. Management's determination of fair value is then based on the best information available in the circumstances and may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Investments for which market prices are not observable include private investments in the equity of operating companies, real estate properties, and certain debt positions. The valuation technique for each of these investments is described below:

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

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

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

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

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

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

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

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

Financial Assets Three Months Ended September 30, 2013								
	Investments of Consolidated Funds					Trading securities and other	Restricted securities of Consolidated Funds	Total
	Equity securities	Bonds	Loans	Partnership and LLC interests	Other			
Balance, beginning of period	\$2,617.6	\$1,058.9	\$13,771.2	\$ 3,840.6	\$ 11.5	\$ 10.0	\$ —	\$21,309.8
Transfers in <sup>(1)</sup>	2.9	—	—	—	—	—	8.5	11.4
Transfers out <sup>(1)</sup>	(7.7)	—	—	—	—	—	—	(7.7)
Purchases	37.0	262.7	1,779.4	31.6	21.6	—	—	2,132.3
Sales	(98.7)	(145.2)	(549.2)	(304.5)	(0.6)	(0.8)	—	(1,099.0)
Settlements	—	—	(1,338.0)	—	—	—	—	(1,338.0)
Realized and unrealized gains (losses), net	25.8	23.1	112.4	142.3	(29.2)	(2.1)	0.1	272.4
Balance, end of period	<u>\$2,576.9</u>	<u>\$1,199.5</u>	<u>\$13,775.8</u>	<u>\$ 3,710.0</u>	<u>\$ 3.3</u>	<u>\$ 7.1</u>	<u>\$ 8.6</u>	<u>\$21,281.2</u>
Changes in unrealized gains (losses) included in earnings related to financial assets still held at the reporting date	<u>\$ 48.4</u>	<u>\$ (12.5)</u>	<u>\$ (69.0)</u>	<u>\$ (79.8)</u>	<u>\$ (29.8)</u>	<u>\$ (2.0)</u>	<u>\$ 0.1</u>	<u>\$ (144.6)</u>

Financial Assets Nine Months Ended September 30, 2013								
	Investments of Consolidated Funds					Trading securities and other	Restricted securities of Consolidated Funds	Total
	Equity securities	Bonds	Loans	Partnership and LLC interests	Other			
Balance, beginning of period	\$2,475.1	\$ 934.2	\$13,290.1	\$ 4,315.5	\$ 7.3	\$ 20.0	\$ —	\$21,042.2
Initial consolidation of funds	—	—	—	—	10.4	—	—	10.4
Transfers in <sup>(1)</sup>	2.9	—	—	—	—	—	8.5	11.4
Transfers out <sup>(1)</sup>	(12.0)	—	—	—	—	—	—	(12.0)
Purchases	144.3	677.8	6,449.5	164.7	21.6	—	—	7,457.9
Sales	(227.4)	(471.7)	(1,909.8)	(1,143.1)	(9.6)	(14.4)	—	(3,776.0)
Settlements	—	—	(4,315.8)	—	—	—	—	(4,315.8)
Realized and unrealized gains (losses), net	194.0	59.2	261.8	372.9	(26.4)	1.5	0.1	863.1
Balance, end of period	<u>\$2,576.9</u>	<u>\$1,199.5</u>	<u>\$13,775.8</u>	<u>\$ 3,710.0</u>	<u>\$ 3.3</u>	<u>\$ 7.1</u>	<u>\$ 8.6</u>	<u>\$21,281.2</u>
Changes in unrealized gains (losses) included in earnings related to financial assets still held at the reporting date	<u>\$ 214.1</u>	<u>\$ 23.6</u>	<u>\$ 82.6</u>	<u>\$ (305.3)</u>	<u>\$ (34.7)</u>	<u>\$ (0.9)</u>	<u>\$ 0.1</u>	<u>\$ (20.5)</u>

Financial Assets Three Months Ended September 30, 2012								
	Investments of Consolidated Funds					Trading securities and other	Total	
	Equity securities	Bonds	Loans	Partnership and LLC interests	Other			
Balance, beginning of period	\$2,140.0	\$ 891.0	\$12,643.1	\$ 4,467.1	\$11.4	\$ 35.5	\$20,188.1	
Initial consolidation of funds	51.7	—	—	—	—	—	51.7	
Purchases	7.5	49.4	1,393.8	43.1	—	—	1,493.8	
Sales	(1.7)	(170.3)	(689.7)	(282.8)	(0.1)	(15.7)	(1,160.3)	
Settlements	—	—	(721.5)	—	—	—	(721.5)	
Realized and unrealized gains (losses), net	375.1	40.1	210.3	(23.5)	(0.9)	1.3	602.4	
Balance, end of period	<u>\$2,572.6</u>	<u>\$ 810.2</u>	<u>\$12,836.0</u>	<u>\$ 4,203.9</u>	<u>\$10.4</u>	<u>\$ 21.1</u>	<u>\$20,454.2</u>	
Changes in unrealized gains (losses) included in earnings related to financial assets still held at the reporting date	<u>\$ 432.4</u>	<u>\$ 26.4</u>	<u>\$ 140.4</u>	<u>\$ 45.5</u>	<u>\$ (1.2)</u>	<u>\$ (1.5)</u>	<u>\$ 642.0</u>	

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Financial Assets Nine Months Ended September 30, 2012							
Investments of Consolidated Funds							
	Equity securities	Bonds	Loans	Partnership and LLC interests	Other	Trading securities and other	Total
Balance, beginning of period	\$1,868.9	\$ 557.0	\$10,152.6	\$ 4,198.6	\$20.8	\$ 30.6	\$16,828.5
Initial consolidation of funds	76.9	262.6	2,256.4	—	—	—	2,595.9
Transfers out <sup>(1)</sup>	(145.6)	—	—	—	—	—	(145.6)
Purchases	48.5	248.9	4,704.6	352.9	—	—	5,354.9
Sales	(317.7)	(311.0)	(1,974.0)	(700.9)	(2.1)	(15.7)	(3,321.4)
Settlements	—	—	(2,584.3)	—	—	—	(2,584.3)
Realized and unrealized gains (losses), net	1,041.6	52.7	280.7	353.3	(8.3)	6.2	1,726.2
Balance, end of period	<u>\$2,572.6</u>	<u>\$ 810.2</u>	<u>\$12,836.0</u>	<u>\$ 4,203.9</u>	<u>\$10.4</u>	<u>\$ 21.1</u>	<u>\$20,454.2</u>
Changes in unrealized gains included in earnings related to financial assets still held at the reporting date	<u>\$ 955.7</u>	<u>\$ 22.7</u>	<u>\$ 175.4</u>	<u>\$ 252.8</u>	<u>\$ 0.4</u>	<u>\$ 3.4</u>	<u>\$ 1,410.4</u>

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

Financial Liabilities Three Months Ended September 30, 2013					
	Loans Payable of Consolidated Funds	Derivative Instruments of Consolidated Funds	Contingent Consideration	Loans Payable of a consolidated real estate VIE	Total
Balance, beginning of period	\$ 15,019.8	\$ 8.9	\$ 172.2	\$ —	\$15,200.9
Initial consolidation of a real estate VIE	—	—	—	123.8	123.8
Borrowings	514.2	—	—	—	514.2
Paydowns	(634.2)	—	(10.4)	—	(644.6)
Sales	—	(5.0)	—	—	(5.0)
Realized and unrealized losses, net	170.8	6.8	9.7	—	187.3
Balance, end of period	<u>\$ 15,070.6</u>	<u>\$ 10.7</u>	<u>\$ 171.5</u>	<u>\$ 123.8</u>	<u>\$15,376.6</u>
Changes in unrealized (gains) losses included in earnings related to financial liabilities still held at the reporting date	<u>\$ (61.8)</u>	<u>\$ 1.9</u>	<u>\$ 9.7</u>	<u>\$ —</u>	<u>\$ (50.2)</u>

Financial Liabilities Nine Months Ended September 30, 2013					
	Loans Payable of Consolidated Funds	Derivative Instruments of Consolidated Funds	Contingent Consideration	Loans Payable of a consolidated real estate VIE	Total
Balance, beginning of period	\$ 13,656.7	\$ 15.8	\$ 186.7	\$ —	\$13,859.2
Initial consolidation of a real estate VIE	—	—	—	123.8	123.8
Borrowings	2,716.7	—	—	—	2,716.7
Paydowns	(2,042.9)	—	(21.3)	—	(2,064.2)
Sales	—	(5.8)	—	—	(5.8)
Realized and unrealized losses, net	740.1	0.7	6.1	—	746.9
Balance, end of period	<u>\$ 15,070.6</u>	<u>\$ 10.7</u>	<u>\$ 171.5</u>	<u>\$ 123.8</u>	<u>\$15,376.6</u>
Changes in unrealized losses included in earnings related to financial liabilities still held at the reporting date	<u>\$ 556.4</u>	<u>\$ 1.7</u>	<u>\$ 6.1</u>	<u>\$ —</u>	<u>\$ 564.2</u>

**The Carlyle Group L.P.**  
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	Financial Liabilities Three Months Ended September 30, 2012			
	Loans Payable of Consolidated Funds	Derivative Instruments of Consolidated Funds	Contingent Consideration	Total
Balance, beginning of period	\$ 12,565.0	\$ 16.7	\$ 170.6	\$12,752.3
Borrowings	603.8	—	—	603.8
Paydowns	(565.0)	—	(10.2)	(575.2)
Sales	—	(0.7)	—	(0.7)
Realized and unrealized losses, net	440.5	2.1	10.5	453.1
Balance, end of period	<u>\$ 13,044.3</u>	<u>\$ 18.1</u>	<u>\$ 170.9</u>	<u>\$13,233.3</u>
Changes in unrealized losses included in earnings related to financial liabilities still held at the reporting date	<u>\$ 323.1</u>	<u>\$ 0.1</u>	<u>\$ 10.5</u>	<u>\$ 333.7</u>

	Financial Liabilities				
	Nine Months Ended September 30, 2012				
	Loans Payable of Consolidated Funds	Derivative Instruments of Consolidated Funds	Subordinated Loan Payable to Affiliate	Contingent Consideration	Total
Balance, beginning of period	\$ 9,689.9	\$ —	\$ 262.5	\$ 169.2	\$10,121.6
Initial consolidation of funds	2,819.1	4.6	—	—	2,823.7
Borrowings	989.5	—	—	—	989.5
Paydowns	(1,072.3)	—	(260.0)	(11.4)	(1,343.7)
Sales	—	(1.0)	—	—	(1.0)
Realized and unrealized (gains) losses, net	618.1	14.5	(2.5)	13.1	643.2
Balance, end of period	<u>\$ 13,044.3</u>	<u>\$ 18.1</u>	<u>\$ —</u>	<u>\$ 170.9</u>	<u>\$13,233.3</u>
Changes in unrealized (gains) losses included in earnings related to financial liabilities still held at the reporting date	\$ 630.4	\$ (24.8)	\$ —	\$ 10.3	\$ 615.9

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

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

<i>(Dollars in millions)</i>	<b>Fair Value at September 30, 2013</b>	<b>Valuation Technique(s)</b>	<b>Unobservable Input(s)</b>	<b>Range (Weighted Average)</b>
<b>Assets</b>				
Investments of Consolidated Funds:				
Equity securities	\$ 2,415.4	Comparable Multiple	LTM EBITDA Multiple	5.6x - 14.6x (10.7x)
	92.8	Comparable Multiple	Price Earnings Multiple	(16.0x)
	12.3	Comparable Multiple	Book Value Multiple	(1.0x)
	23.2	Consensus Pricing	Indicative Quotes (% of Par)	(1)
	33.2	Discounted Cash Flow	Discount Rate	5% - 11% (10%)
			Exit Cap Rate	(9%)
Bonds	1,199.5	Consensus Pricing	Indicative Quotes (% of Par)	(98)
Loans	13,563.3	Consensus Pricing	Indicative Quotes (% of Par)	(96)
	212.5	Market Yield Analysis	Market Yield	5% - 17% (9%)
Partnership and LLC interests	3,710.0	NAV of Underlying Fund <sup>(1)</sup>	N/A	N/A
Other	3.3	Various	N/A	N/A
	21,265.5			
Trading securities and other	5.1	Comparable Multiple	LTM EBITDA Multiple	(5.8x)
	2.0	Discounted Cash Flow	Discount Rate	(7%)
Restricted securities of Consolidated Funds	8.6	Consensus Pricing	Indicative Quotes (% of Par)	(86)
Total	<u>\$ 21,281.2</u>			
<b>Liabilities</b>				
Loans payable of Consolidated Funds:				
Senior secured notes	\$ 13,800.0	Discounted Cash Flow with Consensus Pricing	Discount Rates	(3%)
			Default Rates	(3%)
			Recovery Rates	(62%)
			Indicative Quotes (% of Par)	(96)
Subordinated notes and preferred shares	1,254.4	Discounted Cash Flow with Consensus Pricing	Discount Rates	(16%)
			Default Rates	(3%)
			Recovery Rates	(62%)
			Indicative Quotes (% of Par)	(65)
Combination notes	16.2	Consensus Pricing	Indicative Quotes (% of Par)	(97)
Loans payable of a consolidated real estate VIE	123.8	Discounted Cash Flow	Discount to Expected Payment	41%
			Discount Rate	20% - 30% (23%)
Derivative instruments of Consolidated Funds	10.7	Counterparty Pricing	Indicative Quotes (% of Notional Amount)	(5)
Contingent cash consideration <sup>(2)</sup>	171.5	Discounted Cash Flow	Assumed % of Total Potential Contingent Payments	0% - 100% (84%)
			Discount Rate	2% - 32% (15%)
Total	<u>\$ 15,376.6</u>			

(1) Represents the Partnership's investments in funds that are valued using the NAV of the underlying fund.

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

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The following table summarizes quantitative information about the Partnership's Level III inputs as of December 31, 2012:

<i>(Dollars in millions)</i>	<b>Fair Value at December 31, 2012</b>	<b>Valuation Technique(s)</b>	<b>Unobservable Input(s)</b>	<b>Range (Weighted Average)</b>
<b>Assets</b>				
Investments of Consolidated Funds:				
Equity securities	\$ 2,311.5	Comparable Multiple	LTM EBITDA Multiple	5.6x - 13.5x (9.7x)
	69.4	Comparable Multiple	Price Earnings Multiple	(13.5x)
	15.4	Comparable Multiple	Book Value Multiple	(1.0x)
	33.8	Consensus Pricing	Indicative Quotes (% of Par)	(10)
	45.0	Discounted Cash Flow	Discount Rate	9% - 15% (11%)
			Exit Cap Rate	6% - 8% (7%)
Bonds	934.2	Consensus Pricing	Indicative Quotes (% of Par)	(94)
Loans	12,952.9	Consensus Pricing	Indicative Quotes (% of Par)	(94)
	337.2	Market Yield Analysis	Market Yield	7% - 18% (10%)
Partnership and LLC interests	4,315.5	NAV of Underlying Fund <sup>(1)</sup>	N/A	N/A
Other	7.3	Counterparty Pricing	Indicative Quotes (% of Notional Amount)	(3)
	21,022.2			
Trading securities and other	11.2	Dealer Pricing	Indicative Quotes (% of Par)	(83)
	6.2	Comparable Multiple	LTM EBITDA Multiple	(5.6x)
	2.6	Discounted Cash Flow	Discount Rate	(7%)
Total	<u>\$ 21,042.2</u>			
<b>Liabilities</b>				
Loans payable of Consolidated Funds:				
Senior secured notes	\$ 12,658.4	Discounted Cash Flow with Consensus Pricing	Discount Rates	(4%)
			Default Rates	(3%)
			Recovery Rates	(58%)
			Indicative Quotes (% of Par)	(93)
Subordinated notes and preferred shares	996.9	Discounted Cash Flow with Consensus Pricing	Discount Rates	(29%)
			Default Rates	(3%)
			Recovery Rates	(53%)
			Indicative Quotes (% of Par)	(42)
Combination notes	1.4	Consensus Pricing	Indicative Quotes (% of Par)	(96)
Derivative instruments of Consolidated Funds	15.8	Counterparty Pricing	Indicative Quotes (% of Notional Amount)	(6)
Contingent cash consideration <sup>(2)</sup>	186.7	Discounted Cash Flow	Assumed % of Total Potential Contingent Payments	32% - 100% (79%)
			Discount Rate	2% - 35% (17%)
Total	<u>\$ 13,859.2</u>			

(1) Represents the Partnership's investments in funds that are valued using the NAV of the underlying fund.

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

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The significant unobservable inputs used in the fair value measurement of the Partnership's investments in equity securities include EBITDA, price-earnings and book value multiples, indicative quotes, discount rates and exit cap rates. Significant decreases in EBITDA multiples, price-earnings multiples, book value multiples or indicative quotes in isolation would result in a significantly lower fair value measurement. Significant increases in discount rates or exit cap rates in isolation would result in a significantly lower fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Partnership's investments in bonds and loans are market yields and indicative quotes. Significant increases in market yields would result in a significantly lower fair value measurement. Significant decreases in indicative quotes in isolation would result in a significantly lower fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Partnership's other investments of Consolidated Funds and derivative instruments of Consolidated Funds include indicative quotes and discount rate. Significant decreases in indicative quotes in isolation would result in a significantly lower fair value measurement, while a significant increase in discount rate in isolation would result in a significantly lower fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Partnership's trading securities and other investments include EBITDA multiples and discount rates. Significant decreases in EBITDA multiples or indicative quotes in isolation would result in a significantly lower fair value measurement. Significant increases in discount rates in isolation would result in a significantly lower fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Partnership's loans payable of Consolidated Funds are discount rates, default rates and recovery rates. Significant increases in discount rates or default rates in isolation would result in a significantly lower fair value measurement, while a significant increase in recovery rates in isolation would result in a significantly higher fair value.

The significant unobservable inputs used in the fair value measurement of the Partnership's loans payable of a consolidated real estate VIE are discount to expected payment and discount rate. A significant increase in either of these inputs in isolation would result in a significantly lower fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Partnership's contingent consideration are assumed percentage of total potential contingent payments and discount rates. A significant decrease in the assumed percentage of total potential contingent payments or increase in discount rates in isolation would result in a significantly lower fair value measurement.

## 5. Accrued Performance Fees

The components of accrued performance fees are as follows:

	<i>As of</i>	
	<b>September 30, 2013</b>	<b>December 31, 2012</b>
	<b>(Dollars in millions)</b>	
Corporate Private Equity	\$ 2,172.5	\$ 1,667.3
Global Market Strategies	113.7	69.5
Real Assets	271.9	250.1
Solutions	319.6	205.6
<b>Total</b>	<b>\$ 2,877.7</b>	<b>\$ 2,192.5</b>

Approximately 63% and 61% of accrued performance fees at September 30, 2013 and December 31, 2012, respectively, are related to Carlyle Partners IV, L.P. and Carlyle Partners V, L.P., two of the Partnership's Corporate Private Equity funds.



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Accrued performance fees are shown gross of the Partnership's accrued giveback obligations, which are separately presented in the condensed consolidated balance sheets. The components of the accrued giveback obligations are as follows:

	As of	
	September 30, 2013	December 31, 2012
	(Dollars in millions)	
Corporate Private Equity	\$ (11.7)	\$ (18.9)
Global Market Strategies	(1.4)	(2.1)
Real Assets	(35.6)	(48.2)
Total	<u>\$ (48.7)</u>	<u>\$ (69.2)</u>

**Performance Fees**

The performance fees included in revenues are derived from the following segments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
Corporate Private Equity	\$ 265.6	\$ 350.8	\$ 886.5	\$ 597.7
Global Market Strategies	(14.8)	3.9	142.4	56.3
Real Assets	24.6	3.2	73.7	78.3
Solutions	45.1	(1.6)	119.4	44.4
Total	<u>\$ 320.5</u>	<u>\$ 356.3</u>	<u>\$ 1,222.0</u>	<u>\$ 776.7</u>

Approximately 79% and 67% (\$252.3 million and \$814.3 million, respectively) of performance fees for the three and nine months ended September 30, 2013, respectively, were related to Carlyle Partners IV, L.P., Carlyle Partners V, L.P., and Carlyle Global Financial Services Partners, L.P., three of the Partnership's Corporate Private Equity funds. Total revenues recognized from Carlyle Partners IV, L.P., Carlyle Partners V, L.P. and Carlyle Global Financial Services Partners, L.P., were \$104.4 million, \$143.1 million and \$37.0 million, respectively, for the three months ended September 30, 2013, and were \$327.4 million, \$578.5 million and \$55.9 million, respectively, for the nine months ended September 30, 2013.

Approximately 87% and 64% (\$311.5 million and \$500.5 million, respectively) of performance fees for the three and nine months ended September 30, 2012, respectively, were related to Carlyle Asia Partners II, L.P., Carlyle Partners IV, L.P. and Carlyle Partners V, L.P., three of the Partnership's Corporate Private Equity funds. Total revenues recognized from Carlyle Asia Partners II, L.P., Carlyle Partners IV, L.P. and Carlyle Partners V, L.P. were \$119.5 million, \$92.5 million and \$161.8 million, respectively, for the three months ended September 30, 2012, and were \$131.4 million, \$230.1 million and \$321.2 million, respectively, for the nine months ended September 30, 2012.

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## 6. Investments

Investments consist of the following:

	September 30, 2013	As of December 31, 2012
	(Dollars in millions)	
Equity method investments, excluding accrued performance fees	\$ 778.8	\$ 855.1
Trading securities and other investments	15.2	26.1
<b>Total investments</b>	<b>\$ 794.0</b>	<b>\$ 881.2</b>

### Strategic Investment in NGP

On December 20, 2012, the Partnership entered into separate purchase agreements with ECM Capital, L.P. and Barclays Natural Resource Investments, a division of Barclays Bank PLC (“BNRI”), pursuant to which the Partnership agreed to invest in NGP Management Company, L.L.C. (“NGP Management” and, together with its affiliates, “NGP”). NGP is an Irving, Texas-based energy investor.

The Partnership’s equity interests in NGP Management entitle the Partnership to an allocation of income equal to 47.5% of the management fee-related revenues of the NGP entities that serve as the advisors to certain private equity funds, and future interests in the general partners of certain future carry funds advised by NGP that entitle the Partnership to an allocation of income equal to 7.5% of the carried interest received by such fund general partners. In addition, following the termination of the investment period of the NGP Natural Resources X, L.P. fund (“NGP X”), the Partnership will pay \$7.5 million to acquire an additional 7.5% equity interest in NGP Management that, together with the initial interests described above, will entitle the Partnership to an allocation of income equal to 55% of the management fee-related revenues of the NGP entities that serve as the advisors to certain private equity funds.

The sellers also granted the Partnership options to purchase additional interests in NGP. Specifically, the Partnership acquired (1) an option, exercisable by the Partnership between July 1, 2014 and July 1, 2015, to purchase from BNRI, for a purchase price in cash that is estimated to be between \$65.0 million to \$74.0 million plus the net capital amount that has been contributed by BNRI, interests in the general partner of NGP X entitling the Partnership to an allocation of income equal to 40% of the carried interest received by such fund general partner; (2) an option, exercisable by the Partnership from December 20, 2012 until January 1, 2015, to purchase from BNRI, for a purchase price in cash that is estimated to be between \$34.0 million to \$38.0 million, additional interests in the general partners of all future carry funds advised by NGP entitling the Partnership to an additional equity allocation equal to 40% of the carried interest received by such fund general partners; and (3) an option, exercisable by the Partnership in approximately 13 years, to purchase from ECM Capital, L.P. and its affiliates, for a formulaic purchase price in cash based upon a measure of the earnings of NGP, the remaining equity interests in NGP Management.

In consideration for these interests and options, the Partnership paid an aggregate of \$384.0 million in cash to ECM Capital, L.P. and BNRI, and issued 996,572 Carlyle Holdings partnership units to ECM Capital, L.P. that vest ratably over a period of five years. The Partnership will also pay consideration of \$7.5 million upon the termination of the investment period of the NGP X fund. The transaction also includes contingent consideration payable to ECM Capital, L.P. of up to \$45.0 million in cash, 597,944 Carlyle Holdings partnership units that were issued at closing but vest upon the achievement of performance conditions, and contingently issuable Carlyle Holdings partnership units up to \$15.0 million that will be issued if the performance conditions are met. Additionally, the transaction includes contingent consideration payable to BNRI of up to \$183.0 million, which will be payable partly in cash and partly by a promissory note issued by the Partnership, if the performance conditions are met. The contingent consideration is payable from 2015 through 2018, depending on NGP’s achievement of certain business performance goals.

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The Partnership also entered into a senior advisor consulting agreement with the chief executive officer of NGP and granted deferred restricted common units to a group of NGP personnel who are providing the Partnership with consulting services.

The Partnership accounts for its investment in NGP Management under the equity method of accounting. The Partnership recorded its investment in NGP Management initially at cost, excluding any elements in the transaction that were deemed to be compensatory arrangements to NGP personnel. The Carlyle Holdings partnership units issued in the transaction, the contingently issuable Carlyle Holdings partnership units, and the deferred restricted common units were deemed to be compensatory arrangements; these elements are recognized as an expense under applicable U.S. GAAP.

The Partnership records realized investment income for its equity income allocation from NGP, and also records, as a reduction of realized investment income, its share of any allocated expenses from NGP Management, expenses associated with the compensatory elements of the transaction, and the amortization of the basis differences related to the definitive-lived identifiable intangible assets of NGP Management. For the three months ended September 30, 2013, the Partnership recognized \$3.8 million of realized net investment loss from the investment in NGP Management, comprised of investment earnings of \$15.8 million less \$19.6 million of expenses associated with the compensatory elements of the transaction and amortization of basis differences. For the nine months ended September 30, 2013, the Partnership recognized \$8.5 million of realized net investment loss from the investment in NGP Management, comprised of investment earnings of \$47.6 million less \$56.1 million of expenses associated with the compensatory elements of the transaction and amortization of basis differences.

The Partnership's basis differences based on the underlying net assets of the entity were \$214.4 million and \$259.8 million as of September 30, 2013 and December 31, 2012, respectively; these differences are amortized over a period of ten years.

#### **Equity-Method Investments**

The Partnership's equity method investments include its fund investments in Corporate Private Equity, Global Market Strategies and Real Assets, typically as general partner interests, and its investment in NGP Management (included within Real Assets), which are not consolidated but in which the Partnership exerts significant influence. Investments are related to the following segments:

	As of	
	September 30, 2013	December 31, 2012
	(Dollars in millions)	
Corporate Private Equity	\$ 209.0	\$ 251.6
Global Market Strategies	23.8	18.0
Real Assets	546.0	585.5
Total	<u>\$ 778.8</u>	<u>\$ 855.1</u>

The Partnership evaluates each of its equity method investments to determine if disclosure of summarized income statement information is required under Article 10 of Regulation S-X. As of September 30, 2013 and for the nine months then ended, no individual equity method investment held by the Partnership was significant based on the disclosure criteria.

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**(Unaudited)**

**Investment Income (Loss)**

The components of investment income (loss) are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
Income from equity investments	\$ 6.7	\$ 9.6	\$ 11.6	\$ 35.6
Income (loss) from trading securities	(1.7)	0.5	4.8	5.1
Other investment income (loss)	—	0.1	—	(2.0)
Total	<u>\$ 5.0</u>	<u>\$ 10.2</u>	<u>\$ 16.4</u>	<u>\$ 38.7</u>

Carlyle's income (loss) from its equity-method investments is included in investment income (loss) in the condensed consolidated statements of operations and consists of:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
Corporate Private Equity	\$ 12.9	\$ 5.7	\$ 36.1	\$ 27.8
Global Market Strategies	0.9	—	2.7	1.0
Real Assets	(7.1)	3.9	(27.2)	6.8
Total	<u>\$ 6.7</u>	<u>\$ 9.6</u>	<u>\$ 11.6</u>	<u>\$ 35.6</u>

**Trading Securities and Other Investments**

Trading securities and other investments as of September 30, 2013 and December 31, 2012 primarily consisted of \$15.2 million and \$26.1 million, respectively, of investments in corporate mezzanine securities and bonds, as well as other cost method investments.

**Investments of Consolidated Funds**

During the nine months ended September 30, 2013, the Partnership formed five new CLOs. The Partnership has concluded that these CLOs are VIEs and the Partnership is the primary beneficiary. As a result, the Partnership consolidated the financial positions and results of operations of the CLOs into its condensed consolidated financial statements beginning on their respective closing dates. As of September 30, 2013, the total assets of these CLOs included in the Partnership's condensed consolidated financial statements were approximately \$3.1 billion.

There were no individual investments with a fair value greater than five percent of the Partnership's total assets for any period presented.

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**Interest and Other Income of Consolidated Funds**

The components of interest and other income of Consolidated Funds are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
Interest income from investments	\$ 225.4	\$ 208.4	\$ 677.7	\$ 578.3
Other income	76.6	39.3	145.6	100.1
Total	<u>\$ 302.0</u>	<u>\$ 247.7</u>	<u>\$ 823.3</u>	<u>\$ 678.4</u>

**Net Investment Gains (Losses) of Consolidated Funds**

Net investment gains (losses) of Consolidated Funds include net realized gains (losses) from sales of investments and unrealized gains (losses) resulting from changes in fair value of the Consolidated Funds' investments. The components of net investment gains (losses) of Consolidated Funds are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
Gains (losses) from investments of Consolidated Funds	\$ (142.7)	\$ 802.2	\$ 1,000.0	\$ 2,410.9
Gains (losses) from liabilities of CLOs	60.8	(354.0)	(579.6)	(706.5)
Gains (losses) on other assets of CLOs	(0.1)	0.7	(0.3)	3.2
Total	<u>\$ (82.0)</u>	<u>\$ 448.9</u>	<u>\$ 420.1</u>	<u>\$ 1,707.6</u>

The following table presents realized and unrealized gains (losses) earned from investments of the Consolidated Funds:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
Realized gains (losses)	\$ (138.2)	\$ 96.4	\$ 556.3	\$ 557.7
Net change in unrealized gains (losses)	(4.5)	705.8	443.7	1,853.2
Total	<u>\$ (142.7)</u>	<u>\$ 802.2</u>	<u>\$ 1,000.0</u>	<u>\$ 2,410.9</u>

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**7. Intangible Assets and Goodwill**

The following table summarizes the carrying amount of intangible assets as of September 30, 2013 and December 31, 2012:

	As of	
	September 30, 2013	December 31, 2012
	(Dollars in millions)	
Acquired contractual rights	\$ 799.2	\$ 797.7
Acquired trademarks	6.9	6.8
Accumulated amortization	(263.0)	(150.4)
Finite-lived intangible assets, net	543.1	654.1
Goodwill	37.2	37.0
Intangible assets, net	<u>\$ 580.3</u>	<u>\$ 691.1</u>

The following table summarizes the changes in the carrying amount of goodwill by segment as of September 30, 2013. There was no goodwill associated with the Partnership's Corporate Private Equity and Real Assets segments.

	Global Market Strategies	Solutions	Total
	(Dollars in millions)		
Balance as of December 31, 2012	\$ 28.0	\$ 9.0	\$ 37.0
Foreign currency translation	—	0.2	0.2
Balance as of September 30, 2013	<u>\$ 28.0</u>	<u>\$ 9.2</u>	<u>\$ 37.2</u>

During the three months ended September 30, 2013, the Partnership evaluated for impairment certain intangible assets associated with acquired contractual rights for fee income based on revisions to the related expected future cash flow. The intangible assets are included in the Global Market Strategies segment. The Partnership recorded an impairment loss of \$20.8 million to reduce the carrying value of the intangible assets to their estimated fair value. Fair value was based on a probability-weighted discounted cash flow model. This fair value measurement was based on significant inputs not observable in the market and thus represented a Level III measurement as defined in the accounting guidance for fair value measurements. The impairment loss was included in general, administrative and other expenses in the accompanying condensed consolidated financial statements for the three and nine months ended September 30, 2013.

Intangible asset amortization expense, excluding impairment losses, was \$27.7 million and \$19.9 million for the three months ended September 30, 2013 and 2012, respectively, and \$91.1 million and \$58.3 million for the nine months ended September 30, 2013 and 2012, respectively, and is included in general, administrative, and other expenses in the condensed consolidated statements of operations.

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The following table summarizes the estimated amortization expense, excluding impairment losses, for 2013 through 2017 and thereafter (Dollars in millions):

2013	\$ 115.0
2014	90.7
2015	87.3
2016	83.8
2017	79.4
Thereafter	177.1
	<u>\$ 633.3</u>

## 8. Borrowings

The Partnership borrows and enters into credit agreements for its general operating and investment purposes. The Partnership's borrowings consist of the following:

	<u>As of September 30, 2013</u>		<u>As of December 31, 2012</u>	
	<u>Borrowing Outstanding</u>	<u>Carrying Value</u>	<u>Borrowing Outstanding</u>	<u>Carrying Value</u>
Revolving Credit Facility	\$ —	\$ —	\$ 386.3	\$ 386.3
Term Loan Due 8/09/2018	25.0	25.0	500.0	500.0
3.875% Senior Notes Due 2/01/2023	500.0	499.8	—	—
5.625% Senior Notes Due 3/30/2043	400.0	398.4	—	—
	<u>\$ 925.0</u>	<u>\$ 923.2</u>	<u>\$ 886.3</u>	<u>\$ 886.3</u>

### Senior Credit Facility

The senior credit facility includes \$500.0 million in a term loan and \$750.0 million in a revolving credit facility. The term loan and revolving credit facility mature on August 9, 2018. Principal amounts outstanding under the term loan and revolving credit facility accrue interest, at the option of the borrowers, either (a) at an alternate base rate plus an applicable margin not to exceed 0.75%, or (b) at LIBOR plus an applicable margin not to exceed 1.75% (1.25% at September 30, 2013). During the first quarter of 2013, the Partnership prepaid \$475.0 million of term loan principal that would have been due beginning in September 2014 and expensed \$1.9 million of deferred financing costs in interest expense. The remaining outstanding principal amount under the term loan is payable on August 9, 2018. Total interest expense under the senior credit facility was \$1.1 million and \$4.0 million for the three months ended September 30, 2013 and 2012, respectively, and \$6.3 million and \$16.4 million for the nine months ended September 30, 2013 and 2012, respectively. The fair value of the outstanding balances of the term loan and revolving credit facility at September 30, 2013 and December 31, 2012 approximated par value based on current market rates for similar debt instruments and are classified as Level III within the fair value hierarchy.

### 3.875% Senior Notes

In January 2013, an indirect finance subsidiary of the Partnership issued \$500.0 million in aggregate principal amount of 3.875% senior notes due February 1, 2023 at 99.966% of par. Interest is payable semi-annually on February 1 and August 1, beginning August 1, 2013. This subsidiary may redeem the senior notes in whole at any time or in part from time to time at a price equal to the greater of 100% of the principal amount of the notes being redeemed and the sum of the present values of the remaining scheduled payments of principal and interest on any notes being redeemed discounted to the redemption date on a semi-annual basis at the Treasury rate plus 30 basis points plus accrued and unpaid interest on the principal amounts being redeemed to the redemption date. Interest expense on the notes was \$4.9 million and \$13.9 million for the three and nine months ended September 30, 2013, respectively. At September 30, 2013, the fair value of the notes was approximately \$490.3 million based on indicative quotes and is classified as Level II within the fair value hierarchy.

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**5.625% Senior Notes**

In March 2013, an indirect finance subsidiary of the Partnership issued \$400.0 million in aggregate principal amount of 5.625% senior notes due March 30, 2043 at 99.583% of par. Interest is payable semi-annually on March 30 and September 30, beginning September 30, 2013. This subsidiary may redeem the senior notes in whole at any time or in part from time to time at a price equal to the greater of 100% of the principal amount of the notes being redeemed and the sum of the present values of the remaining scheduled payments of principal and interest on any notes being redeemed discounted to the redemption date on a semi-annual basis at the Treasury rate plus 40 basis points plus accrued and unpaid interest on the principal amounts being redeemed to the redemption date. Interest expense on the notes was \$5.6 million and \$11.5 million for the three and nine months ended September 30, 2013. At September 30, 2013, the fair value of the notes was approximately \$373.3 million based on indicative quotes and is classified as Level II within the fair value hierarchy.

The Partnership is subject to interest rate risk associated with its variable rate debt financing. To manage this risk, the Partnership has an outstanding interest rate swap to fix the base LIBOR interest rate on its term loan borrowings with a notional amount of \$500.0 million at September 30, 2013 that amortizes through September 30, 2016.

In the first quarter of 2013, \$475.0 million of term loan principal was prepaid. As a result of these term loan prepayments, the two interest rate swaps are no longer accounted for as cash flow hedges due to ineffectiveness; the interest rate swaps are accounted for as freestanding derivative instruments recorded at fair value each period with changes in fair value recorded through earnings. The pre-existing hedge losses included in accumulated other comprehensive loss for these interest rate swaps of \$8.8 million is being reclassified into earnings as the original forecasted transactions affect earnings.

In March 2013, the Partnership entered into a third interest rate swap with an initial notional amount of \$427.2 million that amortizes through September 30, 2016. This interest rate swap is accounted for as a freestanding derivative instrument recorded at fair value each period with changes in fair value recorded through earnings.

**Debt Covenants**

The Partnership is subject to various financial covenants under its loan agreements including, among other items, maintenance of a minimum amount of management fee-earning assets. The Partnership is also subject to various non-financial covenants under its loan agreements. The Partnership was in compliance with all financial and non-financial covenants under its various loan agreements as of September 30, 2013. The consolidated real estate VIE was not in compliance with the debt covenants related to substantially all of its loans payable as of September 30, 2013 (see Note 17); such violations do not cause a default or event of default under the Partnership's senior credit facility or senior notes.

**Loans Payable of Consolidated Funds**

Loans payable of Consolidated Funds represent amounts due to holders of debt securities issued by the CLOs. Several of the CLOs issued preferred shares representing the most subordinated interest, however these tranches are mandatorily redeemable upon the maturity dates of the senior secured loans payable, and as a result have been classified as liabilities and are included in loans payable of Consolidated Funds in the condensed consolidated balance sheets.



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As of September 30, 2013 and December 31, 2012, the following borrowings were outstanding, which includes preferred shares classified as liabilities (Dollars in millions):

As of September 30, 2013				
	<u>Borrowing Outstanding</u>	<u>Fair Value</u>	<u>Weighted Average Interest Rate</u>	<u>Weighted Average Remaining Maturity in Years</u>
Senior secured notes	\$ 14,290.8	\$ 13,800.0	1.39%	8.98
Subordinated notes, Income notes and Preferred shares	1,277.0	1,254.4	N/A(a)	8.11
Combination notes	15.2	16.2	N/A(b)	8.38
Total	<u>\$ 15,583.0</u>	<u>\$ 15,070.6</u>		

  

As of December 31, 2012				
	<u>Borrowing Outstanding</u>	<u>Fair Value</u>	<u>Weighted Average Interest Rate</u>	<u>Weighted Average Remaining Maturity in Years</u>
Senior secured notes	\$ 13,662.3	\$ 12,658.4	1.30%	8.80
Subordinated notes, Income notes and Preferred shares	914.8	996.9	N/A(a)	8.22
Combination notes	0.7	1.4	N/A(b)	8.81
Total	<u>\$ 14,577.8</u>	<u>\$ 13,656.7</u>		

- (a) The subordinated notes, income notes and preferred shares do not have contractual interest rates, but instead receive distributions from the excess cash flows of the CLOs.
- (b) The combination notes do not have contractual interest rates and have recourse only to the securities specifically held to collateralize such combination notes.

Loans payable of the CLOs are collateralized by the assets held by the CLOs and the assets of one CLO may not be used to satisfy the liabilities of another. This collateral consisted of cash and cash equivalents, corporate loans, corporate bonds and other securities. As of September 30, 2013 and December 31, 2012, the fair value of the CLO assets was \$16.5 billion and \$15.7 billion, respectively.

Certain CLOs entered into liquidity facility agreements with various liquidity facility providers on or about the various closing dates of the applicable CLO in order to fund payments of interest when there are insufficient funds available. The proceeds from such draw-downs are used for payments of interest at each interest payment date and the acquisition or exercise of an option or warrant as part of any collateral enhancement obligation. These liquidity facility agreements in the aggregate allow for a maximum borrowing of \$13.5 million and bear weighted average interest at EURIBOR plus 0.25% per annum. Amounts borrowed under the liquidity facilities are repaid based on cash flows available subject to priority of payments under each CLO's governing documents. There were no borrowings outstanding under the liquidity facility agreements as of September 30, 2013 and December 31, 2012.

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## 9. Contingent Consideration

The Partnership has contingent consideration obligations related to its business acquisitions and strategic investments. The changes in the contingent consideration liabilities are as follows:

Rollforward For The Three Months Ended September 30, 2013					
Amounts payable to the sellers who are senior Carlyle professionals			Contingent cash and other consideration payable to non-Carlyle personnel		
Performance-based contingent cash consideration	Performance-based contingent equity consideration	Employment-based contingent cash consideration			Total
(Dollars in millions)					
Balance, beginning of period	\$ 141.8	\$ 56.9	\$ 118.0	\$ 30.4	\$347.1
Change in carrying value	8.6	1.5	25.5	1.1	36.7
Payments	(9.6)	(2.3)	—	(0.8)	(12.7)
Balance, end of period	<u>\$ 140.8</u>	<u>\$ 56.1</u>	<u>\$ 143.5</u>	<u>\$ 30.7</u>	<u>\$371.1</u>

  

Rollforward For The Nine Months Ended September 30, 2013					
Amounts payable to the sellers who are senior Carlyle professionals			Contingent cash and other consideration payable to non-Carlyle personnel		
Performance-based contingent cash consideration	Performance-based contingent equity consideration	Employment-based contingent cash consideration			Total
(Dollars in millions)					
Balance, beginning of period	\$ 158.6	\$ 57.6	\$ 96.2	\$ 28.1	\$340.5
Change in carrying value	1.1	0.8	47.3	5.0	54.2
Payments	(18.9)	(2.3)	—	(2.4)	(23.6)
Balance, end of period	<u>\$ 140.8</u>	<u>\$ 56.1</u>	<u>\$ 143.5</u>	<u>\$ 30.7</u>	<u>\$371.1</u>

The fair value of the performance-based contingent cash and equity consideration payable to the sellers who are senior Carlyle professionals has been recorded in due to affiliates in the accompanying condensed consolidated balance sheets. These payments are not contingent upon the senior Carlyle professional being employed by Carlyle at the time that the performance conditions are met. For periods prior to the reorganization and initial public offering in May 2012, the change in the fair value of this contingent consideration was recorded directly in partners' capital in the condensed consolidated balance sheets. For periods subsequent to the reorganization and initial public offering, changes in the fair value of these amounts are recorded in other non-operating (income) expenses in the condensed consolidated statements of operations.

The amount of employment-based contingent cash consideration payable to the sellers who are senior Carlyle professionals has been recorded as accrued compensation and benefits in the accompanying condensed consolidated balance sheets. For periods prior to the reorganization and initial public offering in May 2012, the change in the value of this contingent consideration was recorded in partners' capital in the condensed consolidated balance sheets. For periods subsequent to the reorganization and initial public offering, changes in the value of these amounts are recorded as compensation expense in the condensed consolidated statements of operations.

The fair value of contingent consideration payable to non-Carlyle personnel is included in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets. Changes in the fair value of this contingent consideration are recorded in other non-operating (income) expenses in the condensed consolidated statements of operations.

The fair values of the performance-based contingent cash consideration were based on probability-weighted discounted cash flow models. These fair value measurements are based on significant inputs not observable in the market and thus represent Level III measurements as defined in the accounting guidance for fair value measurement. As of September 30, 2013 and December 31, 2012, the fair value of the contingently issuable Carlyle Holdings partnership units was based principally by reference to the quoted price of the Partnership's common units. This fair value measurement was based on inputs that are not directly observable but are corroborated by observable market data and thus represents a Level II measurement as defined in the accounting guidance for fair value measurement. Refer to Note 4 for additional disclosures related to the fair value of these instruments as of September 30, 2013 and December 31, 2012.

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The following table represents the maximum amounts that could be paid from contingent cash obligations associated with the business acquisitions and the strategic investment in NGP Management and the amount payable if the Partnership elects to exercise its options related to NGP:

	As of September 30, 2013			Liability Recognized on Financial Statements <sup>(1)</sup>
	Hedge Fund Acquisitions	NGP Investment	Total	
	(Dollars in millions)			
Performance-based contingent cash consideration	\$ 354.2	\$ 183.0	\$ 537.2	\$ 171.5
Employment-based contingent cash consideration	389.3	45.0	434.3	143.5
Options to acquire additional investments in NGP <sup>(2)</sup>	—	97.2	97.2	—
Total maximum cash obligations	<u>\$ 743.5</u>	<u>\$ 325.2</u>	<u>\$1,068.7</u>	<u>\$ 315.0</u>

- (1) – On the condensed consolidated balance sheet, the liability for performance-based contingent cash consideration is included in due to affiliates (for amounts owed to senior Carlyle professionals) and accounts payable, accrued expenses, and other liabilities (for amounts owed to other sellers), and the liability for employment-based contingent cash consideration is included in accrued compensation and benefits. Also, the amounts shown here exclude the \$56.1 million liability that has been recognized on the condensed consolidated financial statements for performance-based contingent equity consideration.
- (2) – Refer to Note 6 for more information.

Some of the employment-based contingent cash consideration agreements do not contain provisions limiting the amount that could be paid by the Partnership. For purposes of the table above, the Partnership has used its current estimate of the amount to be paid upon the determination dates for such payments. In the condensed consolidated financial statements, the Partnership records the performance-based contingent cash consideration from business acquisitions at fair value at each reporting period. For the employment-based contingent cash consideration, the Partnership accrues the compensation liability over the implied service period. If the Partnership exercises the options to acquire additional investments in NGP, the amount paid will be included in the carrying value of its equity-method investment in NGP at such time.

In October 2013, the Partnership and the sellers of Claren Road agreed to modifications to the terms of the performance-based contingent cash consideration associated with the 2010 acquisition of Claren Road as well as adjustments to separation payments made upon the sellers' departure from Claren Road. The modifications resulted in changes to the performance conditions and measurement date to earn the performance-based contingent cash consideration and changes to the basis of calculation and length of time for the separation payments. The modifications also include a new performance-based compensatory cash payment of \$25.0 million, which is payable in 2018 based on the achievement of certain performance conditions.

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# 10. Accrued Compensation and Benefits

Accrued compensation and benefits consist of the following:

	September 30, 2013	As of December 31, 2012
	(Dollars in millions)	
Accrued performance fee-related compensation	\$ 1,259.5	\$ 912.0
Accrued bonuses	299.6	188.5
Employment-based contingent cash consideration	143.5	96.2
Other	95.2	121.5
<b>Total</b>	<b>\$ 1,797.8</b>	<b>\$ 1,318.2</b>

# 11. Commitments and Contingencies

## Capital Commitments

The Partnership and its unconsolidated affiliates have unfunded commitments to entities within the following segments as of September 30, 2013 (Dollars in millions):

	Unfunded Commitments
Corporate Private Equity	\$ 2,095.3
Global Market Strategies	241.0
Real Assets	385.6
	<b>\$ 2,721.9</b>

Of the \$2.7 billion of unfunded commitments, approximately \$2.5 billion is subscribed individually by senior Carlyle professionals, operating executives and other professionals, with the balance funded directly by the Partnership. In addition to these unfunded commitments, the Partnership may from time to time exercise its right to purchase additional interests in its investment funds that become available in the ordinary course of their operations.

## Guaranteed Loans

On August 4, 2001, the Partnership entered into an agreement with a financial institution pursuant to which the Partnership is the guarantor on a credit facility for eligible employees investing in Carlyle sponsored funds. This credit facility renews on an annual basis, allowing for annual incremental borrowings up to an aggregate of \$16.3 million, and accrues interest at the lower of the prime rate, as defined, or three-month LIBOR plus 2%, reset quarterly (3.25% weighted-average rate at September 30, 2013). As of September 30, 2013 and December 31, 2012, approximately \$9.4 million and \$10.8 million, respectively, were outstanding under the credit facility and payable by the employees. The amount funded by the Partnership under this guarantee as of September 30, 2013 was not material. The Partnership believes the likelihood of any material funding under this guarantee to be remote. The fair value of this guarantee is not significant to the condensed consolidated financial statements.

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**Other Guarantees**

The Partnership has guaranteed payment of giveback obligations, if any, related to one of its Corporate Private Equity funds to the extent the amount of funds reserved for potential giveback obligations is not sufficient to fulfill such obligations. At September 30, 2013 and December 31, 2012, \$13.2 million and \$13.0 million, respectively, were held in an escrow account and the Partnership believes the likelihood of any material fundings under this guarantee to be remote.

In October 2013, the Partnership entered into an agreement with a financial institution to guarantee repayment on a \$200.0 million credit facility entered into by one of Carlyle's hedge funds. The credit facility expires on December 20, 2013. The Partnership believes the likelihood of any material funding under this guarantee to be remote. The fair value of this guarantee would not be significant to the Partnership's condensed consolidated financial statements.

**Contingent Obligations (Giveback)**

A liability for potential repayment of previously received performance fees of \$48.7 million at September 30, 2013, is shown as accrued giveback obligations in the condensed consolidated balance sheets, representing the giveback obligation that would need to be paid if the funds were liquidated at their current fair values at September 30, 2013. However, the ultimate giveback obligation, if any, does not become realized until the end of a fund's life (see Note 2). The Partnership has recorded \$24.9 million and \$32.8 million of unbilled receivables from former and current employees and senior Carlyle professionals as of September 30, 2013 and December 31, 2012, respectively, related to giveback obligations, which are included in due from affiliates and other receivables, net in the accompanying condensed consolidated balance sheets. Current and former senior Carlyle professionals and employees are personally responsible for their giveback obligations. The receivables are collateralized by investments made by individual senior Carlyle professionals and employees in Carlyle-sponsored funds. In addition, \$311.4 million and \$309.1 million have been withheld from distributions of carried interest to senior Carlyle professionals and employees for potential giveback obligations as of September 30, 2013 and December 31, 2012, respectively. Such amounts are held by an entity not included in the accompanying condensed consolidated balance sheets.

In the first quarter of 2013, the Partnership repaid \$14.0 million of giveback obligations to certain funds. This amount was funded primarily through collection of employee receivables related to giveback obligations and from contributions from non-controlling interests for their portion of the obligation. The Partnership had previously recognized this liability as an unrealized performance fee loss. As a result of the giveback repayment, the Partnership reclassified this amount to a realized performance fee loss for the nine months ended September 30, 2013.

If, at September 30, 2013, all of the investments held by the Partnership's Funds were deemed worthless, a possibility that management views as remote, the amount of realized and distributed carried interest subject to potential giveback would be \$1.0 billion, on an after-tax basis where applicable.

**Leases**

The Partnership leases office space in various countries around the world and maintains its headquarters in Washington, D.C., where it leases its primary office space under a non-cancelable lease agreement expiring on July 31, 2026. Office leases in other locations expire in various years from 2013 through 2021. These leases are accounted for as operating leases. Rent expense was approximately \$12.5 million and \$11.3 million for the three months ended September 30, 2013 and 2012, respectively, and \$37.1 million and \$35.3 million for the nine months ended September 30, 2013 and 2012, respectively, and is included in general, administrative and other expenses in the condensed consolidated statements of operations.

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The future minimum commitments for the leases are as follows (Dollars in millions):

2013	\$ 12.0
2014	47.1
2015	42.8
2016	34.3
2017	32.0
Thereafter	105.0
	<u>\$273.2</u>

Total minimum rentals to be received in the future under non-cancelable subleases as of September 30, 2013 were \$11.9 million.

The Partnership records contractual escalating minimum lease payments on a straight-line basis over the term of the lease. Deferred rent payable under the leases was \$33.4 million and \$30.1 million as of September 30, 2013 and December 31, 2012, respectively, and is included in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets.

### **Legal Matters**

In the ordinary course of business, the Partnership is a party to litigation, investigations, disputes and other potential claims. Certain of these matters are described below. The Partnership is not currently able to estimate for any such matters the reasonably possible amount of loss or range of loss. The Partnership does not believe it is probable that the outcome of any existing litigation, investigations, disputes or other potential claims will materially affect the Partnership or these financial statements. The Partnership believes that the matters described below are without merit and intends to vigorously contest all such allegations.

In September 2006 and March 2009, the Partnership received requests for certain documents and other information from the Antitrust Division of the U.S. Department of Justice ("DOJ") in connection with the DOJ's investigation of global alternative asset firms to determine whether they have engaged in conduct prohibited by U.S. antitrust laws. The Partnership fully cooperated with the DOJ's investigation.

On February 14, 2008, a private class-action lawsuit challenging "club" bids and other alleged anti-competitive business practices was filed in the U.S. District Court for the District of Massachusetts (*Police and Fire Retirement System of the City of Detroit v. Apollo Global Management, LLC*). The complaint alleges, among other things, that certain global alternative asset firms, including the Partnership, violated Section 1 of the Sherman Act by forming multi-sponsor consortiums for the purpose of bidding collectively in company buyout transactions in certain going private transactions, which the plaintiffs allege constitutes a "conspiracy in restraint of trade." Count One of the complaint alleges an overarching conspiracy relating to certain large buyout transactions. Count Two of the complaint alleges a conspiracy with regard to the buyout of Healthcare Corporation of America. The plaintiffs seek damages as provided for in Section 4 of the Clayton Act and an injunction against such conduct in restraint of trade in the future. The defendants moved for summary judgment on both counts. On March 13, 2013, the U.S. District Court for the District of Massachusetts ruled that plaintiffs could proceed on Count One solely on the basis of an alleged conspiracy to refrain from "jumping" announced proprietary (i.e., non-auction) deals. The Court stated that it would entertain further summary judgment motions by individual defendants as to their participation in the more narrowly-defined alleged conspiracy. The Court also denied summary judgment as to Count Two. On April 16, 2013, Carlyle filed a consolidated motion, renewing its motion for summary judgment on Count One, and moving for reconsideration on Count Two. On April 22, 2013, Carlyle joined a motion seeking reconsideration on Count Two filed on behalf of all Count Two defendants. On June 20, 2013, the Court denied the motion for reconsideration on Count Two filed by the Count Two defendants. On July 18, 2013, the Court denied Carlyle's individual summary judgment motion regarding its participation in the conspiracy alleged in Count One. The U. S. District Court for the District of Massachusetts has set a schedule for class certification proceedings, which calls for a hearing on class certification sometime after May 19, 2014.

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Along with many other companies and individuals in the financial sector, Carlyle and CMP are named as defendants in *Foy v. Austin Capital*, a case filed in June 2009, pending in the State of New Mexico's First Judicial District Court, County of Santa Fe, which purports to be a qui tam suit on behalf of the State of New Mexico. The suit alleges that investment decisions by New Mexico public investment funds were improperly influenced by campaign contributions and payments to politically connected placement agents. The plaintiffs seek, among other things, actual damages, actual damages for lost income, rescission of the investment transactions described in the complaint and disgorgement of all fees received. In May 2011, the Attorney General of New Mexico moved to dismiss certain defendants including Carlyle and CMP on the grounds that separate civil litigation by the Attorney General is a more effective means to seek recovery for the State from these defendants. The Attorney General has brought two civil actions against certain of those defendants, not including the Carlyle defendants. The Attorney General has stated that its investigation is continuing and it may bring additional civil actions.

Carlyle Capital Corporation Limited ("CCC") was a fund sponsored by Carlyle that invested in AAA-rated residential mortgage backed securities on a highly leveraged basis. In March of 2008, amidst turmoil throughout the mortgage markets and money markets, CCC filed for insolvency protection in Guernsey. Several different lawsuits, described below, developed from the CCC insolvency.

First, on July 13, 2009, a former shareholder of CCC, claiming to have lost \$20.0 million, filed a claim against CCC, Carlyle and certain affiliates and one of the Partnership's officers (*Huffington v. TC Group L.L.C., et al.*) alleging violations of Massachusetts "blue sky" law provisions relating to material misrepresentations and omissions allegedly made during and after the marketing of CCC. The plaintiff sought treble damages, interest, expenses, attorney's fees and to have the subscription agreement deemed null and void and to receive a full refund of the investment. In March 2010, the United States District Court for the District of Massachusetts dismissed the plaintiff's complaint on the grounds that it should have been filed in Delaware instead of Massachusetts based on the forum selection provision in the plaintiff's subscription agreement. The plaintiff subsequently filed a notice of appeal to the United States Court of Appeals for the First Circuit. The plaintiff lost his appeal to the First Circuit and filed a new claim in Delaware State Court. The Delaware State Court granted in part and denied in part defendants' motion to dismiss, which was converted to a motion for summary judgment. The plaintiff has since dismissed his claim without any monetary compensation, in exchange for Carlyle's dismissal of its counterclaim against him for violation of the forum selection clause.

Second, in November 2009, another CCC investor, National Industries Group (Holding) ("National Industries") instituted legal proceedings on similar grounds in Kuwait's Court of First Instance (*National Industries Group v. Carlyle Group*) seeking to recover losses incurred in connection with an investment in CCC. In July 2011, the Delaware Court of Chancery issued a decision restraining National Industries from proceeding in Kuwait on any CCC-related claims based on the forum selection clause in National Industries' subscription agreement, which provided for exclusive jurisdiction in the Delaware courts. In September 2011, National Industries reissued its complaint in Kuwait naming CCC only, and reissued its complaint in January 2012 joining Carlyle Investment Management, L.L.C. as a defendant. In April 2013, the court in Kuwait dismissed National Industries' claim without prejudice for failure to serve process. Hearings in the case and related to the case have nevertheless taken place on several occasions since that time, most recently in September 2013. Meanwhile, in August 2012, National Industries had filed a motion to vacate the Delaware Court of Chancery's decision. The Partnership successfully opposed that motion and the Court's injunction remained in effect. In November 2012, National Industries appealed that decision to the Delaware Supreme Court. On May 29, 2013, the Delaware Supreme Court affirmed the Chancery Court's decision and upheld the 2011 injunction barring National Industries from filing or prosecuting any CCC-related action in any forum other than the courts of Delaware.

Third, the Guernsey liquidators who took control of CCC in March 2008 filed four suits on July 7, 2010 against Carlyle, certain of its affiliates and the former directors of CCC in the Delaware Chancery Court, the Royal Court of Guernsey, the Superior Court of the District of Columbia and the Supreme Court of New York, New York County, (*Carlyle Capital Corporation Limited v. Conway et al.*) seeking \$1.0 billion in damages. They allege that Carlyle and the CCC board of directors were negligent, grossly negligent or willfully mismanaged the CCC investment program and breached certain fiduciary duties allegedly owed to CCC and its shareholders. The liquidators further allege (among other things) that the directors and Carlyle put the interests of Carlyle ahead of the interests of CCC and its shareholders and gave priority to preserving and enhancing Carlyle's reputation and its "brand" over the best interests of CCC. In July 2011, the Royal Court of Guernsey held that the case should be litigated in Delaware pursuant to the exclusive jurisdiction clause in the investment management agreement. That ruling was appealed by the liquidators, and in February 2012 was

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reversed by the Guernsey Court of Appeal, which held that the case should proceed in Guernsey. Defendants' attempts to appeal to the Privy Council were unsuccessful and the plaintiffs' case is proceeding in Guernsey. Two claims in that case, which sought the return of certain documents and other property purportedly belonging to CCC, were resolved by agreement of the parties and order of the Royal Court of Guernsey in December 2012. Carlyle has now completed its document production pursuant to that order. On July 24, 2013, plaintiffs filed an amended complaint, which contained further detail in support of the existing claims but no new defendants or claims. Defendants are now preparing a defense to the amended claim, which will be filed by December 20, 2013. After the defense is filed, the court is expected to set a schedule for the remainder of the case. In addition, the liquidators' lawsuits in New York and the District of Columbia were dismissed in December 2011 without prejudice.

Fourth, on June 21, 2011, August 24, 2011 and September 1, 2011, respectively, three putative shareholder class actions were filed against Carlyle, certain of its affiliates and former directors of CCC alleging that the fund offering materials and various public disclosures were materially misleading or omitted material information. Two of the shareholder class actions (*Phelps v. Stomber, et al.* and *Glaubach v. Carlyle Capital Corporation Limited, et al.*) were filed in the United States District Court for the District of Columbia. *Phelps v. Stomber, et al.* was also filed in the Supreme Court of New York, New York County and was subsequently removed to the United States District Court for the Southern District of New York. The two original D.C. cases were consolidated into one case under the caption of *Phelps v. Stomber* and the Phelps named plaintiffs were designated "lead plaintiffs" by the Court. The New York case was transferred to the D.C. federal court and the plaintiffs requested that it be consolidated with the other two D.C. actions. The plaintiffs were seeking compensatory damages sustained as a result of the alleged misrepresentations, costs and expenses, as well as reasonable attorney's fees. On August 13, 2012, the United States District Court for the District of Columbia dismissed both the D.C. and New York shareholder class actions. The plaintiffs moved for leave to amend their complaint and/or for amendment of the Court's decision, but the trial court denied that motion on June 4, 2013. The plaintiffs' previously filed notice of appeal to the Court of Appeals for the District of Columbia Circuit was then automatically reinstated and that appeal is now proceeding.

**Other Contingencies**

From 2007 to 2009, a Luxembourg subsidiary of Carlyle Europe Real Estate Partners, L.P. (CEREP I), a real estate fund, received proceeds from the sale of real estate located in Paris, France. The relevant French tax authorities have asserted that CEREP I was ineligible to claim certain exemptions from French tax under the Luxembourg-French tax treaty, and have issued a tax assessment seeking to collect approximately €97.0 million, consisting of taxes, interest and penalties. Additionally, the French Ministry of Justice has commenced an investigation regarding the legality under French law of claiming the exemptions under the tax treaty.

CEREP I and its subsidiaries are contesting the French tax assessment while exploring settlement opportunities. In July 2012, the Partnership provided a guarantee to the French tax authorities as credit support for the €45.7 million tax assessment and in October 2012, placed an additional €4.4 million in escrow, in each case, related to CEREP I. The Partnership expects to incur costs on behalf of CEREP I and its related entities. The Partnership will attempt to recover any amounts advanced or paid from proceeds of subsequent portfolio dispositions by CEREP I. The amount of any unrecoverable costs that may be incurred by the Partnership is not estimable at this time. Commencing with the issuance of the credit support on behalf of CEREP I in July 2012, the Partnership consolidated the fund into its consolidated financial statements. As of September 30, 2013, CEREP I had accrued €41.8 million (\$56.5 million as of September 30, 2013) related to this contingency, which is included in other liabilities of Consolidated Funds in the consolidated financial statements.

During 2006, CEREP I completed a reorganization of several Italian subsidiaries. Certain of those Italian subsidiaries sold various properties located in Italy. The Italian tax authorities issued formal notices of assessment to certain of those subsidiaries, in each case, disallowing deductions of certain capital losses claimed with respect to the reorganization of the Italian subsidiaries. CEREP I and its relevant subsidiaries recently reached a settlement with the Italian tax authorities regarding this dispute and, in connection therewith, paid approximately €16.0 million.



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**Indemnifications**

In the normal course of business, the Partnership and its subsidiaries enter into contracts that contain a variety of representations and warranties and provide general indemnifications. The Partnership's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Partnership that have not yet occurred. However, based on experience, the Partnership believes the risk of material loss to be remote.

**Risks and Uncertainties**

Carlyle's funds seek investment opportunities that offer the possibility of attaining substantial capital appreciation. Certain events particular to each industry in which the underlying investees conduct their operations, as well as general economic conditions, may have a significant negative impact on the Partnership's investments and profitability. Such events are beyond the Partnership's control, and the likelihood that they may occur and the effect on the Partnership cannot be predicted.

Furthermore, certain of the funds' investments are made in private companies and there are generally no public markets for the underlying securities at the current time. The funds' ability to liquidate their publicly-traded investments are often subject to limitations, including discounts that may be required to be taken on quoted prices due to the number of shares being sold. The funds' ability to liquidate their investments and realize value is subject to significant limitations and uncertainties, including among others currency fluctuations and natural disasters.

The funds make investments outside of the United States. Investments outside the U.S. may be subject to less developed bankruptcy, corporate, partnership and other laws (which may have the effect of disregarding or otherwise circumventing the limited liability structures potentially causing the actions or liabilities of one fund or a portfolio company to adversely impact the Partnership or an unrelated fund or portfolio company). Non-U.S. investments are subject to the same risks associated with the Partnership's U.S. investments as well as additional risks, such as fluctuations in foreign currency exchange rates, unexpected changes in regulatory requirements, heightened risk of political and economic instability, difficulties in managing non-U.S. investments, potentially adverse tax consequences and the burden of complying with a wide variety of foreign laws.

Furthermore, Carlyle is exposed to economic risk concentrations related to certain large investments as well as concentrations of investments in certain industries and geographies.

Additionally, the Partnership encounters credit risk. Credit risk is the risk of default by a counterparty in the Partnership's investments in debt securities, loans, leases and derivatives that result from a borrower's, lessee's or derivative counterparty's inability or unwillingness to make required or expected payments.

The Partnership considers cash, cash equivalents, securities, receivables, equity-method investments, accounts payable, accrued expenses, other liabilities, loans payable, senior notes, assets and liabilities of Consolidated Funds and contingent and other consideration for acquisitions to be its financial instruments. The carrying amounts reported in the condensed consolidated balance sheets for these financial instruments equal or closely approximate their fair values.

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**Termination Costs**

Employee and office lease termination costs are included in accrued compensation and benefits and accounts payable, accrued expenses and other liabilities in the condensed consolidated balance sheets as well as general, administrative and other expenses in the condensed consolidated statements of operations. As of September 30, 2013 and December 31, 2012, the accrual for termination costs primarily represents (1) lease obligations associated with closed offices, and (2) severance costs related to terminated employees, which represents management's estimate of the total amount expected to be incurred. The changes in the accrual for termination costs for the three months and nine months ended September 30, 2013 and 2012 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
Balance, beginning of period	\$ 14.0	\$ 16.3	\$ 13.6	\$ 15.2
Compensation expense	0.2	1.5	3.9	4.9
Contract termination costs	(0.3)	(0.6)	—	0.1
Costs paid or settled	(3.2)	(4.4)	(6.8)	(7.4)
Balance, end of period	<u>\$ 10.7</u>	<u>\$ 12.8</u>	<u>\$ 10.7</u>	<u>\$ 12.8</u>

**12. Related Party Transactions**

**Due from Affiliates and Other Receivables, Net**

The Partnership had the following due from affiliates and other receivables at September 30, 2013 and December 31, 2012:

	As of	
	September 30, 2013	December 31, 2012
	(Dollars in millions)	
Unbilled receivable for giveback obligations from current and former employees	\$ 24.9	\$ 32.8
Notes receivable and accrued interest from affiliates	7.2	10.0
Other receivables from unconsolidated funds and affiliates, net	144.0	147.9
Total	<u>\$ 176.1</u>	<u>\$ 190.7</u>

Notes receivable represent loans that the Partnership has provided to certain unconsolidated funds to meet short-term obligations to purchase investments. Other receivables from certain of the unconsolidated funds and portfolio companies relate to management fees receivable from limited partners, advisory fees receivable and expenses paid on behalf of these entities. These costs represent costs related to the pursuit of actual or proposed investments, professional fees and expenses associated with the acquisition, holding and disposition of the investments. The affiliates are obligated at the discretion of the Partnership to reimburse the expenses. Based on management's determination, the Partnership accrues and charges interest on amounts due from affiliate accounts at interest rates ranging up to 7.18% as of September 30, 2013. The accrued and charged interest to the affiliates was not significant for any period presented.

These receivables are assessed regularly for collectability and amounts determined to be uncollectible are charged directly to general, administrative and other expenses in the condensed consolidated statements of operations. A corresponding allowance for doubtful accounts is recorded and such amounts were not significant for any period presented.

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**Due to Affiliates**

The Partnership had the following due to affiliates balances at September 30, 2013 and December 31, 2012:

	September 30, 2013	As of December 31, 2012
	(Dollars in millions)	
Due to affiliates of Consolidated Funds	\$ 58.2	\$ 42.1
Due to non-consolidated affiliates	86.4	27.8
Performance-based contingent cash and equity consideration related to acquisitions	196.9	216.2
Amounts owed under the tax receivable agreement	33.8	34.9
Other	27.9	11.1
Total	<u>\$ 403.2</u>	<u>\$ 332.1</u>

The Partnership has recorded obligations for amounts due to certain of its affiliates. The Partnership periodically offsets expenses it has paid on behalf of its affiliates against these obligations. The amount owed under the tax receivable agreement is related primarily to the exchange in May 2012 by CalPERS of its Carlyle Holdings partnership units for Partnership common units.

**Other Related Party Transactions**

In the normal course of business, the Partnership has made use of aircraft owned by entities controlled by senior Carlyle professionals. The senior Carlyle professionals paid for their purchases of the aircraft and bear all operating, personnel and maintenance costs associated with their operation for personal use. Payment by the Partnership for the business use of these aircraft by senior Carlyle professionals and other employees is made at market rates, which totaled \$2.1 million and \$2.4 million for the three months ended September 30, 2013 and 2012, respectively, and \$7.9 million and \$6.1 million for the nine months ended September 30, 2013 and 2012, respectively. These fees are included in general, administrative, and other expenses in the condensed consolidated statements of operations.

Senior Carlyle professionals and employees are permitted to participate in co-investment entities that invest in Carlyle funds or alongside Carlyle funds. In many cases, participation is limited by law to individuals who qualify under applicable legal requirements. These co-investment entities generally do not require senior Carlyle professionals and employees to pay management or performance fees.

Carried interest income from the funds can be distributed to senior Carlyle professionals and employees on a current basis, but is subject to repayment by the subsidiary of the Partnership that acts as general partner of the fund in the event that certain specified return thresholds are not ultimately achieved. The senior Carlyle professionals and certain other investment professionals have personally guaranteed, subject to certain limitations, the obligation of these subsidiaries in respect of this general partner obligation. Such guarantees are several and not joint and are limited to a particular individual's distributions received.

The Partnership does business with some of its portfolio companies; all such arrangements are on a negotiated basis.

Substantially all revenue is earned from affiliates of Carlyle.

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**13. Income Taxes**

The Partnership is organized as a series of pass through entities pursuant to the United States Internal Revenue Code. As such, the Partnership is not responsible for the tax liability due on certain income earned during the year. Such income is taxed at the unitholder and non-controlling interest holder level, and any tax on such income is the responsibility of the unitholders and is paid at that level. The Partnership's income tax expense was \$17.9 million and \$5.5 million for the three months ended September 30, 2013 and 2012, respectively, and \$59.4 million and \$27.8 million for the nine months ended September 30, 2013 and 2012, respectively.

In the normal course of business, the Partnership is subject to examination by federal and certain state, local and foreign tax regulators. As of September 30, 2013, the Partnership's U.S. federal income tax returns for the years 2010 through 2012 are open under the normal three-year statute of limitations and therefore subject to examination. State and local tax returns are generally subject to audit from 2008 to 2012. Foreign tax returns are generally subject to audit from 2005 to 2012. Certain of the Partnership's foreign subsidiaries are currently under audit by foreign tax authorities.

The Partnership does not believe that the outcome of these audits will require it to record reserves for uncertain tax positions or that the outcome will have a material impact on the condensed consolidated financial statements. The Partnership does not believe that it has any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

**14. Non-controlling Interests in Consolidated Entities**

The components of the Partnership's non-controlling interests in consolidated entities are as follows:

	<i>As of</i>	
	September 30, 2013	December 31, 2012
	(Dollars in millions)	
Non-Carlyle interests in Consolidated Funds	\$ 7,058.2	\$ 7,963.9
Non-Carlyle interests in majority-owned subsidiaries	275.5	228.1
Non-controlling interest in AlpInvest	—	28.9
Non-controlling interest in carried interest and cash held for carried interest distributions	46.4	43.9
Non-controlling interests in consolidated entities	<u>\$ 7,380.1</u>	<u>\$ 8,264.8</u>

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The components of the Partnership's non-controlling interests in income (loss) of consolidated entities are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
Non-Carlyle interests in Consolidated Funds	\$ (0.7)	\$ 616.5	\$ 616.9	\$1,940.5
Non-Carlyle interests in majority-owned subsidiaries	(8.5)	(0.8)	1.9	9.6
Non-controlling interest in carried interest and cash held for carried interest distributions	4.4	36.5	24.3	1.9
Net income (loss) attributable to other non-controlling interests in consolidated entities	(4.8)	652.2	643.1	1,952.0
Net loss attributable to partners' capital appropriated for CLOs	(0.5)	(148.4)	(389.5)	(216.2)
Net income (loss) attributable to redeemable non-controlling interests in consolidated entities	(21.3)	(18.4)	187.8	(27.6)
Non-controlling interests in income (loss) of consolidated entities	<u>\$ (26.6)</u>	<u>\$ 485.4</u>	<u>\$ 441.4</u>	<u>\$1,708.2</u>

During the three months ended September 30, 2013, the Partnership acquired the remaining 40% equity interest in AlpInvest. Refer to Note 3 for more information. There have been no other significant changes in the Partnership's ownership interests in its consolidated entities for the periods presented.

### 15. Earnings Per Common Unit

Prior to the reorganization and the initial public offering in May 2012, Carlyle's business was conducted through a large number of entities as to which there was no single holding entity, but which were separately owned by the senior Carlyle professionals, CalPERS and Mubadala. There was no single capital structure upon which to calculate historical earnings per common unit information. Accordingly, earnings per common unit information has not been presented for historical periods prior to the reorganization and initial public offering.

The weighted-average common units outstanding, basic and diluted, are calculated as follows:

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	Basic	Diluted	Basic	Diluted
The Carlyle Group L.P. weighted-average common units outstanding	47,554,246	47,554,246	45,363,194	45,363,194
Unvested deferred restricted common units	—	2,569,500	—	3,914,608
Contingently issuable Carlyle Holdings Partnership units	—	931,818	—	931,818
Weighted-average common units outstanding	<u>47,554,246</u>	<u>51,055,564</u>	<u>45,363,194</u>	<u>50,209,620</u>

  

	Three Months Ended September 30, 2012		For the Period from May 8, 2012 Through September 30, 2012	
	Basic	Diluted	Basic	Diluted
The Carlyle Group L.P. weighted-average common units outstanding	43,235,336	43,235,336	42,097,973	42,097,973
Unvested deferred restricted common units	—	2,267,863	—	1,337,163
Contingently issuable Carlyle Holdings Partnership units	—	1,436,552	—	1,436,552
Weighted-average vested Carlyle Holdings Partnership units	—	—	—	205,650,944
Unvested Carlyle Holdings Partnership units	—	—	—	4,777,828
Weighted-average common units outstanding	<u>43,235,336</u>	<u>46,939,751</u>	<u>42,097,973</u>	<u>255,300,460</u>

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The weighted-average common units outstanding of The Carlyle Group L.P. includes vested deferred restricted common units for which issuance of the related common units is deferred until future periods.

On August 1, 2013, as part of acquiring the remaining 40% equity interests in AlpInvest, the Partnership issued 914,087 common units that are subject to vesting conditions. The common units participate immediately in any Partnership distributions. Under ASC 260, these common units are considered participating securities and are required to be included in the computation of earnings per common unit pursuant to the two-class method.

The Partnership applies the treasury stock method to determine the dilutive weighted-average common units represented by the unvested deferred restricted common units. Also included in the determination of dilutive weighted-average common units are contingently issuable Carlyle Holdings partnership units associated with the Claren Road and Vermillion acquisitions. For purposes of determining the dilutive weighted-average common units, it is assumed that September 30, 2013 and 2012 represent the end of the contingency period and the “if-converted” method is applied to the Carlyle Holdings partnership units issuable therefrom.

The Partnership applies the “if-converted” method to the vested Carlyle Holdings partnership units to determine the dilutive weighted-average common units outstanding. The Partnership applies the treasury stock method to the unvested Carlyle Holdings partnership units and the “if-converted” method on the resulting number of additional Carlyle Holdings partnership units to determine the dilutive weighted-average common units represented by the unvested Carlyle Holdings partnership units.

In computing the dilutive effect that the exchange of Carlyle Holdings partnership units would have on earnings per common unit, the Partnership considered that net income available to holders of common units would increase due to the elimination of non-controlling interests in Carlyle Holdings (including any tax impact). Based on these calculations, the incremental 225,057,658, 226,225,439, and 204,518,212 of vested and unvested Carlyle Holdings partnership units for the three months and nine months ended September 30, 2013, and the three months ended September 30, 2012, respectively, were anti-dilutive, and therefore have been excluded. For the period from May 8, 2012 through September 30, 2012, the 205,650,944 and 4,777,828 of vested and unvested Carlyle Holdings partnership units were dilutive. As a result, the net income of non-controlling interests in Carlyle Holdings associated with this assumed exchange of \$31.1 million for the period from May 8, 2012 through September 30, 2012 has been included in net income attributable to The Carlyle Group L.P. for purposes of the dilutive earnings per common unit calculation.

Basic and diluted net income per common unit are calculated as follows:

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	Basic	Diluted	Basic	Diluted
Net income attributable to The Carlyle Group L.P.	\$ 2,300,000	\$ 2,300,000	\$32,800,000	\$ 32,800,000
Dilution of earnings due to participating securities with distribution rights	(216,000)	(211,000)	(231,000)	(223,000)
Net income per common unit	\$ 2,084,000	\$ 2,089,000	\$32,569,000	\$ 32,577,000
Weighted-average common units outstanding	47,554,246	51,055,564	45,363,194	50,209,620
Net income per common unit	\$ 0.04	\$ 0.04	\$ 0.72	\$ 0.65

  

	Three Months Ended September 30, 2012		For the Period from May 8, 2012 Through September 30, 2012	
	Basic	Diluted	Basic	Diluted
Net income attributable to The Carlyle Group L.P.	\$18,600,000	\$18,600,000	\$ 8,300,000	\$ 8,300,000
Incremental net income from assumed exchange of Carlyle Holdings partnership units	—	—	—	31,121,000
Total	\$18,600,000	\$18,600,000	\$ 8,300,000	\$ 39,421,000
Weighted-average common units outstanding	43,235,336	46,939,751	42,097,973	255,300,460
Net income per common unit	\$ 0.43	\$ 0.40	\$ 0.20	\$ 0.15

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**16. Equity-Based Compensation**

In May 2012, Carlyle Group Management L.L.C., the general partner of the Partnership, adopted The Carlyle Group L.P. 2012 Equity Incentive Plan (the “Equity Incentive Plan”). The Equity Incentive Plan is a source of new equity-based awards permitting the Partnership to grant to Carlyle employees, directors of the Partnership’s general partner and consultants non-qualified options, unit appreciation rights, common units, restricted common units, deferred restricted common units, phantom restricted common units and other awards based on the Partnership’s common units and Carlyle Holdings partnership units. The total number of the Partnership’s common units and Carlyle Holdings partnership units which were initially available for grant under the Equity Incentive Plan was 30,450,000. The Equity Incentive Plan contains a provision which automatically increases the number of the Partnership’s common units and Carlyle Holdings partnership units available for grant based on a pre-determined formula; this increase occurs annually on January 1. As of January 1, 2013, pursuant to the formula, the total number of the Partnership’s common units and Carlyle Holdings partnership units available for grant under the Equity Incentive Plan was 30,611,743.

**Unvested Partnership Common Units**

On August 1, 2013, the Partnership acquired the remaining 40% equity interest in AlpInvest (see Note 3). As part of the transaction, the Partnership issued 914,087 common units to AlpInvest sellers who are employees of the Partnership that are subject to vesting conditions.

These newly issued common units were unvested at grant and vest over a period of up to five years. The unvested common units are accounted for as equity-based compensation in accordance with ASC Topic 718, *Compensation – Stock Compensation* (“ASC 718”). The grant-date fair value of the unvested common units is charged to equity-based compensation on a straight-line basis over the required service period. Additionally, the calculation of the expense assumes a forfeiture rate of up to 5%. For the three and nine months ended September 30, 2013, the Partnership recorded \$2.7 million in equity-based compensation expense associated with these awards. As of September 30, 2013, the total unrecognized equity-based compensation expense related to unvested common units, considering estimated forfeitures, is \$19.5 million, which is expected to be recognized over a weighted-average term of 2.4 years.

**Unvested Carlyle Holdings Partnership Units**

The unvested Carlyle Holdings partnership units are held by senior Carlyle professionals and other individuals engaged in Carlyle’s business and vest ratably over a six-year period. The unvested Carlyle Holdings partnership units are accounted for as equity-based compensation in accordance with ASC 718. The grant-date fair value of the unvested Carlyle Holdings partnership units are charged to equity-based compensation expense on a straight-line basis over the required service period. Additionally, the calculation of the expense assumes a forfeiture rate of up to 2.5%. During the three months ended June 30, 2013, the Partnership revised its estimated forfeiture rate to 2.5% from 7.5%. As a result, the Partnership recognized \$5.0 million of equity-based compensation expense during the nine months ended September 30, 2013 for the cumulative effect of the change in this estimate. Additionally, the Partnership recognized \$47.9 million of equity-based compensation expense during the nine months ended September 30, 2013 related to the difference between the estimated forfeitures and actual forfeitures on Carlyle Holdings partnership units that vested in May 2013. For the three months and nine months ended September 30, 2013, the Partnership recorded \$58.1 million and \$189.6 million, respectively, in equity-based compensation expense associated with these awards. The Partnership recorded equity-based compensation expense of \$39.7 million and \$65.9 million for the three months ended September 30, 2012 and for the period from May 2, 2012 through September 30, 2012, respectively, related to the unvested Carlyle Holdings partnership units. The Partnership also recorded equity-based compensation expense of \$59.0 million during the period from May 2, 2012 through September 30, 2012 associated with the exchange of Carlyle Holdings partnership units for equity interests in the general partners of Carlyle’s carry funds by Carlyle professionals other than senior Carlyle professionals as part of the reorganization and initial public offering in May 2012. No tax benefits have been recorded related to the unvested Carlyle Holdings partnership units, as the vesting of these units does not result in a tax deduction to the corporate taxpayers.

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In connection with the Partnership's investment in NGP Management in December 2012, the Partnership issued 996,572 Carlyle Holdings partnership units to ECM Capital, L.P. which vest ratably over a period of five years. The Partnership also issued 597,944 Carlyle Holdings partnership units to ECM Capital, L.P. that were issued at closing but vest upon the achievement of performance conditions. The fair value of these units will be recognized as a reduction to the Partnership's investment income in NGP Management over the relevant service or performance period, based on the fair value of the units on each reporting date and adjusted for the actual fair value of the units at each vesting date. For the Carlyle Holdings partnership units that vest based on the achievement of performance conditions, the Partnership uses the minimum number of partnership units within the range of potential values for measurement and recognition purposes.

As of September 30, 2013, the total unrecognized equity-based compensation expense related to unvested Carlyle Holdings partnership units, considering estimated forfeitures, is \$893.3 million, which is expected to be recognized over a weighted-average term of 4.6 years.

**Deferred Restricted Common Units**

The deferred restricted common units are unvested when granted and vest ratably over a service period, which ranges up to six years. The grant-date fair value of the deferred restricted common units granted to Carlyle's employees are charged to equity-based compensation expense on a straight-line basis over the required service period. Additionally, the calculation of the expense assumes a forfeiture rate up to 15.0%. For the three months and nine months ended September 30, 2013, the Partnership recorded \$17.4 million and \$62.0 million in equity-based compensation expense, respectively. A portion of the accumulated deferred tax asset associated with equity-based compensation expense was reclassified as a current tax benefit due to units vesting during the three months and nine months ended September 30, 2013. Deferred restricted common unit expense creates deferred tax assets, which are realized when the units vest. The net impact of additional deferred tax asset due to deferred compensation expense less the reduction to the deferred tax asset for units that vested was a net deferred tax benefit of \$0.7 million and a net deferred tax expense of \$0.3 million for the three months and nine months ended September 30, 2013, respectively. The Partnership recorded compensation expense of \$12.9 million and \$21.6 million for the three months ended September 30, 2012 and for the period May 2, 2012 through September 30, 2012, with \$0.7 million and \$1.1 million of corresponding deferred tax benefits, respectively. As of September 30, 2013, the total unrecognized equity-based compensation expense related to unvested deferred restricted common units, considering estimated forfeitures, is \$287.4 million, which is expected to be recognized over a weighted-average term of 4.4 years.

In 2013, the Partnership has issued approximately 2.9 million common units in connection with deferred restricted common units that vested, including those that vested in 2012 with deferred delivery until 2013.

Equity-based awards issued to non-employees are recognized as general, administrative and other expenses. The expense associated with the deferred restricted common units granted to NGP personnel by the Partnership are recognized as a reduction of the Partnership's investment income in NGP Management. The grant-date fair value of deferred restricted common units granted to Carlyle's non-employee directors are charged to expense 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. 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. The expense for equity-based awards issued to non-employees was not significant for the three months and nine months ended September 30, 2013 and 2012.

**Phantom Deferred Restricted Common Units**

The phantom deferred restricted common units are unvested when granted and vest ratably over a service period of three years. Upon vesting, the units will be settled in cash. As the phantom deferred restricted common units will be settled in cash, they are accounted for as liability awards. The fair value of the units is re-measured at each reporting period until settlement and charged to equity-based compensation expense over the vesting period. Additionally, the calculation of the expense assumes a forfeiture rate of up to 15.0%. For the three months and nine months ended September 30, 2013, the Partnership recorded \$0.5 million and \$2.7 million in equity-based compensation expense associated with these awards, respectively, which is included in base compensation expense in the accompanying condensed consolidated financial statements. The Partnership recorded \$0.6 million and \$0.9 million in equity-based



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compensation expense associated with these awards for the three months ended September 30, 2012 and for the period May 2, 2012 through September 30, 2012, respectively. The tax benefits recognized from these awards was not material during these periods. As of September 30, 2013, the total unrecognized equity-based compensation expense related to unvested phantom deferred restricted common units, considering estimated forfeitures, is \$4.1 million, which is expected to be recognized over a weighted-average term of 1.6 years.

A summary of the status of the Partnership's non-vested equity-based awards as of September 30, 2013 and a summary of changes during the nine months ended September 30, 2013, are presented below:

	Carlyle Holdings		The Carlyle Group, L.P.					
			Equity Settled Awards				Cash Settled Awards	
			Deferred Restricted Common Units	Weighted- Average Grant Date Fair Value	Unvested Common Units	Weighted- Average Grant Date Fair Value	Phantom Units	Weighted- Average Grant Date Fair Value
Unvested Units	Partnership Units	Weighted- Average Grant Date Fair Value						
Balance, December 31, 2012	57,850,299	\$ 22.12	16,707,028	\$ 22.28	—	\$ —	334,614	\$ 22.00
Granted	—	\$ —	2,168,165	\$ 31.15	914,087	\$ 26.83	2,520	\$ 31.83
Vested	9,450,977	\$ 22.00	2,819,365	\$ 22.32	42,027	\$ 27.99	106,901	\$ 22.00
Forfeited	562,269	\$ 22.00	652,462	\$ 22.67	—	\$ —	20,533	\$ 22.00
Balance, September 30, 2013	47,837,053	\$ 22.14	15,403,366	\$ 23.51	872,060	\$ 26.78	209,700	\$ 22.12

### 17. Consolidation of a Real Estate Development Company

The Partnership, indirectly through certain Carlyle real estate investment funds, has an investment in Urbplan Desenvolvimento Urbano S.A. ("Urbplan", formerly Scopel Desenvolvimento Urbano S.A.), a Brazilian residential subdivision and land development company. Historically, funding for Urbplan's business plan was provided primarily by borrowings incurred directly by Urbplan and from capital provided by certain Carlyle real estate investment funds, which in turn were funded primarily by external limited partners and by the Partnership through its ownership of the general partner of such funds.

In late 2012, it was determined that Urbplan was facing serious liquidity problems and would require additional capital infusions to continue operations. The Partnership and certain of its senior Carlyle professionals provided capital to Urbplan through one of the Carlyle investment funds in the second quarter of 2013. During the third quarter of 2013, it became evident that Urbplan's efforts to raise additional capital from unaffiliated sources would likely not meet its requirements. The Partnership and certain senior Carlyle professionals elected to make additional investments into Urbplan. The external limited partners of the Carlyle real estate investment funds have not participated in the 2013 capital funding. From April 17, 2013, the date of the first additional investment into Urbplan, through September 30, 2013, Urbplan has received capital funding of \$32.0 million, of which \$6.4 million was funded by the Partnership and \$25.6 million was funded by certain senior Carlyle professionals indirectly through the Partnership. As of September 30, 2013, the estimated fair value of all the investments made by the Partnership into Urbplan, aggregating \$21.5 million, and all the investments made by senior Carlyle professionals, aggregating \$33.2 million, was \$0.

During the second quarter of 2013, the Partnership concluded that the Carlyle investment vehicle through which it funded capital into Urbplan was a VIE and that the Partnership was the primary beneficiary of the VIE; accordingly, the Partnership consolidated the investment vehicle in the second quarter of 2013. During the third quarter of 2013, the Partnership concluded that the decision to provide additional capital to Urbplan constituted a reconsideration event under ASC Topic 810, *Consolidation* ("ASC 810"). The Partnership concluded that Urbplan was a VIE as of September 30, 2013 because Urbplan's equity investment at risk was not sufficient to permit it to finance its activities without additional financial support. The Partnership also concluded that it was the primary beneficiary of Urbplan since the Partnership has the power to direct the activities of Urbplan that most significantly impact its economic performance and the Partnership's investments in Urbplan will absorb losses incurred by Urbplan. As such, the Partnership began consolidating Urbplan into its condensed consolidated financial statements as of September 30, 2013.

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Pursuant to ASC 810, the Partnership applied the accounting guidance applicable to business combinations under ASC Topic 805, *Business Combinations*, to record the initial consolidation of Urbplan. The Partnership recorded the assets, liabilities and non-controlling interests of Urbplan at their estimated fair value. The fair value of the non-controlling interests was \$0. Due to the timing and availability of financial information from Urbplan, the Partnership consolidates the financial position and results of operations of Urbplan on a financial reporting lag of 90 days. The Partnership will disclose the effect of intervening events at Urbplan that materially affect the financial position or results of operations of the Partnership, if any.

The assets and liabilities of Urbplan are held in separate legal entities; the Partnership has not guaranteed or assumed any obligation for repayment of Urbplan's liabilities nor are the assets of Urbplan available to meet the liquidity requirements of the Partnership. However, if Urbplan fails to complete its construction projects, customers or other creditors in certain circumstances might seek to assert claims against the Partnership under certain consumer protection or other laws.

The estimated fair value of Urbplan's assets and liabilities that were consolidated into the Partnership's condensed consolidated financial statements as of September 30, 2013 were as follows (Dollars in millions):

<b>Assets</b>	
Receivables and inventory of a consolidated real estate VIE:	
Customer and other receivables	\$108.3
Inventory costs in excess of billings and advances	83.1
	<u>191.4</u>
Other assets of a consolidated real estate VIE:	
Restricted investments	28.4
Fixed assets, net	2.2
Deferred tax assets	12.1
	<u>42.7</u>
<b>Total assets</b>	<b><u>\$234.1</u></b>
<b>Liabilities</b>	
Loans payable of a consolidated real estate VIE, at fair value	
	\$123.8
Other liabilities of a consolidated real estate VIE:	
Accounts payable	32.4
Other liabilities	77.9
	<u>110.3</u>
<b>Total liabilities</b>	<b><u>\$234.1</u></b>

The fair value measurements above were based on significant inputs not observable in the market and thus represent Level III measurements as defined in the accounting guidance for fair value measurement. As of the date that the Partnership's condensed consolidated financial statements were available to be issued, the Partnership had not received final valuations for the Urbplan assets and liabilities; therefore, the amounts shown above are based on preliminary valuations and may be adjusted in subsequent periods once final valuation information has been obtained, and such adjustments could be material.

From October 1, 2013 through the date that the Partnership's condensed consolidated financial statements were available to be issued, the Partnership and certain senior Carlyle professionals have funded an additional \$18.0 million, of which \$3.6 million was funded by the Partnership and \$14.4 million was funded by senior Carlyle professionals indirectly through the Partnership. Urbplan is expected to require additional funding of approximately \$200 million to enable it to continue operations. While no contractual or other obligations exist to provide additional financial support to Urbplan, the Partnership and its senior Carlyle professionals expect to provide additional capital funding to Urbplan in the future and Urbplan will continue to seek capital funding from unaffiliated parties. The Partnership and its senior Carlyle professionals will evaluate the possibility of further capital infusions based on the circumstances at the time (including levels of third-party funding participation). It is anticipated that the Partnership would fund 25% and its senior Carlyle professionals would fund 75% indirectly through the Partnership of any additional investments made by the Partnership and its senior Carlyle professionals.

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The following is a summary of the significant classifications of assets and liabilities of Urbplan:

*Customer and other receivables* – This balance consists primarily of amounts owed for land development services using the completed contract method. Customer receivables accrue interest at rates ranging from 9% to 12% per year and are secured by the underlying real estate. Substantially all receivables are pledged as collateral for Urbplan's borrowings. In determining the fair value of the receivables, the Partnership assessed the collectability of accounts receivable, considering factors such as historical collection experience, the age of accounts receivable, and any other available evidence of collectability.

*Inventory costs in excess of billings and advances* – This balance consists primarily of capitalized land development cost, net of approximately \$177.3 million of customer advances received. The estimated fair value of real estate inventory was based on a discounted cash flow model. The estimates used in the determination of the estimated fair value of the real estate projects were based on factors known to management at the time such estimates were made and the expectations of future operations and economic conditions. Should the estimates or expectations used in determining estimated fair value deteriorate in the future, the Partnership may be required to recognize additional impairment charges and write-offs related to real estate projects.

*Restricted investments* – This balance consists primarily of mortgage-backed securities which amortize over a period through 2026. These investments have been pledged as collateral for Urbplan's borrowings.

*Loans payable of a consolidated real estate VIE* – This balance consists of Urbplan's borrowings for its real estate development activities. The estimated fair value approximates 37% of the outstanding principal amounts of the loans. The fair value of the loans was based on discounted cash flow analyses which considered the liquidity and current financial condition of Urbplan and applicable discount rates. The Partnership has elected to re-measure the loans at fair value at each reporting period through the term of the loans. The principal amounts of the loans accrue interest at a variable rate based on an index plus an applicable margin. Interest rates are based on: (i) CDI plus a margin ranging from 4.0% to 7.4% (12.9% to 16.3% as of September 30, 2013); (ii) IGP-M plus a margin of 12.0% (18.3% as of September 30, 2013); or (iii) IPCA plus a margin ranging from 10.0% to 13.5% (16.2% to 19.7% as of September 30, 2013). Outstanding principal amounts on the loans based on current contractual terms are payable as follows (Dollars in millions):

2013	\$ 51.8
2014	52.6
2015	39.6
2016	30.0
2017	26.1
2018	22.9
Thereafter	112.1
	<u>\$335.1</u>

Substantially all of Urbplan's customer and other receivables and investments have been pledged as collateral for the loans. As of September 30, 2013, substantially all of Urbplan's loans payable are not in compliance with their related debt covenants or are otherwise in technical default. These violations do not cause a default or event of default under the Partnership's senior credit facility or senior notes. Urbplan management is in discussions with the lenders to cure or re-negotiate the loans in default. Currently there are no outstanding notices of acceleration of payment on the loans in default. Urbplan management is also negotiating to extend \$24.2 million of Urbplan's borrowings maturing in 2013. There can be no assurances that Urbplan will be successful in its discussions.

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All of the loans payable of Urbplan are contractually non-recourse to the Partnership.

*Other liabilities* – This balance consists of amounts owed to landowners, commissions payable to brokers, real estate taxes, social charges and other liabilities.

As of September 30, 2013, Urbplan had outstanding commitments for land development services with an estimated \$144 million of future costs to be incurred.

As of the date that the condensed consolidated financial statements were available to be issued, the Partnership was unable to obtain Urbplan's results of operations for the three months and six months ended June 30, 2013, although the Partnership believes that Urbplan does not meet the significance thresholds under Rule 3-05 of Regulation S-X. As a result, the Partnership was unable to prepare unaudited pro forma supplemental financial information of the impact to the Partnership's consolidated financial results for the three months and nine months ended September 30, 2013 as if the Partnership had consolidated Urbplan since January 1, 2013. The Partnership will include the unaudited pro forma supplemental financial information in its consolidated financial statements for the year ended December 31, 2013, which will be included in its Annual Report on Form 10-K, if the pro forma impact is material to the Partnership's consolidated financial statements.

## **18. Segment Reporting**

Carlyle conducts its operations through four reportable segments:

*Corporate Private Equity* – The Corporate Private Equity segment is comprised of the Partnership's operations that advise a diverse group of funds that invest in buyout and growth capital transactions that focus on either a particular geography or a particular industry.

*Global Market Strategies* – The Global Market Strategies segment advises a group of funds that pursue investment opportunities across various types of credit, equities and alternative instruments, and (as regards certain macroeconomic strategies) currencies, commodities, sovereign debt, and interest rate products and their derivatives.

*Real Assets* – The Real Assets segment is comprised of the Partnership's operations that advise U.S. and international funds focused on real estate, infrastructure, energy and renewable energy transactions.

*Solutions* – The Solutions segment was launched upon the Partnership's acquisition of a 60% equity interest in AlpInvest on July 1, 2011 and advises a global private equity fund of funds program and related co-investment and secondary activities. On August 1, 2013, the Partnership acquired the remaining 40% equity interest in AlpInvest.

The Partnership's reportable business segments are differentiated by their various investment focuses and strategies. Overhead costs were allocated based on direct base compensation expense for the funds comprising each segment. The Partnership includes adjustments to reflect the Partnership's economic interests in Claren Road, ESG, Vermillion, and for periods prior to August 1, 2013, AlpInvest. Subsequent to August 1, 2013, the Partnership owns 100% of the economic interests in AlpInvest. The Partnership's earnings from its investment in NGP Management are presented in the respective operating captions within the Real Assets segment.

Economic Net Income ("ENI") and its components are key performance measures used by management to make operating decisions and assess the performance of the Partnership's reportable segments. ENI differs from income (loss) before provision for income taxes computed in accordance with U.S. GAAP in that it does not include net income (loss) attributable to non-Carlyle interests in Consolidated Funds or charges (credits) related to Carlyle corporate actions and non-recurring items. Charges (credits) related to Carlyle corporate actions and non-recurring items include: charges associated with equity-based compensation that was issued in the initial public offering in May 2012 or is issued in acquisitions or strategic investments, amortization associated with acquired intangible assets, transaction costs associated with acquisitions, gains and losses associated with the mark to market on contingent consideration issued in conjunction with acquisitions or strategic investments, gains and losses from the retirement of debt, charges associated with lease terminations and employee severance and settlements of legal claims.

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Also, for periods prior to the reorganization and initial public offering in May 2012, ENI also differed from income (loss) before provision for income taxes computed in accordance with U.S. GAAP in that ENI reflected a charge for compensation, bonuses and performance fee compensation attributable to Carlyle partners. Subsequent to the reorganization and initial public offering, these compensation charges are included in both ENI and income (loss) before provision for income taxes computed in accordance with U.S. GAAP.

Fee-related earnings ("FRE") is a component of ENI and is used to assess the ability of the business to cover direct base compensation and operating expenses from total fee revenues. FRE differs from income (loss) before provision for income taxes computed in accordance with U.S. GAAP in that it adjusts for the items included in the calculation of ENI and also adjusts ENI to exclude performance fees, investment income from investments in Carlyle funds, and performance fee related compensation.

Distributable earnings is a component of ENI and is used to assess performance and amounts potentially available for distribution. Distributable earnings differs from income (loss) before provision for income taxes computed in accordance with U.S. GAAP in that it adjusts for the items included in the calculation of ENI and also adjusts ENI for unrealized performance fees, unrealized investment income, the corresponding unrealized performance fee compensation expense and equity-based compensation. During the second quarter of 2013, the definition of distributable earnings used by management was modified to exclude all equity-based compensation expense. All prior periods have been recast to conform to the new definition.

ENI and its components are used by management primarily in making resource deployment and compensation decisions across the Partnership's four reportable segments. Management makes operating decisions and assesses the performance of each of the Partnership's business segments based on financial and operating metrics and data that is presented without the consolidation of any of the Consolidated Funds. Consequently, ENI and all segment data exclude the assets, liabilities and operating results related to the Consolidated Funds.

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The following tables present the financial data for the Partnership's four reportable segments for the three months ended September 30, 2013 and as of and for the nine months ended September 30, 2013:

	Three Months Ended September 30, 2013				
	Corporate Private Equity	Global Market Strategies	Real Assets	Solutions	Total
	(Dollars in millions)				
<b>Segment Revenues</b>					
Fund level fee revenues					
Fund management fees	\$ 131.0	\$ 65.7	\$ 47.3	\$ 37.2	\$281.2
Portfolio advisory fees, net	4.7	0.1	0.2	—	5.0
Transaction fees, net	5.7	—	0.2	—	5.9
Total fee revenues	141.4	65.8	47.7	37.2	292.1
Performance fees					
Realized	79.1	5.8	12.5	5.7	103.1
Unrealized	182.2	(13.6)	12.1	38.9	219.6
Total performance fees	261.3	(7.8)	24.6	44.6	322.7
Investment income (loss)					
Realized	1.6	2.0	(4.3)	—	(0.7)
Unrealized	5.5	3.2	(10.9)	0.1	(2.1)
Total investment income (loss)	7.1	5.2	(15.2)	0.1	(2.8)
Interest and other income	1.5	0.7	0.4	—	2.6
Total revenues	411.3	63.9	57.5	81.9	614.6
<b>Segment Expenses</b>					
Compensation and benefits					
Direct base compensation	53.9	23.6	17.1	16.8	111.4
Indirect base compensation	27.6	4.6	7.9	1.1	41.2
Equity-based compensation	2.1	0.6	1.2	0.1	4.0
Performance fee related					
Realized	34.6	0.8	3.8	2.6	41.8
Unrealized	79.8	3.1	11.1	29.7	123.7
Total compensation and benefits	198.0	32.7	41.1	50.3	322.1
General, administrative, and other indirect expenses	43.7	17.8	12.8	5.7	80.0
Depreciation and amortization expense	3.3	1.2	1.0	0.7	6.2
Interest expense	6.9	2.1	2.2	0.6	11.8
Total expenses	251.9	53.8	57.1	57.3	420.1
<b>Economic Net Income</b>	<b>\$ 159.4</b>	<b>\$ 10.1</b>	<b>\$ 0.4</b>	<b>\$ 24.6</b>	<b>\$194.5</b>
(-) Net Performance Fees	146.9	(11.7)	9.7	12.3	157.2
(-) Investment Income (Loss)	7.1	5.2	(15.2)	0.1	(2.8)
<b>(=) Fee-Related Earnings</b>	<b>\$ 5.4</b>	<b>\$ 16.6</b>	<b>\$ 5.9</b>	<b>\$ 12.2</b>	<b>\$ 40.1</b>
(+) Realized Net Performance Fees	44.5	5.0	8.7	3.1	61.3
(+) Realized Investment Income (Loss)	1.6	2.0	(4.3)	—	(0.7)
(+) Equity-based Compensation	2.1	0.6	1.2	0.1	4.0
<b>(=) Distributable Earnings</b>	<b>\$ 53.6</b>	<b>\$ 24.2</b>	<b>\$ 11.5</b>	<b>\$ 15.4</b>	<b>\$104.7</b>

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	September 30, 2013 and the Nine Months Then Ended				
	Corporate Private Equity	Global Market Strategies	Real Assets	Solutions	Total
	(Dollars in millions)				
<b>Segment Revenues</b>					
Fund level fee revenues					
Fund management fees	\$ 348.1	\$ 205.8	\$ 140.7	\$ 76.6	\$ 771.2
Portfolio advisory fees, net	13.7	0.8	0.8	—	15.3
Transaction fees, net	20.1	0.1	2.9	—	23.1
Total fund level fee revenues	381.9	206.7	144.4	76.6	809.6
Performance fees					
Realized	442.8	47.8	44.1	9.9	544.6
Unrealized	421.0	73.7	28.2	81.5	604.4
Total performance fees	863.8	121.5	72.3	91.4	1,149.0
Investment income (loss)					
Realized	5.1	16.1	(16.6)	—	4.6
Unrealized	10.7	(3.6)	(4.7)	0.1	2.5
Total investment income (loss)	15.8	12.5	(21.3)	0.1	7.1
Interest and other income	4.2	3.3	1.3	0.2	9.0
Total revenues	1,265.7	344.0	196.7	168.3	1,974.7
<b>Segment Expenses</b>					
Compensation and benefits					
Direct base compensation	158.9	74.2	53.2	34.1	320.4
Indirect base compensation	69.4	14.9	21.8	3.7	109.8
Equity-based compensation	5.9	1.6	3.0	0.3	10.8
Performance fee related					
Realized	201.3	17.2	0.5	5.0	224.0
Unrealized	172.2	18.9	37.6	61.9	290.6
Total compensation and benefits	607.7	126.8	116.1	105.0	955.6
General, administrative, and other indirect expenses	124.3	46.8	39.7	13.5	224.3
Depreciation and amortization expense	10.2	3.5	3.3	1.7	18.7
Interest expense	18.5	5.7	6.0	1.7	31.9
Total expenses	760.7	182.8	165.1	121.9	1,230.5
<b>Economic Net Income</b>	<b>\$ 505.0</b>	<b>\$ 161.2</b>	<b>\$ 31.6</b>	<b>\$ 46.4</b>	<b>\$ 744.2</b>
(-) Net Performance Fees	490.3	85.4	34.2	24.5	634.4
(-) Investment Income (Loss)	15.8	12.5	(21.3)	0.1	7.1
<b>(=) Fee-Related Earnings</b>	<b>\$ (1.1)</b>	<b>\$ 63.3</b>	<b>\$ 18.7</b>	<b>\$ 21.8</b>	<b>\$ 102.7</b>
(+) Realized Net Performance Fees	241.5	30.6	43.6	4.9	320.6
(+) Realized Investment Income (Loss)	5.1	16.1	(16.6)	—	4.6
(+) Equity-based Compensation	5.9	1.6	3.0	0.3	10.8
<b>(=) Distributable Earnings</b>	<b>\$ 251.4</b>	<b>\$ 111.6</b>	<b>\$ 48.7</b>	<b>\$ 27.0</b>	<b>\$ 438.7</b>
Segment assets as of September 30, 2013	\$3,050.2	\$1,145.1	\$976.8	\$ 534.8	\$5,706.9

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The following tables present the financial data for the Partnership's four reportable segments for the three and nine months ended September 30, 2012:

	Three Months Ended September 30, 2012				
	Corporate Private Equity	Global Market Strategies	Real Assets	Solutions	Total
(Dollars in millions)					
<b>Segment Revenues</b>					
Fund level fee revenues					
Fund management fees	\$ 124.8	\$ 58.2	\$ 34.4	\$ 16.5	\$233.9
Portfolio advisory fees, net	3.1	0.8	0.7	—	4.6
Transaction fees, net	6.2	0.3	0.7	—	7.2
Total fee revenues	134.1	59.3	35.8	16.5	245.7
Performance fees					
Realized	241.4	0.9	31.9	2.2	276.4
Unrealized	72.8	5.7	(27.7)	(1.8)	49.0
Total performance fees	314.2	6.6	4.2	0.4	325.4
Investment income (loss)					
Realized	(0.2)	4.6	0.2	—	4.6
Unrealized	(1.0)	0.8	4.0	—	3.8
Total investment income (loss)	(1.2)	5.4	4.2	—	8.4
Interest and other income	3.4	0.5	0.4	0.1	4.4
Total revenues	450.5	71.8	44.6	17.0	583.9
<b>Segment Expenses</b>					
Compensation and benefits					
Direct base compensation	56.2	17.4	16.1	8.2	97.9
Indirect base compensation	19.9	5.9	5.7	1.4	32.9
Equity-based compensation	0.4	—	0.2	—	0.6
Performance fee related					
Realized	115.6	0.2	2.5	1.9	120.2
Unrealized	39.2	(1.8)	5.3	(2.1)	40.6
Total compensation and benefits	231.3	21.7	29.8	9.4	292.2
General, administrative, and other indirect expenses	36.0	11.7	11.4	3.2	62.3
Depreciation and amortization expense	3.5	1.1	1.1	0.5	6.2
Interest expense	2.5	1.3	0.7	0.2	4.7
Total expenses	273.3	35.8	43.0	13.3	365.4
<b>Economic Net Income</b>	<b>\$ 177.2</b>	<b>\$ 36.0</b>	<b>\$ 1.6</b>	<b>\$ 3.7</b>	<b>\$218.5</b>
(-) Net Performance Fees	159.4	8.2	(3.6)	0.6	164.6
(-) Investment Income (Loss)	(1.2)	5.4	4.2	—	8.4
<b>(=) Fee-Related Earnings</b>	<b>\$ 19.0</b>	<b>\$ 22.4</b>	<b>\$ 1.0</b>	<b>\$ 3.1</b>	<b>\$ 45.5</b>
(+) Realized Net Performance Fees	125.8	0.7	29.4	0.3	156.2
(+) Realized Investment Income (Loss)	(0.2)	4.6	0.2	—	4.6
(+) Equity-based Compensation	0.4	—	0.2	—	0.6
<b>(=) Distributable Earnings</b>	<b>\$ 145.0</b>	<b>\$ 27.7</b>	<b>\$ 30.8</b>	<b>\$ 3.4</b>	<b>\$206.9</b>



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	Nine Months Ended September 30, 2012				
	Corporate Private Equity	Global Market Strategies	Real Assets	Solutions	Total
	(Dollars in millions)				
Segment Revenues					
Fund level fee revenues					
Fund management fees	\$ 372.7	\$ 166.3	\$ 105.1	\$ 50.2	\$ 694.3
Portfolio advisory fees, net	15.0	2.0	2.6	—	19.6
Transaction fees, net	9.4	0.3	3.9	—	13.6
Total fund level fee revenues	397.1	168.6	111.6	50.2	727.5
Performance fees					
Realized	545.0	34.6	82.1	6.8	668.5
Unrealized	44.4	22.4	(1.3)	22.1	87.6
Total performance fees	589.4	57.0	80.8	28.9	756.1
Investment income (loss)					
Realized	2.1	8.7	(0.1)	—	10.7
Unrealized	17.2	9.3	8.5	—	35.0
Total investment income (loss)	19.3	18.0	8.4	—	45.7
Interest and other income	6.4	1.5	1.2	0.4	9.5
Total revenues	1,012.2	245.1	202.0	79.5	1,538.8
Segment Expenses					
Compensation and benefits					
Direct base compensation	166.3	62.3	51.2	25.1	304.9
Indirect base compensation	64.8	15.3	17.7	4.4	102.2
Equity-based compensation	0.8	0.1	0.3	—	1.2
Performance fee related					
Realized	264.2	18.7	4.9	6.0	293.8
Unrealized	30.9	8.1	13.3	17.3	69.6
Total compensation and benefits	527.0	104.5	87.4	52.8	771.7
General, administrative, and other indirect expenses	107.7	28.1	34.2	7.7	177.7
Depreciation and amortization expense	9.0	2.5	2.8	1.1	15.4
Interest expense	11.9	3.9	3.7	1.1	20.6
Total expenses	655.6	139.0	128.1	62.7	985.4
Economic Net Income	\$ 356.6	\$ 106.1	\$ 73.9	\$ 16.8	\$ 553.4
(-) Net Performance Fees	294.3	30.2	62.6	5.6	392.7
(-) Investment Income	19.3	18.0	8.4	—	45.7
(=) Fee-Related Earnings	\$ 43.0	\$ 57.9	\$ 2.9	\$ 11.2	\$ 115.0
(+) Realized Net Performance Fees	280.8	15.9	77.2	0.8	374.7
(+) Realized Investment Income (Loss)	2.1	8.7	(0.1)	—	10.7
(+) Equity-based Compensation	0.8	0.1	0.3	—	1.2
(=) Distributable Earnings	\$ 326.7	\$ 82.6	\$ 80.3	\$ 12.0	\$ 501.6

**The Carlyle Group L.P.**  
**Notes to the Consolidated Financial Statements**  
**(Unaudited)**

The following table reconciles the Total Segments to the Partnership's Income Before Provision for Taxes for the three months ended September 30, 2013 and 2012:

	Three Months Ended September 30, 2013			
	Total Reportable Segments	Consolidated Funds	Reconciling Items	Carlyle Consolidated
	(Dollars in millions)			
Revenues	\$ 614.6	\$ 302.0	\$ (28.5)(a)	\$ 888.1
Expenses	\$ 420.1	\$ 265.9	\$ 128.7(b)	\$ 814.7
Other loss	\$ —	\$ (86.2)	\$ 4.2(c)	\$ (82.0)
Economic net income (loss)	\$ 194.5	\$ (50.1)	\$ (153.0)(d)	\$ (8.6)

	Three Months Ended September 30, 2012			
	Total Reportable Segments	Consolidated Funds	Reconciling Items	Carlyle Consolidated
	(Dollars in millions)			
Revenues	\$ 583.9	\$ 247.7	\$ 26.9(a)	\$ 858.5
Expenses	\$ 365.4	\$ 252.4	\$ 87.1(b)	\$ 704.9
Other income	\$ —	\$ 448.3	\$ 0.6(c)	\$ 448.9
Economic net income	\$ 218.5	\$ 443.6	\$ (59.6)(d)	\$ 602.5

The following table reconciles the Total Segments to the Partnership's Income Before Provision for Taxes for the nine months ended September 30, 2013 and 2012, and Total Assets as of September 30, 2013:

	September 30, 2013 and the Nine Months Then Ended			
	Total Reportable Segments	Consolidated Funds	Reconciling Items	Carlyle Consolidated
	(Dollars in millions)			
Revenues	\$ 1,974.7	\$ 823.3	\$ 4.4(a)	\$ 2,802.4
Expenses	\$ 1,230.5	\$ 867.4	\$ 394.9(b)	\$ 2,492.8
Other income	\$ —	\$ 422.6	\$ (2.5)(c)	\$ 420.1
Economic net income	\$ 744.2	\$ 378.5	\$ (393.0)(d)	\$ 729.7
Total assets	\$ 5,706.9	\$ 28,111.6	\$ 86.8(e)	\$ 33,905.3

	Nine Months Ended September 30, 2012			
	Total Reportable Segments	Consolidated Funds	Reconciling Items	Carlyle Consolidated
	(Dollars in millions)			
Revenues	\$ 1,538.8	\$ 678.4	\$ 0.6(a)	\$ 2,217.8
Expenses	\$ 985.4	\$ 689.6	\$ (44.0)(b)	\$ 1,631.0
Other income	\$ —	\$ 1,704.7	\$ 2.9(c)	\$ 1,707.6
Economic net income	\$ 553.4	\$ 1,693.5	\$ 47.5(d)	\$ 2,294.4

**The Carlyle Group L.P.**  
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- (a) The Revenues adjustment principally represents fund management and performance fees earned from the Consolidated Funds which were eliminated in consolidation to arrive at the Partnership's total revenues, adjustments for amounts attributable to non-controlling interests in consolidated entities, adjustments related to expenses associated with the investment in NGP Management that are included in operating captions or are excluded from the segment results, and adjustments to reflect the Partnership's ownership interests in Claren Road, ESG, Vermillion and, for periods prior to August 1, 2013, AlpInvest which were included in Revenues in the Partnership's segment reporting.
- (b) The Expenses adjustment represents the elimination of intercompany expenses of the Consolidated Funds payable to the Partnership, adjustments for partner compensation, adjustments related to expenses associated with the investment in NGP Management that are included in operating captions, charges and credits associated with Carlyle corporate actions and non-recurring items and adjustments to reflect the Partnership's economic interests in Claren Road, ESG, Vermillion and, for periods prior to August 1, 2013, AlpInvest as detailed below (Dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Partner compensation	\$ —	\$ —	\$ —	\$(265.4)
Equity-based compensation issued in conjunction with the initial public offering, acquisitions and strategic investments	76.2	52.6	251.4	146.2
Acquisition related charges and amortization of intangibles	94.5	43.4	209.5	89.0
Losses associated with debt refinancing activities	—	—	1.9	—
Other non-operating expenses	7.6	10.3	1.9	6.9
Severance and lease terminations	(0.1)	0.9	3.9	5.0
Non-Carlyle economic interests in acquired business	0.1	32.0	123.5	103.8
Other adjustments	(1.7)	(1.8)	(1.0)	(4.8)
Elimination of expenses of Consolidated Funds	(47.9)	(50.3)	(196.2)	(124.7)
	<u>\$ 128.7</u>	<u>\$ 87.1</u>	<u>\$ 394.9</u>	<u>\$ (44.0)</u>

- (c) The Other Income (Loss) adjustment results from the Consolidated Funds which were eliminated in consolidation to arrive at the Partnership's total Other Income (Loss).

**The Carlyle Group L.P.**  
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- (d) The following table is a reconciliation of Income Before Provision for Income Taxes to Economic Net Income, to Fee Related Earnings, and to Distributable Earnings (Dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
<b>Income (loss) before provision for income taxes</b>	<b>\$ (8.6)</b>	<b>\$ 602.5</b>	<b>\$ 729.7</b>	<b>\$ 2,294.4</b>
Adjustments:				
Partner compensation <sup>(1)</sup>	—	—	—	(265.4)
Equity-based compensation issued in conjunction with the initial public offering, acquisitions and strategic investments	76.2	52.6	251.4	146.2
Acquisition related charges and amortization of intangibles	94.5	43.4	209.5	89.0
Losses associated with debt refinancing activities	—	—	1.9	—
Other non-operating expenses	7.6	10.3	1.9	6.9
Net (income) loss attributable to non-controlling interests in Consolidated entities	26.6	(485.4)	(441.4)	(1,708.2)
Provision for income taxes attributable to non-controlling interests in Consolidated entities	—	(4.0)	(11.7)	(9.7)
Severance and lease terminations	(0.1)	0.9	3.9	5.0
Other adjustments	(1.7)	(1.8)	(1.0)	(4.8)
<b>Economic Net Income</b>	<b>\$ 194.5</b>	<b>\$ 218.5</b>	<b>\$ 744.2</b>	<b>\$ 553.4</b>
Net performance fees <sup>(2)</sup>	157.2	164.6	634.4	392.7
Investment income (loss) <sup>(2)</sup>	(2.8)	8.4	7.1	45.7
<b>Fee Related Earnings</b>	<b>\$ 40.1</b>	<b>\$ 45.5</b>	<b>\$ 102.7</b>	<b>\$ 115.0</b>
Realized performance fees, net of related compensation	61.3	156.2	320.6	374.7
Realized investment income (loss)	(0.7)	4.6	4.6	10.7
Equity-based compensation	4.0	0.6	10.8	1.2
<b>Distributable Earnings</b>	<b>\$ 104.7</b>	<b>\$ 206.9</b>	<b>\$ 438.7</b>	<b>\$ 501.6</b>

- (1) Adjustments for partner compensation reflect amounts due to senior Carlyle professionals for compensation and performance fees allocated to them, which amounts were classified as distributions from partners' capital in the consolidated financial statements for periods prior to the reorganization and initial public offering in May 2012.

**The Carlyle Group L.P.**  
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(2) See reconciliation to most directly comparable U.S. GAAP measure below:

Three Months Ended September 30, 2013			
	Carlyle Consolidated	Adjustments <sup>(3)</sup>	Total Reportable Segments
	(Dollars in millions)		
Performance fees			
Realized	\$ 108.6	\$ (5.5)	\$ 103.1
Unrealized	211.9	7.7	219.6
Total performance fees	320.5	2.2	322.7
Performance fee related compensation expense			
Realized	45.4	(3.6)	41.8
Unrealized	113.5	10.2	123.7
Total performance fee related compensation expense	158.9	6.6	165.5
Net performance fees			
Realized	63.2	(1.9)	61.3
Unrealized	98.4	(2.5)	95.9
Total net performance fees	\$ 161.6	\$ (4.4)	\$ 157.2
Investment income (loss)			
Realized	\$ (3.1)	\$ 2.4	\$ (0.7)
Unrealized	8.1	(10.2)	(2.1)
Total investment income (loss)	\$ 5.0	\$ (7.8)	\$ (2.8)

  

Three Months Ended September 30, 2012			
	Carlyle Consolidated	Adjustments <sup>(3)</sup>	Total Reportable Segments
	(Dollars in millions)		
Performance fees			
Realized	\$ 291.4	\$ (15.0)	\$ 276.4
Unrealized	64.9	(15.9)	49.0
Total performance fees	356.3	(30.9)	325.4
Performance fee related compensation expense			
Realized	121.9	(1.7)	120.2
Unrealized	41.5	(0.9)	40.6
Total performance fee related compensation expense	163.4	(2.6)	160.8
Net performance fees			
Realized	169.5	(13.3)	156.2
Unrealized	23.4	(15.0)	8.4
Total net performance fees	\$ 192.9	\$ (28.3)	\$ 164.6
Investment income			
Realized	\$ 9.8	\$ (5.2)	\$ 4.6
Unrealized	0.4	3.4	3.8
Total investment income	\$ 10.2	\$ (1.8)	\$ 8.4

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Nine Months Ended September 30, 2013			
	Carlyle Consolidated	Adjustments <sup>(3)</sup> (Dollars in millions)	Total Reportable Segments
Performance fees			
Realized	\$ 564.6	\$ (20.0)	\$ 544.6
Unrealized	657.4	(53.0)	604.4
Total performance fees	1,222.0	(73.0)	1,149.0
Performance fee related compensation expense			
Realized	232.2	(8.2)	224.0
Unrealized	374.5	(83.9)	290.6
Total performance fee related compensation expense	606.7	(92.1)	514.6
Net performance fees			
Realized	332.4	(11.8)	320.6
Unrealized	282.9	30.9	313.8
Total net performance fees	\$ 615.3	\$ 19.1	\$ 634.4
Investment income			
Realized	\$ 5.4	\$ (0.8)	\$ 4.6
Unrealized	11.0	(8.5)	2.5
Total investment income	\$ 16.4	\$ (9.3)	\$ 7.1
Nine Months Ended September 30, 2012			
	Carlyle Consolidated	Adjustments <sup>(3)</sup> (Dollars in millions)	Total Reportable Segments
Performance fees			
Realized	\$ 688.7	\$ (20.2)	\$ 668.5
Unrealized	88.0	(0.4)	87.6
Total performance fees	776.7	(20.6)	756.1
Performance fee related compensation expense			
Realized	188.3	105.5	293.8
Unrealized	(1.4)	71.0	69.6
Total performance fee related compensation expense	186.9	176.5	363.4
Net performance fees			
Realized	500.4	(125.7)	374.7
Unrealized	89.4	(71.4)	18.0
Total net performance fees	\$ 589.8	\$ (197.1)	\$ 392.7
Investment income			
Realized	\$ 11.4	\$ (0.7)	\$ 10.7
Unrealized	27.3	7.7	35.0
Total investment income	\$ 38.7	\$ 7.0	\$ 45.7

- (3) Adjustments to performance fees and investment income (loss) relate to amounts earned from the Consolidated Funds, which were eliminated in the U.S. GAAP consolidation but were included in the segment results, and amounts attributable to non-controlling interests in consolidated entities, which were excluded from the segment results. Adjustments to investment income (loss) also include the reclassification of earnings for the investment in NGP Management to the appropriate operating captions for the segment results, and the exclusion of charges associated with the investment in NGP Management that are excluded from the segment results. Adjustments to performance fee related compensation expense relate to the inclusion of partner compensation in

**The Carlyle Group L.P.**  
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the segment results for periods prior to the reorganization and initial public offering in May 2012. Adjustments are also included in these financial statement captions to reflect the Partnership's 55% economic interest in Claren Road, ESG and Vermillion and, prior to August 1, 2013, the Partnership's 60% interest in AlpInvest in the segment results.

- (e) The Total Assets adjustment represents the addition of the assets of the Consolidated Funds that were eliminated in consolidation to arrive at the Partnership's total assets, as well as the assets attributable to a consolidated real estate VIE.

**19. Subsequent Events**

On October 3, 2013, the Partnership borrowed €12.6 million (\$17.2 million) under a new term loan and security agreement with a financial institution. Proceeds from the borrowing were used to fund the Partnership's investment in a CLO. Interest on the borrowings is payable quarterly at a rate of 1.75%. The Partnership may prepay the facility in whole or in part at any time without penalty. The facility is scheduled to mature on the earlier of five years after closing or the date that the CLO is dissolved. The facility is secured by the Partnership's investment in the CLO.

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. The purchase price consisted of approximately \$12.8 million in cash and 67,338 newly issued common units. 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 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 will consolidate the financial position and results of operations of Metropolitan effective November 1, 2013 and will account for this transaction as a business combination. Metropolitan will be included in the Partnership's Solutions business segment. The Partnership is in the process of allocating the purchase price consideration to acquired intangible assets, identifiable intangible assets and liabilities assumed. As of the date the condensed consolidated financial statements were available to be issued, the Partnership did not have all the information necessary to allocate the purchase price consideration.

In November 2013, the Board of Directors of the general partner of the Partnership declared a quarterly distribution of \$0.16 to common unitholders of record at the close of business on November 18, 2013, payable on November 27, 2013.

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**20. Supplemental Financial Information**

The following supplemental financial information illustrates the consolidating effects of the Consolidated Funds on the Partnership's financial position as of September 30, 2013 and December 31, 2012 and results of operations for the three months and nine months ended September 30, 2013 and 2012. The supplemental statement of cash flows is presented without effects of the Consolidated Funds.

	As of September 30, 2013			
	Consolidated Operating Entities	Consolidated Funds	Eliminations	Consolidated
	(Dollars in millions)			
<b>Assets</b>				
Cash and cash equivalents	\$ 855.7	\$ —	\$ —	\$ 855.7
Cash and cash equivalents held at Consolidated Funds	—	1,494.9	—	1,494.9
Restricted cash	79.6	—	—	79.6
Restricted cash and securities of Consolidated Funds	—	25.7	—	25.7
Accrued performance fees	2,927.6	—	(49.9)	2,877.7
Investments	903.2	—	(109.2)	794.0
Investments of Consolidated Funds	—	26,094.0	24.0	26,118.0
Due from affiliates and other receivables, net	188.3	—	(12.2)	176.1
Due from affiliates and other receivables of Consolidated Funds, net	—	493.6	—	493.6
Receivables and inventory of a consolidated real estate VIE	191.4	—	—	191.4
Fixed assets, net	63.3	—	—	63.3
Deposits and other	39.9	3.4	—	43.3
Other assets of a consolidated real estate VIE	42.7	—	—	42.7
Intangible assets, net	580.3	—	—	580.3
Deferred tax assets	69.0	—	—	69.0
<b>Total assets</b>	<b>\$ 5,941.0</b>	<b>\$ 28,111.6</b>	<b>\$ (147.3)</b>	<b>\$ 33,905.3</b>
<b>Liabilities and partners' capital</b>				
Loans payable	\$ 25.0	\$ —	\$ —	\$ 25.0
3.875% senior notes due 2023	499.8	—	—	499.8
5.625% senior notes due 2043	398.4	—	—	398.4
Loans payable of Consolidated Funds	—	15,169.8	(99.2)	15,070.6
Loans payable of a consolidated real estate VIE at fair value (principal amount of \$335.1)	123.8	—	—	123.8
Accounts payable, accrued expenses and other liabilities	236.5	—	—	236.5
Accrued compensation and benefits	1,797.8	—	—	1,797.8
Due to affiliates	345.3	58.2	(0.3)	403.2
Deferred revenue	195.4	1.5	—	196.9
Deferred tax liabilities	92.6	—	—	92.6
Other liabilities of Consolidated Funds	—	1,214.5	(69.9)	1,144.6
Other liabilities of a consolidated real estate VIE	110.3	—	—	110.3
Accrued giveback obligations	58.8	—	(10.1)	48.7
<b>Total liabilities</b>	<b>3,883.7</b>	<b>16,444.0</b>	<b>(179.5)</b>	<b>20,148.2</b>
Redeemable non-controlling interests in consolidated entities	8.6	4,190.5	—	4,199.1
Partners' capital	278.3	(33.2)	33.2	278.3
Accumulated other comprehensive loss	(11.2)	—	(0.3)	(11.5)
Partners' capital appropriated for Consolidated Funds	—	452.1	(0.7)	451.4
Non-controlling interests in consolidated entities	321.9	7,058.2	—	7,380.1
Non-controlling interests in Carlyle Holdings	1,459.7	—	—	1,459.7
<b>Total partners' capital</b>	<b>2,048.7</b>	<b>7,477.1</b>	<b>32.2</b>	<b>9,558.0</b>
<b>Total liabilities and partners' capital</b>	<b>\$ 5,941.0</b>	<b>\$ 28,111.6</b>	<b>\$ (147.3)</b>	<b>\$ 33,905.3</b>



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	As of December 31, 2012			
	Consolidated Operating Entities	Consolidated Funds	Eliminations	Consolidated
	(Dollars in millions)			
<b>Assets</b>				
Cash and cash equivalents	\$ 567.1	\$ —	\$ —	\$ 567.1
Cash and cash equivalents held at Consolidated Funds	—	1,646.6	—	1,646.6
Restricted cash	34.5	—	—	34.5
Restricted cash and securities of Consolidated Funds	—	36.3	—	36.3
Accrued performance fees	2,204.9	—	(12.4)	2,192.5
Investments	932.6	—	(51.4)	881.2
Investments of Consolidated Funds	—	24,815.7	—	24,815.7
Due from affiliates and other receivables, net	201.5	—	(10.8)	190.7
Due from affiliates and other receivables of Consolidated Funds, net	—	331.8	—	331.8
Fixed assets, net	63.6	—	—	63.6
Deposits and other	44.2	4.2	—	48.4
Intangible assets, net	691.1	—	—	691.1
Deferred tax assets	67.1	—	—	67.1
Total assets	<u>\$ 4,806.6</u>	<u>\$ 26,834.6</u>	<u>\$ (74.6)</u>	<u>\$ 31,566.6</u>
<b>Liabilities and partners' capital</b>				
Loans payable	\$ 886.3	\$ —	\$ —	\$ 886.3
Loans payable of Consolidated Funds	—	13,708.2	(51.5)	13,656.7
Accounts payable, accrued expenses and other liabilities	215.0	—	—	215.0
Accrued compensation and benefits	1,318.2	—	—	1,318.2
Due to affiliates	290.4	42.1	(0.4)	332.1
Deferred revenue	57.9	1.5	—	59.4
Deferred tax liabilities	61.1	—	—	61.1
Other liabilities of Consolidated Funds	—	1,405.0	(19.2)	1,385.8
Accrued giveback obligations	79.0	—	(9.8)	69.2
Total liabilities	2,907.9	15,156.8	(80.9)	17,983.8
Redeemable non-controlling interests in consolidated entities	6.0	2,881.4	—	2,887.4
Partners' capital	235.1	(4.7)	4.7	235.1
Accumulated other comprehensive loss	(5.0)	—	0.2	(4.8)
Partners' capital appropriated for Consolidated Funds	—	837.2	1.4	838.6
Non-controlling interests in consolidated entities	300.9	7,963.9	—	8,264.8
Non-controlling interests in Carlyle Holdings	1,361.7	—	—	1,361.7
Total partners' capital	<u>1,892.7</u>	<u>8,796.4</u>	<u>6.3</u>	<u>10,695.4</u>
Total liabilities and partners' capital	<u>\$ 4,806.6</u>	<u>\$ 26,834.6</u>	<u>\$ (74.6)</u>	<u>\$ 31,566.6</u>

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	Three Months Ended September 30, 2013			
	Consolidated Operating Entities	Consolidated Funds	Eliminations	Consolidated
	(Dollars in millions)			
<b>Revenues</b>				
Fund management fees	\$ 302.6	\$ —	\$ (44.7)	\$ 257.9
Performance fees				
Realized	111.3	—	(2.7)	108.6
Unrealized	210.7	—	1.2	211.9
Total performance fees	322.0	—	(1.5)	320.5
Investment income (loss)				
Realized	(8.8)	—	5.7	(3.1)
Unrealized	(6.3)	—	14.4	8.1
Total investment income (loss)	(15.1)	—	20.1	5.0
Interest and other income	2.7	—	—	2.7
Interest and other income of Consolidated Funds	—	302.0	—	302.0
Total revenues	612.2	302.0	(26.1)	888.1
<b>Expenses</b>				
Compensation and benefits				
Base compensation	204.2	—	—	204.2
Equity-based compensation	78.7	—	—	78.7
Performance fee related				
Realized	45.4	—	—	45.4
Unrealized	113.5	—	—	113.5
Total compensation and benefits	441.8	—	—	441.8
General, administrative and other expenses	135.6	—	0.8	136.4
Interest	11.7	—	—	11.7
Interest and other expenses of Consolidated Funds	—	265.9	(48.7)	217.2
Other non-operating expense	7.6	—	—	7.6
Total expenses	596.7	265.9	(47.9)	814.7
<b>Other losses</b>				
Net investment losses of Consolidated Funds	—	(86.2)	4.2	(82.0)
Income (loss) before provision for income taxes	15.5	(50.1)	26.0	(8.6)
Provision for income taxes	17.9	—	—	17.9
Net loss	(2.4)	(50.1)	26.0	(26.5)
Net loss attributable to non-controlling interests in consolidated entities	(2.5)	—	(24.1)	(26.6)
Net income (loss) attributable to Carlyle Holdings	0.1	(50.1)	50.1	0.1
Net loss attributable to non-controlling interests in Carlyle Holdings	(2.2)	—	—	(2.2)
Net income (loss) attributable to The Carlyle Group L.P.	<u>\$ 2.3</u>	<u>\$ (50.1)</u>	<u>\$ 50.1</u>	<u>\$ 2.3</u>

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	Nine Months Ended September 30, 2013			
	Consolidated Operating Entities	Consolidated Funds	Eliminations	Consolidated
	(Dollars in millions)			
<b>Revenues</b>				
Fund management fees	\$ 862.6	\$ —	\$ (131.1)	\$ 731.5
Performance fees				
Realized	570.9	—	(6.3)	564.6
Unrealized	702.4	—	(45.0)	657.4
Total performance fees	1,273.3	—	(51.3)	1,222.0
Investment income (loss)				
Realized	3.8	—	1.6	5.4
Unrealized	(9.5)	—	20.5	11.0
Total investment income (loss)	(5.7)	—	22.1	16.4
Interest and other income	9.2	—	—	9.2
Interest and other income of Consolidated Funds	—	823.3	—	823.3
Total revenues	2,139.4	823.3	(160.3)	2,802.4
<b>Expenses</b>				
Compensation and benefits				
Base compensation	556.3	—	—	556.3
Equity-based compensation	257.0	—	—	257.0
Performance fee related				
Realized	232.2	—	—	232.2
Unrealized	374.5	—	—	374.5
Total compensation and benefits	1,420.0	—	—	1,420.0
General, administrative and other expenses	365.9	—	2.2	368.1
Interest	33.8	—	—	33.8
Interest and other expenses of Consolidated Funds	—	867.4	(198.4)	669.0
Other non-operating expense	1.9	—	—	1.9
Total expenses	1,821.6	867.4	(196.2)	2,492.8
<b>Other income</b>				
Net investment gains of Consolidated Funds	—	422.6	(2.5)	420.1
Income before provision for income taxes	317.8	378.5	33.4	729.7
Provision for income taxes	59.4	—	—	59.4
Net income	258.4	378.5	33.4	670.3
Net income attributable to non-controlling interests in consolidated entities	29.5	—	411.9	441.4
Net income attributable to Carlyle Holdings	228.9	378.5	(378.5)	228.9
Net income attributable to non-controlling interests in Carlyle Holdings	196.1	—	—	196.1
Net income attributable to The Carlyle Group L.P.	\$ 32.8	\$ 378.5	\$ (378.5)	\$ 32.8

**The Carlyle Group L.P.**  
**Notes to the Consolidated Financial Statements**  
**(Unaudited)**

	Three Months Ended September 30, 2012			
	Consolidated Operating Entities	Consolidated Funds	Eliminations	Consolidated
	(Dollars in millions)			
<b>Revenues</b>				
Fund management fees	\$ 276.4	\$ —	\$ (36.6)	\$ 239.8
Performance fees				
Realized	292.1	—	(0.7)	291.4
Unrealized	70.7	—	(5.8)	64.9
Total performance fees	362.8	—	(6.5)	356.3
Investment income (loss)				
Realized	13.4	—	(3.6)	9.8
Unrealized	(1.2)	—	1.6	0.4
Total investment income (loss)	12.2	—	(2.0)	10.2
Interest and other income	4.5	—	—	4.5
Interest and other income of Consolidated Funds	—	247.7	—	247.7
Total revenues	655.9	247.7	(45.1)	858.5
<b>Expenses</b>				
Compensation and benefits				
Base compensation	177.0	—	—	177.0
Equity-based compensation	53.2	—	—	53.2
Performance fee related				
Realized	121.9	—	—	121.9
Unrealized	41.5	—	—	41.5
Total compensation and benefits	393.6	—	—	393.6
General, administrative and other expenses	94.9	—	(2.0)	92.9
Interest	4.0	—	—	4.0
Interest and other expenses of Consolidated Funds	—	252.4	(48.3)	204.1
Other non-operating expense	10.3	—	—	10.3
Total expenses	502.8	252.4	(50.3)	704.9
<b>Other income</b>				
Net investment gains of Consolidated Funds	—	448.3	0.6	448.9
Income before provision for income taxes	153.1	443.6	5.8	602.5
Provision for income taxes	5.5	—	—	5.5
Net income	147.6	443.6	5.8	597.0
Net income attributable to non-controlling interests in consolidated entities	36.0	—	449.4	485.4
Net income attributable to Carlyle Holdings	111.6	443.6	(443.6)	111.6
Net income attributable to non-controlling interests in Carlyle Holdings	93.0	—	—	93.0
Net income attributable to The Carlyle Group L.P.	\$ 18.6	\$ 443.6	\$ (443.6)	\$ 18.6

**The Carlyle Group L.P.**  
**Notes to the Consolidated Financial Statements**  
**(Unaudited)**

	Nine Months Ended September 30, 2012			
	Consolidated Operating Entities	Consolidated Funds	Eliminations	Consolidated
	(Dollars in millions)			
<b>Revenues</b>				
Fund management fees	\$ 816.5	\$ —	\$ (102.4)	\$ 714.1
Performance fees				
Realized	700.9	—	(12.2)	688.7
Unrealized	88.0	—	—	88.0
Total performance fees	788.9	—	(12.2)	776.7
Investment income				
Realized	22.1	—	(10.7)	11.4
Unrealized	27.1	—	0.2	27.3
Total investment income	49.2	—	(10.5)	38.7
Interest and other income	9.9		—	9.9
Interest and other income of Consolidated Funds	—	678.4	—	678.4
Total revenues	1,664.5	678.4	(125.1)	2,217.8
<b>Expenses</b>				
Compensation and benefits				
Base compensation	433.0	—	—	433.0
Equity-based compensation	147.4	—	—	147.4
Performance fee related				
Realized	188.3	—	—	188.3
Unrealized	(1.4)	—	—	(1.4)
Total compensation and benefits	767.3	—	—	767.3
General, administrative and other expenses	271.3	—	(3.2)	268.1
Interest	20.6	—	—	20.6
Interest and other expenses of Consolidated Funds	—	689.6	(121.5)	568.1
Other non-operating expense	6.9	—	—	6.9
Total expenses	1,066.1	689.6	(124.7)	1,631.0
<b>Other income</b>				
Net investment gains of Consolidated Funds	—	1,704.7	2.9	1,707.6
Income before provision for income taxes	598.4	1,693.5	2.5	2,294.4
Provision for income taxes	27.8	—	—	27.8
Net income	570.6	1,693.5	2.5	2,266.6
Net income attributable to non-controlling interests in consolidated entities	12.2	—	1,696.0	1,708.2
Net income attributable to Carlyle Holdings	558.4	1,693.5	(1,693.5)	558.4
Net income attributable to non-controlling interests in Carlyle Holdings	550.1	—	—	550.1
Net income attributable to The Carlyle Group L.P.	\$ 8.3	\$ 1,693.5	\$ (1,693.5)	\$ 8.3

**The Carlyle Group L.P.**  
**Notes to the Consolidated Financial Statements**  
**(Unaudited)**

	Nine Months Ended September 30,	
	2013	2012
	(Dollars in millions)	
<b>Cash flows from operating activities</b>		
Net income	\$ 258.4	\$ 570.6
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	131.1	74.1
Amortization of deferred financing fees	1.1	1.1
Equity-based compensation	257.0	147.4
Excess tax benefits related to equity-based compensation	(1.9)	—
Non-cash performance fees	(793.6)	(124.7)
Other non-cash amounts	8.5	7.0
Investment loss (income)	30.4	(40.8)
Purchases of investments	(117.5)	(41.1)
Proceeds from the sale of investments	221.1	172.0
Purchases of trading securities	(37.2)	(15.1)
Proceeds from the sale of trading securities	19.7	15.7
Change in deferred taxes	28.3	(3.5)
Change in due from affiliates and other receivables	(30.0)	(14.0)
Change in deposits and other	5.0	10.6
Change in accounts payable, accrued expenses and other liabilities	26.5	3.7
Change in accrued compensation and benefits	477.7	(6.3)
Change in due to affiliates	46.6	(13.1)
Change in deferred revenue	137.1	96.7
Net cash provided by operating activities	668.3	840.3
<b>Cash flows from investing activities</b>		
Change in restricted cash	(45.2)	(3.6)
Purchases of fixed assets, net	(18.8)	(26.0)
Purchases of intangible assets	—	(41.0)
Net cash used in investing activities	(64.0)	(70.6)
<b>Cash flows from financing activities</b>		
Borrowings under credit facility	—	433.7
Repayments under credit facility	(386.3)	(744.6)
Issuance of 3.875% senior notes due 2023, net of financing costs	495.3	—
Issuance of 5.625% senior notes due 2043, net of financing costs	394.1	—
Payments on loans payable	(475.0)	(310.0)
Payments of contingent consideration	(23.6)	—
Net proceeds from issuance of common units in initial public offering	—	615.8
Excess tax benefits related to equity-based compensation	1.9	—
Distributions to common unitholders	(52.0)	(4.8)
Contributions from predecessor owners	—	9.3
Distributions to predecessor owners	—	(452.3)
Contributions from non-controlling interest holders	94.4	27.6
Distributions to non-controlling interest holders	(402.0)	(93.3)
Acquisition of non-controlling interests in consolidated entities	(7.1)	—
Change in due to/from affiliates financing activities	43.0	(1.0)
Net cash used in financing activities	(317.3)	(519.6)
Effect of foreign exchange rate changes	1.6	9.5
Increase in cash and cash equivalents	288.6	259.6
Cash and cash equivalents, beginning of period	567.1	509.6
Cash and cash equivalents, end of period	<u>\$ 855.7</u>	<u>\$ 769.2</u>

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion analyzes the financial condition and results of operations of The Carlyle Group L.P. (the "Partnership") and, for periods prior to May 2012, the combined and consolidated financial condition and results of operations of TC Group, L.L.C., TC Group Cayman, L.P., TC Group Investment Holdings, L.P. and TC Group Cayman Investment Holdings, L.P., as well as their majority-owned subsidiaries (collectively "Carlyle Group"), the predecessor of the Partnership. Such analysis should be read in conjunction with the consolidated financial statements and the related notes included in the Annual Report on Form 10-K. For ease of reference, we refer to the historical financial results of Carlyle Group as being "our" historical financial results. Unless the context otherwise requires, references to "we," "us," "our" and "the Partnership" are intended to mean the business and operations of the Partnership beginning in May 2012. When used in the historical context (i.e., prior to May 2012), these terms are intended to mean the business and operations of Carlyle Group.*

### Overview

We conduct our operations through four reportable segments: Corporate Private Equity, Global Market Strategies, Real Assets and Solutions.

- **Corporate Private Equity** — Our Corporate Private Equity segment advises our 23 buyout and 10 growth capital funds, which seek a wide variety of investments of different sizes and growth potentials. As of September 30, 2013, our Corporate Private Equity segment had approximately \$62 billion in AUM and approximately \$42 billion in Fee-earning AUM.
- **Global Market Strategies** — Our Global Market Strategies segment advises a group of 61 funds that pursue investment opportunities across structured credit, distressed debt, corporate and energy mezzanine debt, middle-market and senior debt, as well as credit, emerging markets and commodities-focused hedge funds. As of September 30, 2013, our Global Market Strategies segment had approximately \$35 billion in AUM and approximately \$34 billion in Fee-earning AUM.
- **Real Assets** — Our Real Assets segment advises our 11 U.S. and internationally focused real estate funds, our infrastructure fund, two natural resources funds, as well as our six Legacy Energy funds (funds that we jointly advise with Riverstone). The segment also includes eight NGP management fee funds advised by NGP. As of September 30, 2013, our Real Assets segment had approximately \$39 billion in AUM and approximately \$29 billion in Fee-earning AUM.
- **Solutions** — Our Solutions segment was launched upon our acquisition of a 60% equity interest in AlpInvest on July 1, 2011 and advises a global private equity fund of funds program and related co-investment and secondary activities across 81 fund of funds vehicles. On August 1, 2013, we acquired the remaining 40% equity interest in AlpInvest. As of September 30, 2013, our Solutions segment had approximately \$48 billion in AUM and approximately \$34 billion in Fee-earning AUM.

We earn management fees pursuant to contractual arrangements with the investment funds that we manage and fees for transaction advisory and oversight services provided to portfolio companies of these funds. We also typically receive a performance fee from an investment fund, which may be either an incentive fee or 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. Under U.S. generally accepted accounting principles ("U.S. GAAP"), we are required to consolidate some of the investment funds that we advise. However, for segment reporting purposes, we present revenues and expenses on a basis that deconsolidates these investment funds. Accordingly, our segment revenues primarily consist of fund management and related advisory fees, performance fees (consisting of incentive fees and carried interest allocations), investment income, including realized and unrealized gains on our investments in our funds and other trading securities, as well as interest and other income. Our segment expenses primarily consist of compensation and benefits expenses, including salaries, bonuses, performance payment arrangements, and equity-based compensation granted subsequent to our initial public offering, and general and administrative expenses. Refer to Note 18 to the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for more information on the differences between our financial results reported pursuant to U.S. GAAP and our financial results for segment reporting purposes.

## Our Family of Funds

The following chart presents the name (acronym), total capital commitments (in the case of our carry funds, structured credit funds, fund of funds vehicles and the NGP management fee funds), assets under management (in the case of our hedge funds), gross assets (in the case of our business development companies) and vintage year of the active funds in each of our segments, as of September 30, 2013. We present total capital commitments (as opposed to assets under management) for our closed-end investment carry funds because we believe this metric provides the most useful information regarding the relative size and scale of such funds. In the case of our hedge funds, which are open-ended and accordingly do not have permanent committed capital, we believe the most useful metric regarding relative size and scale is assets under management.

Corporate Private Equity Buyout Carry Funds			
<b>Carlyle Partners (U.S.)</b>			
CP VI	\$11.6 bn	2012	
CP V	\$13.7 bn	2007	
CP IV	\$7.9 bn	2005	
CP III	\$3.9 bn	2000	
CP II	\$1.3 bn	1996	
<b>Global Financial Services Partners</b>			
CGFSP II	\$488 mm	2011	
CGFSP I	\$1.1 bn	2008	
<b>Carlyle Europe Partners</b>			
CEP III	€5.3 bn	2006	
CEP II	€1.8 bn	2003	
<b>Carlyle Asia Partners</b>			
CAP IV	\$1.4 bn	2012	
CBPF	\$384 mm	2010	
CAP III	\$2.6 bn	2008	
CAP II	\$1.8 bn	2006	
CAP I	\$750 mm	1999	
<b>Carlyle Japan Partners</b>			
CJP III	¥18.6 bn	2013	
CJP II	¥165.6 bn	2006	
CJP I	¥50.0 bn	2001	
<b>Carlyle Mexico Partners</b>			
Mexico	\$134 mm	2005	
<b>Carlyle MENA Partners</b>			
MENA I	\$471 mm	2007	
<b>Carlyle South American Buyout Fund</b>			
CSABF I	\$776 mm	2009	
<b>Carlyle Sub-Saharan Africa Fund</b>			
CSSAF I	\$604 mm	2012	
<b>Carlyle Peru Fund</b>			
CPF I	\$308 mm	2012	
<b>Growth Carry Funds</b>			
<b>Carlyle U.S. Venture/Growth Partners</b>			
CEOF I	\$1.1 bn	2011	
CUSGF III	\$605 mm	2006	
CVP II	\$602 mm	2001	
CVP I	\$210 mm	1997	
<b>Carlyle Europe Technology Partners</b>			
CETP II	€522 mm	2007	
CETP I	€222 mm	2005	
<b>Carlyle Asia Venture/Growth Partners</b>			
CAGP IV	\$1.0 bn	2008	
CAGP III	\$680 mm	2005	
CAVP II	\$164 mm	2001	
<b>Carlyle Cardinal Ireland</b>			
CCI	€225 mm	2012	
Global Market Strategies Structured Credit Funds			
<b>Cash CLO Funds</b>			
U.S.	\$12.2 bn	1999-2013	
Europe	€6.1 bn	2005-2013	
<b>Middle Market CLO</b>			
U.S.	\$1.2 bn	2011	
Global Market Strategies Carry Funds			
<b>Carlyle Mezzanine Partners (Corporate Mezzanine)</b>			
CMP II	\$553 mm	2008	
CMP I	\$436 mm	2004	
<b>Carlyle Strategic Partners (Distressed)</b>			
CSP III	\$703 mm	2011	
CSP II	\$1.4 bn	2007	
CSP I	\$211 mm	2004	
<b>Carlyle Energy Mezzanine Opportunities Fund</b>			
CEMOF I	\$1.4 bn	2010	
Hedge Funds <sup>1</sup>			
<b>Long/Short Credit</b>			
Claren Road			
Opportunities Fund	\$2.0 bn	2008	
Claren Road			
Master Fund	\$5.8 bn	2006	
<b>Emerging Markets Strategies</b>			
Cross Border			
Equity Master Fund	\$3.4 bn	2002	
Emerging Sovereign			
Group - Various	\$1.6 bn	2002	
<b>Commodities</b>			
Vermillion - Various	\$1.3 bn	2005	
Business Development Company <sup>3</sup>			
Carlyle GMS	\$162 mm	2013	
Finance, Inc.			
NF Investment	\$36 mm	2013	
Corp			
Real Assets Real Estate Carry Funds			
<b>Carlyle Realty Partners (U.S.)</b>			
CRP VI	\$2.3 bn	2010	
CRP V	\$3.0 bn	2006	
CRP IV	\$950 mm	2004	
CRP III	\$564 mm	2000	
<b>Carlyle Europe Real Estate Partners</b>			
CEREP III	€2.2 bn	2007	
CEREP II	€763 mm	2005	
CEREP I	€427 mm	2002	
<b>Carlyle Asia Real Estate Partners</b>			
CAREP II	\$486 mm	2007	
CAREP I	\$411 mm	2005	
<b>Carlyle Realty Credit Partners (U.S.)</b>			
CRCP I	\$197 mm	2011	
Infrastructure Carry Fund			
<b>Carlyle Infrastructure Partners</b>			
CIP I	\$1.1 bn	2006	
Natural Resources Carry Funds			
<b>Energy and Power</b>			
CPOCP	\$313 mm	2013	
CIEP	\$549 mm	2013	
Carlyle/Riverstone Energy Carry Funds			
<b>Carlyle/Riverstone Global Energy</b>			
Energy IV	\$6.0 bn	2007	
Energy III	\$3.8 bn	2005	
Energy II	\$1.1 bn	2002	
Energy I	\$222 mm	2001	
<b>Carlyle/Riverstone Renewable Energy</b>			
Renew II	\$3.4 bn	2008	
Renew I	\$685 mm	2005	
NGP Energy Management Fee Funds			
<b>NGP Energy Capital Management</b>			
NGP X	\$3.6 bn	2012	
Various <sup>2</sup>	\$8.1 bn	2004-2007	
Solutions AlpInvest			
<b>Fund of Private Equity Funds</b>			
36 vehicles	€37.4 bn	2000-2013	
<b>Secondary Investments</b>			
21 vehicles	€8.7 bn	2000-2013	
<b>Co-Investments</b>			
24 vehicles	€10.4 bn	2000-2013	

Note: All funds are closed-end and amounts shown represent total capital commitments as of September 30, 2013, unless otherwise noted.

(1) Open-ended funds. Amounts represent AUM as of September 30, 2013.

(2) Includes NGPC, NGP ETP I, NGP M&R, NGP ETP II, NGP VII, NGP VIII and NGP IX.

(3) Amounts represent gross assets as of September 30, 2013.



## Trends Affecting our Business

Our results of operations are affected by a variety of factors including global economic, market and financial conditions, particularly in the United States, Europe and Asia. We believe that our diversified, multi-product global platform with 122 funds and 81 fund of funds vehicles which invest across numerous industries, asset classes and geographies generally enhances, on an annual basis, the stability of our distributable earnings and management fee streams, reduces the volatility of our carried interest and performance fees and decreases our exposure to a negative event associated with any specific fund, investment or vintage. In general, a climate of reasonable interest rates and high levels of liquidity in the debt and equity capital markets provide a positive environment for us to generate attractive investment returns in our carry funds. We also believe that periods of volatility and dislocation in the capital markets can present us with opportunities to invest at reduced valuations that position us for future revenue growth. For our hedge funds, opportunities to generate revenue depend on their respective investment strategies, certain of which may benefit from higher market volatility. These strategies include, but are not limited to, low levels of correlation in equity and debt markets, differences in market prices versus fundamental value and opportunities to profit from trading inefficiencies.

Risk asset prices rebounded strongly since the end of the second quarter of 2013, as the S&P 500 increased 8% and the MSCI All Country World Index advanced by 8.6%. The increase in risk asset prices was driven mainly by the Federal Open Market Committee's ("FOMC") September 18, 2013 decision to leave its asset purchase program unchanged. The postponement of tapering led to especially large gains in emerging markets stocks, with the MSCI Emerging Index up 14% since the end of August 2013. European stocks outperformed developed market peers, with the Stoxx Europe 600 Index up 10.5% since June 30, 2013.

The FOMC's decision to delay tapering reduced interest rates across the term structure and credit spectrum. Since late August 2013, the yields on Treasury notes maturing between five and ten years generally declined by between 30 and 60 basis points, with similar declines witnessed in other G-4 government bond markets. Yields on major emerging market sovereign debt fell by as much as 200 basis points. Deal finance conditions also showed improvement. Average spreads on B-rated corporate bonds fell by 45 basis points since the end of August 2013, pushing speculative grade yields back down to levels that prevailed in May 2013.

The U.S. economy expanded at a 2.8% annual rate in the third quarter of 2013, although inventory accumulation accounted for 0.83% of the increase. Through the first three quarters of the year, final sales expanded at a 1.4% annual rate, led by household consumption and residential investment. Inventory accumulation accounted for the remaining 0.7% of the 2.1% growth in gross domestic product. The euro area economy appears to have expanded for a second consecutive quarter, ending the recession that began in late 2011. However, the pace of growth has been uneven. Overall, the International Monetary Fund estimates that the global economy will expand at a 2.9% rate in 2013, down from the 3.3% pace estimated in April 2013.

In addition to these global macro-economic and market trends, our future performance may be impacted by the following factors:

- *The attractiveness of the alternative asset management industry.* Our ability to attract new capital and investors is driven in part by the extent to which investors continue to see the alternative asset management industry as an attractive vehicle for capital preservation and growth. During the nine months ended September 30, 2013, we raised \$18.3 billion of new capital commitments across our fund platform. Although the fundraising environment remains competitive and the time required to raise a fund has increased from prior years, with several of our larger regional buyout funds currently in the market, we expect fundraising to continue at a strong pace through the rest of 2013 and into 2014. As part of our fundraising effort, we may use feeder funds and other intermediaries to access investors. The use of such funds and intermediaries differs from our traditional fundraising model and has meaningfully increased our fundraising expenses and is likely to continue to do so.
- *Our ability to generate strong absolute and risk adjusted returns.* The strength of our investment performance affects investors' willingness to commit capital to our funds. The capital we are able to attract is one of the main drivers of the growth of our AUM and the management fees we earn. During the nine months ended September 30, 2013, we realized proceeds of \$11.0 billion for our carry fund investors. The valuation of our carry fund portfolio increased 13% overall during the first three quarters of 2013 and 4%

overall during the third quarter of 2013, with a 5% increase in our Corporate Private Equity segment, a 2% increase in our Global Market Strategies segment and a 1% increase in our Real Assets segment, but there can be no assurance that these trends will continue. Furthermore, given the current investment environment with increased competition from other financial sponsors and strategic purchasers, the internal rates of return we are able to generate on certain of our near-term investments may be lower than our historical rates. The lifecycle of our investment funds may also impact the amount and timing of the realization of our performance fees, depending on whether the fund is in the harvesting period. However, performance fees are ultimately realized when (i) an investment is profitably disposed of, (ii) the investment fund's cumulative returns are in excess of the preferred return and (iii) we have decided to collect carry rather than return additional capital to limited partner investors. Our decision to realize carry considers such factors as the level of embedded valuation gains, the portion of the fund invested, the portion of the fund returned to limited partner investors, and the length of time the fund has been in carry, as well as other qualitative measures. For our hedge funds, absolute positive performance and relative outperformance and lower volatility versus their respective benchmarks may be among the considerations taken into account in an investor's decision to increase or maintain allocations to our funds.

- *Our successful deployment of capital.* Our ability to maintain and grow our revenue base is dependent upon our ability to successfully deploy the capital that our investors have committed to our funds. Increased competition, high valuations, increased overall cost of credit and other general market conditions may impact our ability to identify and execute attractive investments. Because we pursue investment opportunities strategically as they arise and we have a long-term investment horizon, the capital deployed in any one quarter may vary significantly from the capital deployed in any other quarter or the quarterly average of capital deployed in any given year. During the nine months ended September 30, 2013, we invested \$5.7 billion in new and existing investments in our carry funds. Our investment pipeline continues to be less robust than we anticipated earlier in the year. If current trends continue, we no longer expect to invest more in 2013 than we did in 2012. As of September 30, 2013, we had capital available for investment through our carry funds of \$31 billion, we had capital available for investment in our Solutions segment through our fund of funds vehicles of \$18 billion and we had approximately \$14 billion in hedge fund assets invested across credit, equities, and commodities trading strategies.
- *Our ready access to credit and proactive management of interest rate risk.* In anticipation of the inevitable rise in interest rates, during the first quarter of 2013 we took advantage of historically low interest rates to strengthen the firm's capital structure by issuing \$500 million in aggregate principal amount of ten-year senior notes with a coupon of 3.875% and \$400 million in aggregate principal amount of 30-year senior notes with a coupon of 5.625%. At the investment fund level, our investment professionals also have been systematically preparing their portfolios for the anticipated increase in interest rates. Many of our investment funds were able to take advantage of the robust credit markets to refinance, hedge interest rate risk or lock-in favorable fixed rates on newly issued and outstanding debt of our portfolio companies. We believe that these proactive efforts have adequately protected the investments in our fund portfolios from substantial interest rate risk.
- *Our ability to meet evolving investor requirements.* We believe that investors will seek to deploy their investment capital in a variety of different ways, including fund investments, separate accounts and direct co-investments. As we continue to expand our platform, we seek to broaden the appeal of our investment products. For example, one area of focus during the year has been on the expansion of our Solutions business through our acquisition of the remaining 40% equity interest in AlpInvest on August 1, 2013 and our acquisition of Metropolitan Real Estate Equity Management on November 1, 2013. We also are continuing to work to create avenues through which we expect to attract a new base of individual investors. We continue to explore various methods to access this new investor base, including via feeder funds and other intermediaries, and to dedicate additional resources to more closely coordinate with new feeder fund partners.
- *The timing of the expiration of the investment periods of our funds and the raising of successor funds.* The investment periods for several of our largest carry funds that we raised between 2006 and 2008 expired during 2012 and the investment periods for additional funds have expired or will expire in 2013. In certain cases, the investment period of a fund has expired prior to the raising of a successor fund. In general, the end of the original investment period (regardless of whether it is extended) will trigger a change in the capital base on which management fees are calculated from committed capital to invested capital at cost. In some cases, a step-down in the applicable rate used to calculate management fees may also occur. As a result, the management fee revenues we earn from these extended funds will decline. Also, the favorable impact on Fee-earning AUM and related management fee revenues of a successor fund or new fundraising initiatives will, to the extent of the success of these new funds or initiatives, offset the management fee revenue reductions. However, to the extent we do not plan to raise a successor fund in the same year, Fee-earning AUM will be reduced. The timing and/or size of raising certain successor funds has created

volatility in our Corporate Private Equity segment management fees. Management fees in our Corporate Private Equity segment for the nine months ended September 30, 2013 are below our comparable 2012 results; however, this reversed in the three months ended September 30, 2013 with management fees exceeding the comparable 2012 period due to the commencement of the investment period for certain newly raised buyout funds.

#### **Recent Transactions**

On October 3, 2013, the Partnership borrowed €12.6 million (\$17.2 million) under a new term loan and security agreement with a financial institution. Proceeds from the borrowing were used to fund the Partnership's investment in a CLO. The facility is scheduled to mature on the earlier of five years after closing or the date that the CLO is dissolved.

On November 1, 2013, the Partnership acquired 100% of the equity interests in Metropolitan Real Estate Equity Management, LLC, a global manager of real estate fund of funds with more than \$2.6 billion in capital commitments.

In November 2013, the Board of Directors of our general partner declared a quarterly distribution of \$0.16 per common unit to common unit holders of record at the close of business on November 18, 2013, payable on November 27, 2013.

#### **Consolidation of Certain Carlyle Funds and Variable Interest Entities**

Pursuant to U.S. GAAP, we consolidate certain Carlyle sponsored funds, related co-investment entities and CLOs that we advise, which we refer to collectively as the Consolidated Funds, in our consolidated financial statements. These funds represent approximately 17% of our AUM as of September 30, 2013; approximately 15% of our fund management fees during the three months and nine months ended September 30, 2013; approximately 13% of our fund management fees during the three months and nine months ended September 30, 2012, respectively; less than 1% and approximately 4% of our performance fees during the three months and nine months ended September 30, 2013; and less than 2% of our performance fees during the three months and nine months ended September 30, 2012, respectively.

We are not required under U.S. GAAP to consolidate most of the investment funds we advise in our consolidated financial statements because such funds provide their limited partners with the right to dissolve the fund without cause by a simple majority vote of the non-Carlyle affiliated limited partners, which overcomes the presumption of control by Carlyle. However, we consolidate certain CLOs that we advise as a result of the application of the accounting standards governing consolidations. As of September 30, 2013, our consolidated CLOs held approximately \$17 billion of total assets and comprised 59% of the assets of the Consolidated Funds and 100% of the loans payable of the Consolidated Funds. As of September 30, 2013, our consolidated AlpInvest fund of funds vehicles had approximately \$7 billion of total assets and comprised 25% of the assets of the Consolidated Funds. The remainder of the assets of the Consolidated Funds as of September 30, 2013 relates to our consolidated hedge funds and other consolidated funds. The assets and liabilities of the Consolidated Funds are generally held within separate legal entities and, as a result, the liabilities of the Consolidated Funds are non-recourse to us. For further information on consolidation of certain funds, see Note 2 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Generally, the consolidation of the Consolidated Funds has a gross-up effect on our assets, liabilities and cash flows but has no net effect on the net income attributable to the Partnership and partners' capital. The majority of the net economic ownership interests of the Consolidated Funds are reflected as non-controlling interests in consolidated entities, redeemable non-controlling interests in consolidated entities, and partners' capital appropriated for Consolidated Funds in the consolidated financial statements. For further information, see Note 2 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Because only a small portion of our funds are consolidated, the performance of the Consolidated Funds is not necessarily consistent with or representative of the combined performance trends of all of our funds.

In addition, as described in Note 17 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, as of September 30, 2013, we began consolidating Urbplan Desenvolvimento Urbano S.A. ("Urbplan," formerly Scopel Desenvolvimento Urbano S.A.), a Brazilian real estate

portfolio company of certain of our real estate investment funds. Due to the timing and availability of financial information of Urbplan, we consolidate the financial position and results of operations of Urbplan on a financial reporting lag of 90 days. As we consolidated Urbplan effective as of September 30, 2013, the consolidation had no impact on our consolidated results of operations for the three months and nine months ended September 30, 2013. We are currently evaluating Urbplan's internal controls over financial reporting and integrating them into our own internal controls over financial reporting, but that evaluation has not yet been completed. We have not yet concluded whether or not we will exclude Urbplan from our assessment of and report on internal control over financial reporting for the fiscal year ended December 31, 2013.

## Key Financial Measures

Our key financial measures are discussed in the following pages.

## Revenues

Revenues primarily consist of fund management fees, performance fees, investment income, including realized and unrealized gains of our investments in our funds and other trading securities, as well as interest and other income. See Note 2 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information regarding the manner in which management fees and performance fees are generated.

*Fund Management Fees.* Fund management fees include (i) management fees earned on capital commitments or AUM and (ii) transaction and portfolio advisory fees. Management fees are fees we receive for advisory services we provide to funds in which we hold a general partner interest or with which we have an investment advisory or investment management agreement. Management fees are based on (a) third parties' capital commitments to our investment funds, (b) third parties' remaining capital invested in our investment funds, (c) average daily gross assets, excluding cash and cash equivalents, (d) the lower of cost or fair value of the capital invested for the fund of funds vehicles following the expiration of the commitment period of such vehicles, or (e) the net asset value ("NAV") of certain of our investment funds, as described in our consolidated financial statements.

Management fees for our corporate private equity funds, 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. Large funds tend to have lower effective management fee rates, while smaller funds tend to have effective management fee rates approaching 2%. 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. Depending upon the contracted terms of investment advisory or investment management and related agreements, these fees generally are called semiannually in advance and are recognized as earned over the subsequent six month period. As a result, cash on hand and deferred revenue will generally be higher around January and July, which are the semiannual due dates for management fees. Management fees from the fund of funds vehicles in our Solutions segment generally range from 0.3% to 1.0% on the vehicle's capital commitments during the commitment fee period of the relevant fund. Following the expiration of the commitment fee period of such vehicles, the management fees generally range from 0.3% to 1.0% on the lower of cost or fair value of the capital invested. Management fees for our Solutions segment are due quarterly and recognized over the related quarter. Our hedge funds generally pay management fees quarterly that range from 1.5% to 3.0% of NAV per year. Management fees for our business development companies are due quarterly in arrears at annual rates that range from 0.25% to 1.0% of average daily gross assets, excluding cash and cash equivalents. Management fees for our CLOs typically range from 0.4% to 0.6% on the total par amount of assets in the fund and are due quarterly or semiannually based on the terms and recognized over the relevant period. Our management fees for our CLOs and credit opportunities funds are governed by indentures and collateral management agreements. With respect to Claren Road, ESG, and Vermillion, we retain a specified percentage of the earnings of the businesses based on our ownership in the management companies of 55%. Through the second quarter of 2013, we retained 60% of the earnings of AlpInvest based on our 60% equity interest in AlpInvest. During the third quarter of 2013, we acquired the remaining 40% equity interest in AlpInvest, and therefore we are entitled to 100% of the earnings of AlpInvest subsequent to that acquisition. Management fees are not subject to repayment but may be offset to the extent that other fees are earned as described below under "—Transaction and Portfolio Advisory Fee".

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Management fees attributable to Carlyle Partners VI, L.P. (“CP VI”), our sixth U.S. buyout fund with approximately \$10.7 billion of Fee-earning AUM as of September 30, 2013, were approximately 15% of total management fees recognized during the three months ended September 30, 2013. Management fees attributable to Carlyle Partners V, L.P. (“CP V”), our fifth U.S. buyout fund with approximately \$10.0 billion of Fee-earning AUM as of September 30, 2013, were approximately 12% of total management fees recognized during the nine months ended September 30, 2013. For the three months and nine months ended September 30, 2012, management fees attributable to CP V were approximately 18% and 17%, respectively, of total management fees recognized during those periods. No other fund generated over 10% of total management fees in the periods presented.

*Transaction and Portfolio Advisory Fees.* Transaction and portfolio advisory fees are fees we receive for the transaction and portfolio advisory services we provide to our portfolio companies. When covered by separate contractual agreements, we recognize transaction and portfolio advisory fees for these services when the service has been provided and collection is reasonably assured. We are required to offset our fund management fees earned by a percentage of the transaction and advisory fees earned, which we refer to as the “rebate offsets.” Such rebate offset percentages generally range from 50% to 80% of the transaction and advisory fees earned. While the portfolio advisory fees are relatively consistent, transaction fees vary in accordance with our investment pace. We have received and expect to continue to receive requests from a variety of investors and groups representing investors to increase the percentage of transaction and advisory fees we share with our investors in future funds; to the extent that we accommodate such requests on future funds, the rebate offset percentages would increase as compared to the historical levels.

*Performance Fees.* Performance fees consist principally of the special residual allocation of profits to which we are entitled, commonly referred to as carried interest, from certain of our investment funds, which we refer to as the “carry funds.” We are generally entitled to a 20% allocation (or approximately 2% to 10% in the case of most of our 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 of generally 8% to 9% and the return of certain fund costs (generally subject to catch-up provisions as set forth in the fund limited partnership agreement). Carried interest revenue, which is a component of performance fees in our consolidated financial statements, is recognized by Carlyle upon appreciation of the valuation of our funds’ investments above certain return hurdles as set forth in each respective partnership agreement and is based on the amount that would be due to us pursuant to the fund partnership agreement at each period end as if the funds were liquidated at such date. Accordingly, the amount of carried interest recognized as performance fees reflects our share of the fair value gains and losses of the associated funds’ underlying investments measured at their then-current fair values. As a result, the performance fees earned in an applicable reporting period are not indicative of any future period. Carried interest is ultimately realized when: (i) an underlying investment is profitably disposed of, (ii) the investment fund’s cumulative returns are in excess of the preferred return and (iii) we have decided to collect carry rather than return additional capital to limited partner investors. The portion of performance fees that are realized and unrealized in each period are separately reported in our statements of operations.

Under our arrangements with the historical owners and management team of Alpinvest, the management team and employees of Alpinvest are allocated all carried interest in respect of the historical investments and commitments to our fund of funds vehicles that existed as of July 1, 2011 (including any options to increase any such commitments exercised after such date), 85% of the carried interest in respect of commitments from the historical owners of Alpinvest for the period between 2011 and 2020 and 60% of the carried interest in respect of all other commitments (including all future commitments from third parties).

Our performance fees are generated by a diverse set of funds with different vintages, geographic concentration, investment strategies and industry specialties. For an explanation of the fund acronyms used throughout this Management’s Discussion and Analysis of Financial Condition and Results of Operations section, refer to “— Our Family of Funds.”

Performance fees from CP V, Carlyle Partners IV, L.P. (“CP IV”), our fourth U.S. buyout fund, and Carlyle Global Financial Services Partners, L.P. (“CGFSP I”), our first financial services buyout fund, (with total AUM of approximately \$15.7 billion, \$6.0 billion, and \$1.1 billion, respectively, as of September 30, 2013) were \$121.9 million, \$97.5 million, and \$32.9 million, respectively, for the three months ended September 30, 2013. Performance fees from CP V and CP IV were \$467.8 million and \$303.6 million, respectively, for the nine months ended September 30, 2013.

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Performance fees from CP V, CP IV, and Carlyle Asia Partners II, L.P. (“CAP II”), our second Asia buyout fund, were \$117.2 million, \$82.4 million, and \$111.9 million respectively, for the three months ended September 30, 2012. Performance fees from CP V, CP IV, and CAP II were \$193.3 million, \$195.3 million, and \$111.9 million, respectively, for the nine months ended September 30, 2012. No other fund generated over 10% of performance fees in the periods presented.

Realized carried interest may be subject to clawback to the fund if the fund’s investment values decline below certain return hurdles, which vary from fund to fund. If the fair value of a fund’s investments falls below the applicable return hurdles, previously recognized carried interest and performance fees are reduced. This will occur even if the fund’s investment values remain unchanged, because the fund’s return hurdle will claw-back previously recognized performance fees over time. In all cases, each investment fund is considered separately in evaluating carried interest and potential giveback obligations. For any given period, carried interest income could therefore be negative; however, cumulative performance fees can never be negative over the life of a fund. In addition, we are not obligated to pay guaranteed returns or hurdles. If upon a hypothetical liquidation of a fund’s investments at the then-current fair values, previously recognized and distributed carried interest would be required to be returned, a liability is established in our financial statements for the potential giveback obligation. As discussed below, each individual recipient of realized carried interest typically signs a guarantee agreement or partnership agreement that personally obligates such person to return his/her pro rata share of any amounts of realized carried interest previously distributed that are later clawed back. Accordingly, carried interest paid as performance fee compensation is subject to return to the Partnership in the event a giveback obligation is funded. Generally, the actual giveback liability, if any, does not become due until the end of a fund’s life.

In addition to the carried interest from our carry funds, we are also entitled to receive incentive fees or allocations from certain of our Global Market Strategies funds when the return on AUM exceeds previous calendar-year ending or date-of-investment high-water marks. Our hedge funds generally pay annual incentive fees or allocations equal to 20% of the fund’s profits for the year, subject to a high-water mark. The high-water mark is the highest historical NAV attributable to a fund investor’s account on which incentive fees were paid and means that we will not earn incentive fees with respect to such fund investor for a year if the NAV of such investor’s account at the end of the year is lower than any prior year-end NAV or the NAV at the date of such fund investor’s investment, generally excluding any contributions and redemptions for purposes of calculating NAV. We recognize the incentive fees from our hedge funds as they are earned. In these arrangements, incentive fees are recognized when the performance benchmark has been achieved and are included in performance fees in our consolidated statements of operations. These incentive fees are a component of performance fees in our consolidated financial statements and are treated as accrued until paid to us.

For any given period, performance fee revenue on our statement of operations may include reversals of previously recognized performance fees due to a decrease in the value of a particular fund that results in a decrease of cumulative performance fees earned to date. Since fund return hurdles are cumulative, previously recognized performance fees also may be reversed in a period of appreciation that is lower than the particular fund’s hurdle rate. For the three months ended September 30, 2013 and 2012, the reversals of performance fees were \$68.4 million and \$48.3 million, respectively. For the nine months ended September 30, 2013 and 2012, the reversals of performance fees were \$25.8 million and \$19.0 million, respectively.

As of September 30, 2013, accrued performance fees and accrued giveback obligations were approximately \$2.9 billion and \$48.7 million, respectively, after amounts eliminated related to the Consolidated Funds. Each balance assumes a hypothetical liquidation of the funds’ investments at September 30, 2013 at their then current fair values. These assets and liabilities will continue to fluctuate in accordance with the fair values of the fund investments until they are realized.

In addition, realized performance fees may be reversed in future periods to the extent that such amounts become subject to a giveback obligation. If at September 30, 2013, all investments held by our carry funds were deemed worthless, the amount of realized and previously distributed performance fees subject to potential giveback would be \$1.0 billion. See the related discussion of “Contingent Obligations (Giveback)” within “— Liquidity and Capital Resources.”

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As described above, each investment fund is considered separately in evaluating carried interest and potential giveback obligations. As a result, performance fees within funds will continue to fluctuate primarily due to certain investments within each fund constituting a material portion of the carry in that fund. Additionally, the fair value of investments in our funds may have substantial fluctuations from period to period.

In addition, we use the term “net performance fees” to refer to the performance fees from our funds net of the portion allocated to our investment professionals which is reflected as performance fee related compensation expense. We use the term “realized net performance fees” to refer to realized performance fees from our funds, net of the portion allocated to our investment professionals which is reflected as realized performance fee related compensation expense. See “— Non-GAAP Financial Measures” for the amount of realized and unrealized performance fees recognized and or reversed each period. See “— Segment Analysis” for the realized and unrealized performance fees by segment and related discussion for each period.

*Fair Value Measurement.* U.S. GAAP establishes a hierarchal 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. We do not adjust the quoted price for these instruments, even in situations where we hold 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. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.



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The table below summarizes the valuation of investments and other financial instruments included within our AUM, by segment and fair value hierarchy levels, as of September 30, 2013 (amounts in millions):

	As of September 30, 2013				
	Corporate Private Equity	Global Market Strategies	Real Assets	Solutions	Total
<b>Consolidated Results</b>					
Level I	\$ 9,182	\$ 7,006	\$ 3,227	\$ 839	\$ 20,254
Level II	—	2,645	636	24	3,305
Level III	29,890	19,318	23,090	29,997	102,295
Total Fair Value	39,072	28,969	26,953	30,860	125,854
Other Net Asset Value	288	4,811	2,924	—	8,023
Total AUM, Excluding Available Capital Commitments	39,360	33,780	29,877	30,860	133,877
Available Capital Commitments	22,815	1,640	9,113	17,579	51,147
<b>Total AUM</b>	<b>\$ 62,175</b>	<b>\$35,420</b>	<b>\$38,990</b>	<b>\$48,439</b>	<b>\$185,024</b>

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

In the absence of observable market prices, the Partnership values its investments using valuation methodologies applied on a consistent basis. For some investments little market activity may exist. Management's determination of fair value is then based on the best information available in the circumstances and may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Investments for which market prices are not observable include private investments in the equity of operating companies, real estate properties, and certain debt positions. The valuation technique for each of these investments is described in Note 4 of our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

*Investment Income and Interest and Other Income.* Investment income and interest and other income represent the unrealized and realized gains and losses on our principal investments, including our investments in Carlyle funds that are not consolidated, our equity method investments and other principal investments, as well as any interest and other income. Investment income (loss) also includes the related amortization of the basis difference between the carrying value of our investment and our share of the underlying net assets of the investee, as well as the compensation expense associated with compensatory arrangements provided by us to employees of our equity method investee. Realized investment income (loss) is recorded when we redeem all or a portion of our investment or when we receive or are due cash income, such as dividends or distributions. A realized investment loss is also recorded when an investment is deemed to be worthless. Unrealized investment income (loss) results from changes in the fair value of the underlying investment, as well as the reversal of unrealized gains (losses) at the time an investment is realized.

*Interest and Other Income of Consolidated Funds.* Interest and other income of Consolidated Funds primarily represents the interest earned on CLO assets. However, the Consolidated Funds are not the same entities in all periods presented and may change in future periods due to changes in U.S. GAAP, changes in fund terms and terminations of funds.

*Net Investment Gains (Losses) of Consolidated Funds.* Net investment gains (losses) of Consolidated Funds measures the change in the difference in fair value between the assets and the liabilities of the Consolidated Funds. A gain (loss) indicates that the fair value of the assets of the Consolidated Funds appreciated more (less), or depreciated less (more), than the fair value of the liabilities of the Consolidated Funds. A gain or loss is not



necessarily indicative of the investment performance of the Consolidated Funds and does not impact the management or incentive fees received by Carlyle for its management of the Consolidated Funds. Substantially all of the net investment gains (losses) of Consolidated Funds are attributable to the limited partner investors and allocated to non-controlling interests. Therefore a gain or loss is not expected to have an impact on the revenues or profitability of the Partnership. Moreover, although the assets of the Consolidated Funds are consolidated onto our balance sheet pursuant to U.S. GAAP, ultimately we do not have recourse to such assets and such liabilities are non-recourse to us. Therefore, a gain or loss from the Consolidated Funds does not impact the assets available to our equity holders.

### **Expenses**

*Compensation and Benefits.* Compensation includes salaries, bonuses, equity-based compensation, and performance payment arrangements. Bonuses are accrued over the service period to which they relate. For periods prior to our initial public offering in May 2012, compensation attributable to our senior Carlyle professionals was accounted for as distributions from equity rather than as employee compensation. For periods subsequent to our initial public offering in May 2012, we account for compensation to senior Carlyle professionals as compensation expense in our statement of operations. Accordingly, compensation expense pursuant to U.S. GAAP was substantially lower in periods prior to our initial public offering in May 2012. For periods prior to our initial public offering in May 2012, in our calculations of Economic Net Income, Fee Related Earnings and Distributable Earnings, which are used by management in assessing the performance of our segments, we have included an adjustment for partner compensation. See “— Consolidated Results of Operations—Non-GAAP Financial Measures” for a reconciliation of Income Before Provision for Income Taxes to Total Segments Economic Net Income, of Total Segments Economic Net Income to Fee Related Earnings and of Fee Related Earnings to Distributable Earnings.

We recognize as compensation expense the portion of performance fees that are due to our employees, senior Carlyle professionals, and operating executives in a manner consistent with how we recognize the performance fee revenue. These amounts are accounted for as compensation expense in conjunction with the related performance fee revenue and, until paid, are recognized as a component of the accrued compensation and benefits liability. Compensation in respect of performance fees is not paid until the related performance fees are realized, and not when such performance fees are accrued. The funds do not have a uniform allocation of performance fees to our employees, senior Carlyle professionals and operating executives. Therefore, for any given period, the ratio of performance fee compensation to performance fee revenue may vary based on the funds generating the performance fee revenue for that period and their particular allocation percentages.

In addition, as part of our initial public offering in May 2012, we implemented various equity-based compensation arrangements that require senior Carlyle professionals and other employees to vest ownership of a portion of their equity interests over a service period of up to six years, which under U.S. GAAP will result in compensation charges over current and future periods. Compensation charges associated with the equity-based compensation grants issued in our initial public offering in May 2012 or grants issued in acquisitions or strategic investments are excluded from our calculations of Economic Net Income and Fee Related Earnings. Compensation charges associated with all equity-based compensation grants are excluded from Distributable Earnings.

We expect that we will hire additional individuals and that overall compensation levels will correspondingly increase, which will result in an increase in compensation and benefits expense. As a result of recent acquisitions, we have charges associated with contingent consideration taking the form of earn-outs and profit participation, some of which are reflected as compensation expense. Our fundraising has increased in recent periods and, as a result, our compensation expense increased in periods where we closed on increased levels of new capital commitments. Amounts due to employees related to such fundraising are expensed when earned even though the benefit of the new capital and related fees will be reflected in operations over the life of the related fund.

*General, Administrative and Other Expenses.* General, administrative, and other expenses include occupancy and equipment expenses and other expenses, which consist principally of professional fees, external costs of fundraising, travel and related expenses, communications and information services, depreciation and amortization and foreign currency transactions.

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We anticipate that general, administrative and other expenses will fluctuate from period to period due to the impact of foreign exchange transactions. Additionally, we expect that general, administrative and other expenses will vary due to infrequently occurring or unusual items. Also, our utilization of third parties to assist in fundraising will cause general, administrative and other expenses to increase in periods of significant fundraising. We also expect to incur greater expenses in the future related to our recent acquisitions including amortization of acquired intangibles, earn-outs to equity holders and fair value adjustments on contingent consideration issued.

*Interest and Other Expenses of Consolidated Funds.* The interest and other expenses of Consolidated Funds consist primarily of interest expense related primarily to our CLO loans, professional fees and other third-party expenses.

*Income Taxes.* The Carlyle Holdings partnerships and their subsidiaries operate as pass-through entities for U.S. income tax purposes and record a provision for state and local income taxes for certain entities based on applicable laws and a provision for foreign income taxes for certain foreign entities. In addition, Carlyle Holdings I GP Inc. is subject to additional entity-level taxes that are reflected in our consolidated financial statements.

Prior to our initial public offering in May 2012, we operated as a group of pass-through entities for U.S. income tax purposes and our profits and losses were allocated to the individual senior Carlyle professionals, who were individually responsible for reporting such amounts. We recorded a provision for state and local income taxes for certain entities based on applicable laws and a provision for foreign income taxes for certain foreign entities.

Income taxes for foreign entities are accounted for using the liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis, using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some or all of the deferred tax assets will not be realized.

In the normal course of business, we are subject to examination by federal and certain state, local and foreign tax regulators. As of September 30, 2013, our U.S. federal income tax returns for the years 2010 through 2012 are open under the normal three-year statute of limitations and therefore subject to examination. State and local tax returns are generally subject to audit from 2008 to 2012. Foreign tax returns are generally subject to audit from 2005 to 2012. Certain of our foreign subsidiaries are currently under audit by foreign tax authorities.

*Non-controlling Interests in Consolidated Entities.* Non-controlling interests in consolidated entities represent the component of equity in consolidated entities not held by us. These interests are adjusted for general partner allocations and by subscriptions and redemptions in hedge funds which occur during the reporting period. Non-controlling interests related to hedge funds are subject to quarterly or monthly redemption by investors in these funds following the expiration of a specified period of time (typically one year), or may be withdrawn subject to a redemption fee in the hedge funds 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 consolidated balance sheets. When redeemable amounts become legally payable to investors, they are classified as a liability and included in other liabilities of Consolidated Funds in the consolidated balance sheets.

We record significant non-controlling interests in Carlyle Holdings relating to the ownership interests of the 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 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 a non-controlling interest in the Partnership's financial statements.

### **Non-GAAP Financial Measures**

*Economic Net Income.* Economic net income or "ENI," is a key performance benchmark used in our industry. ENI represents segment net income which excludes the impact of income taxes, acquisition-related items including amortization of acquired intangibles and contingent consideration taking the form of earn-outs, charges associated with equity-based compensation grants issued in May 2012 upon completion of the initial public offering or grants issued in acquisitions or strategic investments, corporate actions and infrequently occurring or unusual events. We believe the exclusion of these items provides investors with a meaningful indication of our core operating performance. For segment reporting purposes, revenues and expenses, and accordingly segment net

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income, are presented on a basis that deconsolidates the Consolidated Funds. ENI also reflects compensation expense for our senior Carlyle professionals, which for periods prior to our initial public offering in May 2012, was accounted for as distributions from equity under U.S. GAAP rather than as employee compensation. Total Segment ENI equals the aggregate of ENI for all segments. ENI is evaluated regularly by management in making resource deployment decisions and in assessing performance of our four segments and for compensation. We believe that reporting ENI is helpful to understanding our business and that investors should review the same supplemental financial measure that management uses to analyze our segment performance. This measure supplements and should be considered in addition to and not in lieu of the results of operations discussed further under “Consolidated Results of Operations” prepared in accordance with U.S. GAAP.

**Distributable Earnings.** Distributable Earnings is derived from our segment reported results and is an additional measure to assess performance and amounts potentially available for distribution from Carlyle Holdings to its equity holders. Distributable Earnings, which is a non-GAAP measure, is intended to show the amount of net realized earnings without the effects of consolidation of the Consolidated Funds. Distributable Earnings is total ENI less net performance fees and investment income plus realized net performance fees, realized investment income, and equity-based compensation expense. During 2013, we modified the definition of Distributable Earnings used by management to exclude all equity-based compensation expense; the presentation of Distributable Earnings for all periods included in this Quarterly Report on Form 10-Q has been recast to conform with the revised definition.

**Fee Related Earnings.** Fee related earnings is a component of ENI and is used to measure our operating profitability exclusive of performance fees, investment income from investments in our funds and performance fee-related compensation. Accordingly, fee related earnings reflect the ability of the business to cover direct base compensation and operating expenses from fee revenues other than performance fees. Fee related earnings are reported as part of our segment results. We use fee related earnings from operations to measure our profitability from fund management fees. Fee related earnings reflects compensation expense for our senior Carlyle professionals, which for periods prior to our initial public offering in May 2012, was accounted for as distributions from equity rather than as employee compensation. See Note 18 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

## **Operating Metrics**

We monitor certain operating metrics that are common to the alternative asset management industry.

### *Fee-earning Assets under Management*

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

- (a) for carry funds and certain co-investment vehicles where the original investment period has not expired, the amount of limited partner capital commitments, for fund of funds vehicles, the amount of external investor capital commitments during the commitment fee period, and for the NGP management fee funds, the amount of investor capital commitments before the first investment realization (see “Fee-earning AUM based on capital commitments” in the table below for the amount of this component at each period);
- (b) for substantially all carry funds and certain co-investment vehicles where the original investment period has expired, the remaining amount of limited partner invested capital, and for the NGP management fee funds where the first investment has been realized, the amount of partner commitments less realized and written-off investments (see “Fee-earning AUM based on invested capital” in the table below for the amount of this component at each period);
- (c) the amount of aggregate Fee-earning collateral balance at par of our CLOs, as defined in the fund indentures (typically exclusive of equities and defaulted positions) as of the quarterly cut-off date for each CLO, and the reference portfolio notional amount of our synthetic CLOs (see “Fee-earning AUM based on collateral balances, at par” in the table below for the amount of this component at each period);

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- (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 and other hedge funds (see “Fee-earning AUM based on net asset value” in the table below for the amount of this component at each period);
- (e) the gross assets (including assets acquired with leverage), excluding cash and cash equivalents of our business development companies; and
- (f) for fund of funds vehicles where the commitment fee period has expired, and certain carry funds where the investment period has expired, the lower of cost or fair value of invested capital (see “Fee-earning AUM based on lower of cost or fair value and other” in the table below for the amount of this component at each period).

The table below details Fee-earning AUM by its respective components at each period.

	As of September 30,	
	2013	2012
<b>Consolidated Results</b>		
<b>Components of Fee-earning AUM</b>		
Fee-earning AUM based on capital commitments (1)	\$ 40,139	\$ 45,909
Fee-earning AUM based on invested capital (2)	44,175	21,922
Fee-earning AUM based on collateral balances, at par (3)	17,029	15,845
Fee-earning AUM based on net asset value (4)	13,479	9,436
Fee-earning AUM based on lower of cost or fair value and other (5)	23,102	22,012
<b>Balance, End of Period</b>	<b>\$137,924</b>	<b>\$115,124</b>

- (1) Reflects limited partner capital commitments where the investment period or commitment fee period has not expired.
- (2) Reflects limited partner invested capital and includes amounts committed to or reserved for investments for certain real assets funds.
- (3) Represents the gross amount of aggregate Fee-earning collateral balances, at par, for our CLOs.
- (4) Reflects the net asset value of our hedge funds (pre-redemptions and subscriptions).
- (5) Includes funds with fees based on notional value and gross asset value, less cash and cash equivalents.

The table below provides the period to period rollforward of Fee-earning AUM.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
<b>Consolidated Results</b>				
<b>Fee-earning AUM Rollforward</b>				
Balance, Beginning of Period	\$ 132,024	\$ 111,973	\$ 123,121	\$ 111,025
Acquisitions	—	—	—	2,866
Inflows, including Commitments (1)	6,488	3,760	23,365	9,050
Outflows, including Distributions (2)	(2,862)	(1,736)	(11,894)	(10,552)
Subscriptions, net of Redemptions (3)	423	407	1,179	1,778
Changes in CLO collateral balances (4)	(76)	171	728	675
Market Appreciation/(Depreciation) (5)	(41)	(130)	929	480
Foreign Exchange and other (6)	1,968	679	496	(198)
<b>Balance, End of Period</b>	<b>\$137,924</b>	<b>\$115,124</b>	<b>\$137,924</b>	<b>\$115,124</b>

- (1) Inflows represent limited partner capital raised by our carry funds and fund of funds vehicles and capital invested by our carry funds and fund of funds vehicles outside the investment period.
- (2) Outflows represent limited partner distributions from our carry funds and fund of funds vehicles and changes in basis for our carry funds and fund of funds vehicles where the investment period has expired.
- (3) Represents the net result of subscriptions to and redemptions from our hedge funds.
- (4) Represents the change in the aggregate Fee-earning collateral balances at par of our CLOs, as of the quarterly cut-off date.
- (5) Market Appreciation/(Depreciation) represents changes in the net asset value of our hedge funds and our fund of funds vehicles based on the lower of cost or fair value.
- (6) Includes funds with fees based on gross asset value, less cash and cash equivalents, onboarding of fully committed existing funds from another manager and represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end.

Refer to “— Segment Analysis” for a detailed discussion by segment of the activity affecting Fee-earning AUM for each of the periods presented by segment.

#### *Assets under Management*

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

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

Our carry funds are closed-ended funds and investors are not able to redeem their interests under the fund partnership agreements.

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

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

We generally use Fee-earning AUM as a metric to measure changes in the assets from which we earn management fees. Total AUM tends to be a better measure of our investment and fundraising performance as it reflects assets at fair value plus available uncalled capital.

#### *Available Capital*

Available capital, commonly known as “dry powder,” for our carry funds, fund of funds vehicles, and NGP management fee funds refers to the amount of capital commitments available to be called for investments. Amounts previously called may be added back to available capital following certain distributions. “Expired Available Capital” occurs when a fund has passed the investment and follow-on periods and can no longer invest capital into new or existing deals. Any remaining Available Capital, typically a result of either recycled distributions or specific reserves established for the follow-on period that are not drawn, can only be called for fees and expenses and is therefore removed from the Total AUM calculation.

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The table below provides the period to period Rollforward of Available Capital and Fair Value of Capital, and the resulting rollforward of Total AUM.

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Available Capital	Fair Value of Capital	Total AUM	Available Capital	Fair Value of Capital	Total AUM
	(Dollars in millions)			(Dollars in millions)		
Consolidated Results						
Balance, Beginning of Period	\$49,015	\$131,433	\$180,448	\$43,934	\$126,222	\$170,156
Commitments (1)	4,554	—	4,554	15,333	—	15,333
Capital Called, net (2)	(3,420)	3,516	96	(9,677)	9,783	106
Distributions (3)	555	(6,366)	(5,811)	1,359	(18,026)	(16,667)
Subscriptions, net of Redemptions (4)	—	419	419	—	1,290	1,290
Changes in CLO collateral balances (5)	—	(52)	(52)	—	819	819
Market Appreciation/(Depreciation) (6)	—	3,681	3,681	—	13,376	13,376
Foreign Exchange and other (7)	443	1,246	1,689	198	413	611
Balance, End of Period	\$51,147	\$133,877	\$185,024	\$51,147	\$133,877	\$185,024

- (1) Represents capital raised by our carry funds and fund of funds vehicles, net of expired available capital.
- (2) Represents capital called by our carry funds and fund of funds vehicles, net of fund fees and expenses. Equity Invested amounts may vary from Capital Called due to timing differences between acquisition and capital call dates.
- (3) Represents distributions from our carry funds and fund of funds vehicles, net of amounts recycled. Distributions are based on when proceeds are actually distributed to investors, which may differ from when they are realized.
- (4) Represents the net result of subscriptions to and redemptions from our hedge funds.
- (5) Represents the change in the aggregate Fee-earning collateral balances at par of our CLOs, as of the quarterly cut-off dates.
- (6) Market Appreciation/(Depreciation) represents realized and unrealized gains (losses) on portfolio investments and changes in the net asset value of our hedge funds.
- (7) Includes onboarding of fully committed existing funds from another manager and represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds and other changes in Total AUM. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end.

Please refer to “— Segment Analysis” for a detailed discussion by segment of the activity affecting Total AUM for each of the periods presented.

## **Consolidated Results of Operations**

The following table and discussion sets forth information regarding our unaudited condensed consolidated results of operations for the three months and nine months ended September 30, 2013 and September 30, 2012. The unaudited condensed consolidated financial statements have been prepared on substantially the same basis for all historical periods presented; however, the consolidated funds are not the same entities in all periods shown due to changes in U.S. GAAP, changes in fund terms and the creation and termination of funds. We formed four CLOs throughout 2012 and five new CLOs in 2013 and have consolidated those CLOs beginning on their respective closing dates. As further described below, the consolidation of these funds primarily had the impact of increasing interest and other income of Consolidated Funds, interest and other expenses of Consolidated Funds, and net investment gains (losses) of Consolidated Funds in the year that the fund is initially consolidated. The consolidation of these funds had no effect on net income attributable to the Partnership for the periods presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
(Dollars in millions, except unit and per unit data)				
<b>Revenues</b>				
Fund management fees	\$ 257.9	\$ 239.8	\$ 731.5	\$ 714.1
Performance fees				
Realized	108.6	291.4	564.6	688.7
Unrealized	211.9	64.9	657.4	88.0
Total performance fees	320.5	356.3	1,222.0	776.7
Investment income				
Realized	(3.1)	9.8	5.4	11.4
Unrealized	8.1	0.4	11.0	27.3
Total investment income	5.0	10.2	16.4	38.7
Interest and other income	2.7	4.5	9.2	9.9
Interest and other income of Consolidated Funds	302.0	247.7	823.3	678.4
Total revenues	888.1	858.5	2,802.4	2,217.8
<b>Expenses</b>				
Compensation and benefits				
Base compensation	204.2	177.0	556.3	433.0
Equity-based compensation	78.7	53.2	257.0	147.4
Performance fee related				
Realized	45.4	121.9	232.2	188.3
Unrealized	113.5	41.5	374.5	(1.4)
Total compensation and benefits	441.8	393.6	1,420.0	767.3
General, administrative and other expenses	136.4	92.9	368.1	268.1
Interest	11.7	4.0	33.8	20.6
Interest and other expenses of Consolidated Funds	217.2	204.1	669.0	568.1
Other non-operating expenses	7.6	10.3	1.9	6.9
Total expenses	814.7	704.9	2,492.8	1,631.0
<b>Other income (loss)</b>				
Net investment gains (losses) of Consolidated Funds	(82.0)	448.9	420.1	1,707.6
Income (loss) before provision for income taxes	(8.6)	602.5	729.7	2,294.4
Provision for income taxes	17.9	5.5	59.4	27.8
Net income (loss)	(26.5)	597.0	670.3	2,266.6
Net income (loss) attributable to non-controlling interests in consolidated entities	(26.6)	485.4	441.4	1,708.2
Net income attributable to Carlyle Holdings	0.1	111.6	228.9	558.4
Net income (loss) attributable to non-controlling interests in Carlyle Holdings	(2.2)	93.0	196.1	550.1
Net income attributable to The Carlyle Group L.P.	\$ 2.3	\$ 18.6	\$ 32.8	\$ 8.3
Net income attributable to The Carlyle Group L.P. per common unit				
Basic	\$ 0.04	\$ 0.43	\$ 0.72	\$ 0.20
Diluted	\$ 0.04	\$ 0.40	\$ 0.65	\$ 0.15
<b>Weighted-average common units</b>				
Basic	47,554,246	43,235,336	45,363,194	42,097,973
Diluted	51,055,564	46,939,751	50,209,620	255,300,460

**Three Months Ended September 30, 2013 Compared to the Three Months Ended September 30, 2012**

**Revenues**

Total revenues were \$888.1 million for the three months ended September 30, 2013, an increase of 3% from total revenues for the three months ended September 30, 2012 of \$858.5 million. The increase in revenues was primarily attributable to an increase in interest and other income of Consolidated Funds and fund management fees, which increased \$54.3 million and \$18.1 million, respectively, for the three months ended September 30, 2013 as compared to 2012. These increases were partially offset by a decrease in performance fees of \$35.8 million for the three months ended September 30, 2013 as compared to 2012.

*Fund Management Fees.* Fund management fees increased \$18.1 million, or 8%, to \$257.9 million for the three months ended September 30, 2013 as compared to 2012. In addition, fund management fees from consolidated funds increased \$8.1 million for the three months ended September 30, 2013 as compared to 2012. The fees related to consolidated funds eliminate upon consolidation of these funds.

The overall increase, inclusive of management fees eliminated from Consolidated Funds, was primarily due to approximately \$41.3 million of incremental management fees from the commencement of the investment period for certain newly raised buyout funds, approximately \$11.0 million of “catch-up” management fees earned from subsequent closings of our first African buyout fund, approximately \$10.5 million of increased management fees from greater assets under management in ESG and Claren Road in 2013 as compared to 2012, and \$4.5 million of incremental management fees related to the acquisition of Vermillion in October 2012. Offsetting these increases were decreases in management fees of approximately \$42.1 million resulting from the change in the basis for earning management fees from commitments to invested capital for certain funds in the Corporate Private Equity and Real Assets segments.

Fund management fees include transaction and portfolio advisory fees, net of rebate offsets, of \$10.9 million and \$11.8 million for the three months ended September 30, 2013 and 2012, respectively.

*Performance Fees.* Performance fees for the three months ended September 30, 2013 were \$320.5 million compared to \$356.3 million for the three months ended September 30, 2012. In addition, performance fees from consolidated funds decreased \$5.0 million for the three months ended September 30, 2013 as compared to 2012. These fees eliminate upon consolidation. The performance fees recorded for the three months ended September 30, 2013 and 2012 were due principally to changes in the fair value of the underlying carry funds, which increased approximately 4% and 3% in total remaining value during the three months ended September 30, 2013 and 2012, respectively. The net appreciation in the fair value of the investments was driven by asset performance and operating projections as well as increases in market comparables. Approximately \$265.6 million and \$350.8 million of performance fees for the three months ended September 30, 2013 and 2012, respectively, were generated by our Corporate Private Equity segment. The difference between the performance fees in 2013 as compared to 2012 is primarily due to performance fees of \$111.9 million recognized for CAP II in 2012 from the fund initially exceeding its performance hurdle as compared to \$(10.0) million in the comparable 2013 period. Performance fees for the three months ended September 30, 2013 and 2012 were \$(14.8) million and \$3.9 million for the Global Market Strategies segment, \$24.6 million and \$3.2 million for the Real Assets segment, and \$45.1 million and \$(1.6) million for the Solutions segment, respectively. Further, approximately \$219.4 million and \$199.6 million of our performance fees for the three months ended September 30, 2013 and 2012, respectively, were related to CP V and CP IV.

*Investment Income.* Investment income of \$5.0 million for the three months ended September 30, 2013 decreased 51% from the three months ended September 30, 2012. The \$5.2 million decrease relates primarily to net losses of \$3.8 million for the three months ended September 30, 2013 related to the investment in NGP Management. In addition, investment income from Consolidated Funds decreased \$18.1 million for the three months ended September 30, 2013 as compared to 2012, which was due primarily to \$28.5 million of net losses in the third quarter of 2013 from investments in Urbplan through the consolidated Carlyle vehicle, which was partially offset by net investment income generated by our CLOs. These amounts are eliminated upon consolidation.

*Interest and Other Income.* Interest and other income decreased \$1.8 million to \$2.7 million for the three months ended September 30, 2013, as compared to \$4.5 million for 2012.



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*Interest and Other Income of Consolidated Funds.* Interest and other income of Consolidated Funds was \$302.0 million for the three months ended September 30, 2013, an increase of \$54.3 million from \$247.7 million for the three months ended September 30, 2012. This increase relates primarily to increases in interest and dividend income in the consolidated fund of fund vehicles of \$46.3 million and increases in interest and dividend income in the consolidated hedge funds of \$17.3 million. Substantially all interest and other income of our Consolidated Funds and CLOs together with interest expense of our CLOs and net investment gains (losses) of Consolidated Funds is attributable to the related funds' limited partners or CLO investors and therefore is allocated to non-controlling interests. Accordingly, such amounts have no material impact on net income attributable to the Partnership.

### *Expenses*

Expenses were \$814.7 million for the three months ended September 30, 2013, an increase of \$109.8 million from \$704.9 million for the three months ended September 30, 2012. The increase is due primarily to increases in compensation and benefits, general, administrative and other expenses, and interest and other expenses of Consolidated Funds, which increased \$48.2 million, \$43.5 million, and \$13.1 million, respectively.

Total compensation and benefits for the three months ended September 30, 2013 increased \$48.2 million, or 12% from \$393.6 million for the three months ended September 30, 2012 to \$441.8 million for the three months ended September 30, 2013. The increase in compensation and benefits primarily reflects higher internal fundraising fees and equity-based compensation charges.

*Compensation and Benefits.* Base compensation and benefits increased \$27.2 million, or 15%, for the three months ended September 30, 2013 as compared to 2012, which primarily relates to \$8.8 million of increased compensation expense in 2013 associated with fundraising activities and \$7.8 million of increased compensation expense in 2013 as compared to 2012 from the value of employment-based contingent cash consideration associated with the Partnership's acquisitions.

Equity-based compensation increased \$25.5 million from \$53.2 million for the three months ended September 30, 2012 to \$78.7 million for the three months ended September 30, 2013. Equity-based compensation includes the effects of grants of deferred restricted common units and phantom deferred restricted common units, and the issuance of unvested Carlyle Holdings partnership units and unvested common units of the Partnership. The increase was due primarily to an increase of \$18.5 million of compensation expense associated with the unvested Carlyle Holdings partnership units from revisions to the estimated forfeiture rates in 2013 and from modifications to the vesting terms of certain awards. Also contributing to the increase was \$2.7 million of compensation expense associated with the unvested common units issued in conjunction with the AlpInvest acquisition in 2013.

Performance fee related compensation expense decreased \$4.5 million for the three months ended September 30, 2013 as compared to 2012. Performance fee related compensation as a percentage of performance fees was 50% and 46% for the three months ended September 30, 2013 and 2012, respectively.

*General, Administrative and Other Expenses.* General, administrative and other expenses increased \$43.5 million for the three months ended September 30, 2013 as compared to 2012. This increase was driven primarily by (i) an impairment loss of \$20.8 million to reduce the carrying value of certain intangible assets to their estimated fair value; (i) an increase of approximately \$7.8 million in amortization expense, primarily from intangible assets acquired in 2012, and (ii) an increase of approximately \$17.2 million associated with fundraising activities.

*Interest.* Interest expense for the three months ended September 30, 2013 was \$11.7 million, an increase of \$7.7 million from 2012. The increase is primarily attributable to a higher level of debt outstanding for the three months ended September 30, 2013 as compared to 2012, as well as higher interest rates on outstanding borrowings in 2013 as compared to 2012 resulting from the issuances in 2013 of the 3.875% senior notes and the 5.625% senior notes.

*Interest and Other Expenses of Consolidated Funds.* Interest and other expenses of Consolidated Funds increased \$13.1 million for the three months ended September 30, 2013 as compared to 2012. This increase relates primarily to the four CLOs formed in 2012 and the five CLOs formed in 2013. The CLOs incur interest expense on their loans payable and incur other expenses consisting of trustee fees, rating agency fees and professional fees. Substantially all interest and other income of our CLOs together with interest expense of our CLOs and net

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investment gains (losses) of Consolidated Funds is attributable to the related funds' limited partners or CLO investors and therefore is allocated to non-controlling interests. Accordingly, such amounts have no material impact on net income attributable to the Partnership.

*Other Non-operating Expenses.* Other non-operating expense of \$7.6 million for the three months ended September 30, 2013 reflects a decrease of \$2.7 million from other non-operating expenses of \$10.3 million for the three months ended September 30, 2012. The change is due primarily to a decrease in 2013 in the fair value of performance-based contingent consideration related to our acquisitions.

*Net Investment Gains (Losses) of Consolidated Funds.* For the three months ended September 30, 2013, net investment losses of Consolidated Funds were \$82.0 million, as compared to gains of \$448.9 million for the three months ended September 30, 2012. This balance is predominantly driven by our consolidated AlpInvest fund of funds vehicles and CLOs. For the consolidated CLOs, the amount reflects the net gain or loss on the fair value adjustment of both the assets and liabilities. The components of net investment gains (losses) of consolidated funds for the respective periods are comprised of the following:

	Three Months Ended September 30,	
	2013	2012
	(Dollars in millions)	
Realized gains (losses)	\$(138.2)	\$ 96.4
Net change in unrealized gains and losses	(4.5)	705.8
Total gains (losses) on investments	(142.7)	802.2
Gains (losses) on liabilities of CLOs	60.8	(354.0)
Gains (losses) on other assets of CLOs	(0.1)	0.7
Net investment gains (losses) of Consolidated Funds	<u>\$ (82.0)</u>	<u>\$ 448.9</u>

The realized and unrealized investment gains/losses include the appreciation/depreciation of the equity investments within the consolidated AlpInvest fund of funds vehicles, the appreciation/depreciation of CLO investments in loans and bonds, as well as the appreciation/depreciation of investments made by our consolidated hedge funds and other consolidated funds. The gains/losses on the liabilities of the CLOs reflect the fair value adjustment on the debt of the CLOs. The net investment (losses) for the three months ended September 30, 2013 and 2012 were due primarily to net investment gains (losses) attributable to the consolidated AlpInvest fund of funds vehicles of \$(13.9) million and \$642.6 million, respectively; the net appreciation (depreciation) of CLOs of \$(30.6) million and \$(202.6) million, respectively; and the investment gains (losses) attributable to consolidated hedge funds and other consolidated funds of \$(37.5) million and \$8.9 million, respectively.

*Net Income (Loss) Attributable to Non-controlling Interests in Consolidated Entities.* Net loss attributable to non-controlling interests in consolidated entities was \$26.6 million for the three months ended September 30, 2013 compared to net income of \$485.4 million for the three months ended September 30, 2012. These amounts are primarily attributable to the net earnings or losses of the Consolidated Funds for each period, which are substantially all allocated to the related funds' limited partners or CLO investors.

For the three months ended September 30, 2013, the net loss of the Consolidated Funds was approximately \$50.1 million. This loss was substantially due to the losses from our consolidated hedge funds and our other consolidated funds. The net losses from our consolidated hedge funds and the other consolidated funds were approximately \$22.8 million and \$27.0 million, respectively, for the three months ended September 30, 2013.

The net income of the Consolidated Funds was \$443.6 million for the three months ended September 30, 2012. This income was substantially due to the income from the consolidated AlpInvest fund of funds vehicles, offset by losses from the consolidated CLOs. The net income (loss) from the consolidated AlpInvest fund of funds vehicles and the consolidated CLOs was approximately \$615.9 million and \$(153.0) million, respectively, for the three months ended September 30, 2012.

*Net Income Attributable to The Carlyle Group L.P.* The net income attributable to the Partnership was \$2.3 million for the three months ended September 30, 2013 as compared to \$18.6 million for the three months ended September 30, 2012. The Partnership is allocated a portion of the net income attributable to Carlyle Holdings based

on the Partnership's ownership in Carlyle Holdings (which was approximately 16% as of September 30, 2013). For the three months ended September 30, 2013, the net income attributable to Carlyle Holdings was \$0.1 million. Additionally, the Partnership is allocated 100% of the net income or loss attributable to the Partnership's wholly owned taxable subsidiaries.

***Nine Months Ended September 30, 2013 Compared to the Nine Months Ended September 30, 2012***

***Revenues***

Total revenues were \$2,802.4 million for the nine months ended September 30, 2013, an increase of 26% from total revenues for the nine months ended September 30, 2012 of \$2,217.8 million. The increase in revenues was primarily attributable to an increase in performance fees, interest and other income of Consolidated Funds, and fund management fees, which increased \$445.3 million, \$144.9 million, and \$17.4 million, respectively, for the nine months ended September 30, 2013 as compared to 2012. These increases were partially offset by a decrease in investment income of \$22.3 million for the nine months ended September 30, 2013 as compared to 2012.

***Fund Management Fees.*** Fund management fees increased \$17.4 million to \$731.5 million for the nine months ended September 30, 2013 as compared to 2012. In addition, fund management fees from consolidated funds increased \$28.7 million for the nine months ended September 30, 2013 as compared to 2012. The fees related to consolidated funds eliminate upon consolidation of these funds.

The overall increase, inclusive of management fees eliminated from consolidated funds, was primarily due to approximately \$52.8 million of incremental management fees from the commencement of the investment period for certain newly raised buyout funds, approximately \$22.7 million of increased management fees from greater assets under management in ESG and Claren Road in 2013 as compared to 2012, approximately \$21.4 million of "catch-up" management fees earned from subsequent closings of our first African buyout fund and our third distressed and corporate opportunities debt fund, and approximately \$19.4 million of incremental management fees related to the acquisition of Vermillion in October 2012. Offsetting these increases were decreases in management fees of approximately \$85.4 million resulting from the change in the basis for earning management fees from commitments to invested capital for certain funds in the Corporate Private Equity and Real Assets segments.

Fund management fees include transaction and portfolio advisory fees, net of rebate offsets, of \$38.4 million and \$33.2 million for the nine months ended September 30, 2013 and 2012, respectively. The \$5.2 million increase in transaction and portfolio advisory fees resulted primarily from higher transaction fees generated in the corporate private equity segment in 2013 as compared to 2012, partially offset by fewer portfolio advisory fees received in 2013 upon the sale or public offering of portfolio companies as compared to 2012.

***Performance Fees.*** Performance fees for the nine months ended September 30, 2013 were \$1,222.0 million compared to \$776.7 million for the nine months ended September 30, 2012. In addition, performance fees from consolidated funds increased \$39.1 million for the nine months ended September 30, 2013 as compared to 2012. These fees eliminate upon consolidation. The performance fees recorded in the nine months ended September 30, 2013 and 2012 were due principally to increases in the fair value of the underlying carry funds, which increased approximately 13% and 11% in total remaining value during the nine months ended September 30, 2013 and 2012, respectively. The change in the fair value of the investments was driven by asset performance and operating projections as well as increases or decreases in market comparables. Approximately \$886.5 million and \$597.7 million of performance fees for the nine months ended September 30, 2013 and 2012, respectively, were generated by our Corporate Private Equity segment. Performance fees for the nine months ended September 30, 2013 and 2012 were \$142.4 million and \$56.3 million for the Global Market Strategies segment, \$73.7 million and \$78.3 million for the Real Assets segment, and \$119.4 million and \$44.4 million for the Solutions segment. Further, approximately \$771.4 million and \$388.6 million of our performance fees for the nine months ended September 30, 2013 and 2012, respectively, were related to CP V and CP IV.

***Investment Income.*** Investment income of \$16.4 million for the nine months ended September 30, 2013 decreased 58% from the nine months ended September 30, 2012. The \$22.3 million decrease relates primarily to net investment losses on investments in certain Europe real estate funds and from net investment losses of \$8.5 million for the nine months ended September 30, 2013 from the investment in NGP Management. Also contributing to the decrease in investment income from 2012 was the distribution in March 2012, in conjunction with the reorganization and initial public offering, of certain investments that were funded by certain existing and former owners of Carlyle

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indirectly through Carlyle; those investments generated net investment income for the nine months ended September 30, 2012. In addition, investment income from Consolidated Funds decreased \$32.6 million for the nine months ended September 30, 2013 as compared to 2012, which was due primarily to \$32.0 million of net investment losses in the nine months ended September 30, 2013 from investments in Urbplan through the consolidated Carlyle vehicle. This income is eliminated upon consolidation.

*Interest and Other Income.* Interest and other income decreased \$0.7 million to \$9.2 million for the nine months ended September 30, 2013, as compared to \$9.9 million for 2012.

*Interest and Other Income of Consolidated Funds.* Interest and other income of Consolidated Funds was \$823.3 million for the nine months ended September 30, 2013, an increase of \$144.9 million from \$678.4 million for the nine months ended September 30, 2012.

This increase relates primarily to increases in interest and dividend income in the consolidated fund of fund vehicles of \$86.6 million and increases in interest and dividend income in the consolidated hedge funds of \$34.1 million. Substantially all interest and other income of our Consolidated Funds and CLOs together with interest expense of our CLOs and net investment gains (losses) of Consolidated Funds is attributable to the related funds' limited partners or CLO investors and therefore is allocated to non-controlling interests. Accordingly, such amounts have no material impact on net income attributable to the Partnership.

### *Expenses*

Expenses were \$2,492.8 million for the nine months ended September 30, 2013, an increase of \$861.8 million from \$1,631.0 million for the nine months ended September 30, 2012. The increase is due primarily to an increase in total compensation and benefits, interest and other expenses of Consolidated Funds, and general, administrative and other expenses, which increased \$652.7 million, \$100.9 million and \$100.0 million, respectively.

Total compensation and benefits for the nine months ended September 30, 2013 increased \$652.7 million, or 85% from \$767.3 million for the nine months ended September 30, 2012 to \$1,420.0 million for the nine months ended September 30, 2013. For periods prior to our initial public offering in May 2012, all compensation to senior Carlyle professionals was accounted for as equity distributions in our consolidated financial statements. Had such amounts attributable to senior Carlyle professionals been accounted for as compensation expense, then total expenses would have been \$2,492.8 million and \$1,896.4 million in the nine months ended September 30, 2013 and 2012, respectively, representing an increase of \$596.4 million due primarily to an increase in compensation and benefits of \$388.3 million, an increase in interest and other expenses of Consolidated Funds of \$100.9 million, and an increase in general, administrative and other expenses of \$100.0 million. The increase in compensation primarily reflects higher performance fee related compensation corresponding to the increase in performance fees.

*Compensation and Benefits.* Base compensation and benefits increased \$123.3 million, or 28%, for the nine months ended September 30, 2013 as compared to 2012, which primarily relates to the inclusion of base compensation attributable to senior Carlyle professionals for periods subsequent to our initial public offering in May 2012. Also contributing to the increase was \$21.2 million of increased compensation expense in 2013 as compared to 2012 from the value of employment-based contingent cash consideration associated with the Partnership's acquisitions and \$15.7 million of increased compensation expense in 2013 associated with fundraising activities. Base compensation and benefits attributable to senior Carlyle professionals was \$67.0 million for the period from January 1, 2012 through our initial public offering in May 2012. Had such amounts attributable to senior Carlyle professionals been accounted for as compensation expense, then base compensation expense would have been \$556.3 million and \$500.0 million for the nine months ended September 30, 2013 and 2012, respectively.

Equity-based compensation increased \$109.6 million from \$147.4 million for the nine months ended September 30, 2012 to \$257.0 million for the nine months ended September 30, 2013. For the nine months ended September 30, 2012, equity-based compensation included \$88.4 million of equity-based compensation associated with grants of deferred restricted common units and phantom deferred restricted common units and the issuance of unvested Carlyle Holdings partnership units. Also included in equity-based compensation for the nine months ended September 30, 2012 is \$59.0 million of expense associated with the exchange of carried interests rights held by Carlyle professionals for Carlyle Holdings partnership units, which was a component of the reorganization in May 2012.

Excluding the equity-based compensation in 2012 associated with the exchange of carried interest rights, the increase in equity-based compensation from 2012 to 2013 was due primarily to the equity-based compensation expense for 2012 representing approximately five months of equity-based compensation expense (from the grant in May 2012 through September 30, 2012) versus nine months of compensation expense for 2013. Additionally, the increase was due to \$47.9 million of compensation expense recorded in 2013 related to the difference between the estimated forfeitures and actual forfeitures on Carlyle Holdings partnership units that vested in May 2013. Also contributing to the increase was (i) compensation expense recognized in 2013 for grants of deferred restricted common units that occurred subsequent to the initial public offering in May 2012; (ii) an increase in compensation expense associated with the unvested Carlyle Holdings partnership units from revisions to the estimated forfeiture rates in 2013 and from modifications to the vesting terms of certain awards; and (iii) \$2.7 million of compensation expense associated with the unvested common units issued in conjunction with the AlpInvest acquisition in 2013.

Performance fee related compensation expense increased \$419.8 million for the nine months ended September 30, 2013 as compared to 2012. Performance fee related compensation expense attributable to senior Carlyle professionals was \$197.4 million for the period from April 1, 2012 through our initial public offering in May 2012. Had such amounts attributable to senior Carlyle professionals been accounted for as compensation expense, then performance fee compensation expense would have been \$606.7 million and \$384.3 million for the nine months ended September 30, 2013 and 2012, respectively. As adjusted for amounts related to senior Carlyle professionals, performance fee related compensation as a percentage of performance fees was 50% and 49% for the nine months ended September 30, 2013 and 2012, respectively.

Total compensation and benefits would have been \$1,420.0 million and \$1,031.7 million for the nine months ended September 30, 2013 and 2012, respectively, had compensation attributable to senior Carlyle professionals been treated as compensation expense.

*General, Administrative and Other Expenses.* General, administrative and other expenses increased \$100.0 million for the nine months ended September 30, 2013 as compared to 2012. This increase was driven primarily by (i) an increase of approximately \$32.8 million in amortization expense, primarily from intangible assets acquired in 2012; (ii) an increase of \$39.8 million associated with fundraising activities; and (iii) an impairment loss of \$20.8 million to reduce the carrying value of certain intangible assets to their estimated fair value.

*Interest.* Interest expense for the nine months ended September 30, 2013 was \$33.8 million, an increase of \$13.2 million from 2012. The increase is primarily attributable to a higher level of debt outstanding for the nine months ended September 30, 2013 as compared to 2012, as well as higher interest rates on outstanding borrowings in 2013 as compared to 2012 resulting from the issuances in 2013 of the 3.875% senior notes and the 5.625% senior notes.

*Interest and Other Expenses of Consolidated Funds.* Interest and other expenses of Consolidated Funds increased \$100.9 million for the nine months ended September 30, 2013 as compared to 2012. This increase relates primarily to the four new CLOs formed throughout 2012 and the five new CLOs formed in 2013. The CLOs incur interest expense on their loans payable and incur other expenses consisting of trustee fees, rating agency fees and professional fees. Substantially all interest and other income of our CLOs together with interest expense of our CLOs and net investment gains (losses) of Consolidated Funds is attributable to the related funds' limited partners or CLO investors and therefore is allocated to non-controlling interests. Accordingly, such amounts have no material impact on net income attributable to the Partnership.

*Other Non-operating Expenses.* Other non-operating expenses of \$1.9 million for the nine months ended September 30, 2013 reflects a decrease of \$5.0 million from \$6.9 million for the nine months ended September 30, 2012. The change is due primarily to a decrease in 2013 in the fair value of performance-based contingent consideration related to our acquisitions.

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**Net Investment Gains of Consolidated Funds.** For the nine months ended September 30, 2013, net investment gains of Consolidated Funds were \$420.1 million, as compared to \$1,707.6 million for the nine months ended September 30, 2012. This balance is driven predominantly by our consolidated AlpInvest fund of funds vehicles, CLOs, and hedge funds. For the consolidated CLOs, the amount reflects the net gain or loss on the fair value adjustment of both the assets and liabilities. The components of net investment gains (losses) of consolidated funds for the respective periods are comprised of the following:

	Nine Months Ended September 30,	
	2013	2012
	(Dollars in millions)	
Realized gains	\$ 556.3	\$ 557.7
Net change in unrealized gains and losses	443.7	1,853.2
Total gains on investments	1,000.0	2,410.9
Losses on liabilities of CLOs	(579.6)	(706.5)
Gains (losses) on other assets of CLOs	(0.3)	3.2
Net investment gains of Consolidated Funds	<u>\$ 420.1</u>	<u>\$1,707.6</u>

The realized and unrealized investment gains/losses include the appreciation/depreciation of the equity investments within the consolidated AlpInvest fund of funds vehicles, the appreciation/depreciation of CLO investments in loans and bonds, as well as the appreciation/depreciation of investments made by our consolidated hedge funds and other consolidated funds. The losses on the liabilities of the CLOs reflect the fair value adjustment on the debt of the CLOs. The net investment gains for the nine months ended September 30, 2013 and 2012 were due primarily to net investment gains attributable to the consolidated AlpInvest fund of funds vehicles of \$648.0 million and \$2,011.9 million, respectively; net investment gains attributable to the consolidated hedge funds and other consolidated funds of \$233.5 million and \$54.0 million, respectively; and the net appreciation (depreciation) of CLOs of \$(461.4) million and \$(358.3) million, respectively.

**Net Income Attributable to Non-controlling Interests in Consolidated Entities.** Net income attributable to non-controlling interests in consolidated entities was \$441.4 million for the nine months ended September 30, 2013, as compared to \$1,708.2 million for the nine months ended September 30, 2012. These amounts are primarily attributable to the net earnings or losses of the Consolidated Funds for each period, which are substantially all allocated to the related funds' limited partners or CLO investors.

For the nine months ended September 30, 2013, the net income of our Consolidated Funds was approximately \$378.5 million. This income was substantially due to the consolidated AlpInvest fund of funds vehicles, hedge funds, and CLOs. The net income from the consolidated AlpInvest fund of funds vehicles and the consolidated hedge funds was approximately \$619.7 million and \$184.6 million, respectively, for the nine months ended September 30, 2013. The net income was partially offset by net losses from the consolidated CLOs of \$391.1 million for the nine months ended September 30, 2013. The CLOs' investments appreciated in value less than the CLO liabilities, thereby creating a net loss for this period.

For the nine months ended September 30, 2012, the net income of our Consolidated Funds was approximately \$1,693.5 million. This income was substantially due to the income from the consolidated AlpInvest fund of funds vehicles, offset by losses from the consolidated CLOs. The net income (loss) from the consolidated AlpInvest fund of funds vehicles and the consolidated CLOs was approximately \$1,942.1 million and \$(220.2) million, respectively, for the nine months ended September 30, 2012.

**Net Income Attributable to The Carlyle Group L.P.** The net income attributable to the Partnership was \$32.8 million for the nine months ended September 30, 2013. The Partnership is allocated a portion of the net income attributable to Carlyle Holdings based on the Partnership's ownership in Carlyle Holdings (which was approximately 16% as of September 30, 2013). For the nine months ended September 30, 2013, the net income attributable to Carlyle Holdings was \$228.9 million. Additionally, the Partnership is allocated 100% of the net income or loss attributable to the Partnership's wholly-owned taxable subsidiaries.

**Non-GAAP Financial Measures**

The following table sets forth information in the format used by management when making resource deployment decisions and in assessing performance of our segments. These non-GAAP financial measures are presented for the three months and nine months ended September 30, 2013 and 2012. The table below shows our total segment Economic Net Income which is composed of the sum of Fee Related Earnings, Net Performance Fees and Investment Income. This analysis excludes the effect of consolidated funds, acquisition-related items including amortization of acquired intangible assets and contingent consideration taking the form of earn-outs, charges associated with equity-based compensation grants issued in May 2012 upon completion of the initial public offering or grants issued in acquisitions or strategic investments, corporate actions and infrequently occurring or unusual events, and for the periods prior to the reorganization and initial public offering in May 2012, treats compensation attributable to senior Carlyle professionals as compensation expense. Additionally, during the nine months ended September 30, 2013, we modified the definition of Distributable Earnings used by management to exclude all equity-based compensation expense; the presentation of Distributable Earnings for all periods included in this Quarterly Report on Form 10-Q has been recast to conform with the revised definition. See Note 18 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
<b>Segment Revenues</b>				
Fund level fee revenues				
Fund management fees	\$ 281.2	\$ 233.9	\$ 771.2	\$ 694.3
Portfolio advisory fees, net	5.0	4.6	15.3	19.6
Transaction fees, net	5.9	7.2	23.1	13.6
Total fund level fee revenues	292.1	245.7	809.6	727.5
Performance fees				
Realized	103.1	276.4	544.6	668.5
Unrealized	219.6	49.0	604.4	87.6
Total performance fees	322.7	325.4	1,149.0	756.1
Investment income (loss)				
Realized	(0.7)	4.6	4.6	10.7
Unrealized	(2.1)	3.8	2.5	35.0
Total investment income (loss)	(2.8)	8.4	7.1	45.7
Interest and other income	2.6	4.4	9.0	9.5
<b>Total revenues</b>	<b>614.6</b>	<b>583.9</b>	<b>1,974.7</b>	<b>1,538.8</b>
<b>Segment Expenses</b>				
Compensation and benefits				
Direct base compensation	111.4	97.9	320.4	304.9
Indirect base compensation	41.2	32.9	109.8	102.2
Equity-based compensation	4.0	0.6	10.8	1.2
Performance fee related				
Realized	41.8	120.2	224.0	293.8
Unrealized	123.7	40.6	290.6	69.6
Total compensation and benefits	322.1	292.2	955.6	771.7
General, administrative, and other indirect expenses	80.0	62.3	224.3	177.7
Depreciation and amortization expense	6.2	6.2	18.7	15.4
Interest expense	11.8	4.7	31.9	20.6
<b>Total expenses</b>	<b>420.1</b>	<b>365.4</b>	<b>1,230.5</b>	<b>985.4</b>
<b>Economic Net Income</b>	<b>\$ 194.5</b>	<b>\$ 218.5</b>	<b>\$ 744.2</b>	<b>\$ 553.4</b>
(-) Net Performance Fees	157.2	164.6	634.4	392.7
(-) Investment Income (Loss)	(2.8)	8.4	7.1	45.7
<b>(=) Fee Related Earnings</b>	<b>\$ 40.1</b>	<b>\$ 45.5</b>	<b>\$ 102.7</b>	<b>\$ 115.0</b>
(+) Realized Net Performance Fees	61.3	156.2	320.6	374.7
(+) Realized Investment Income (Loss)	(0.7)	4.6	4.6	10.7
(+) Equity-based Compensation	4.0	0.6	10.8	0.6
<b>(=) Distributable Earnings</b>	<b>\$ 104.7</b>	<b>\$ 206.9</b>	<b>\$ 438.7</b>	<b>\$ 501.0</b>



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Income before provision for income taxes is the GAAP financial measure most comparable to economic net income, fee related earnings, and distributable earnings. The following table is a reconciliation of income (loss) before provision for income taxes to economic net income, to fee related earnings, and to distributable earnings.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
<b>Income (loss) before provision for income taxes</b>	\$ (8.6)	\$ 602.5	\$ 729.7	\$ 2,294.4
Adjustments:				
Partner compensation <sup>(1)</sup>	—	—	—	(265.4)
Equity-based compensation issued in conjunction with the initial public offering, acquisitions and strategic investments	76.2	52.6	251.4	146.2
Acquisition related charges and amortization of intangibles	94.5	43.4	209.5	89.0
Losses associated with debt refinancing activities	—	—	1.9	—
Other non-operating expenses	7.6	10.3	1.9	6.9
Net (income) loss attributable to non-controlling interests in consolidated entities	26.6	(485.4)	(441.4)	(1,708.2)
Provision for income taxes attributable to non-controlling interests in consolidated entities	—	(4.0)	(11.7)	(9.7)
Severance and lease terminations	(0.1)	0.9	3.9	5.0
Other adjustments	(1.7)	(1.8)	(1.0)	(4.8)
<b>Economic Net Income</b>	<u>\$ 194.5</u>	<u>\$ 218.5</u>	<u>\$ 744.2</u>	<u>\$ 553.4</u>
Net performance fees <sup>(2)</sup>	157.2	164.6	634.4	392.7
Investment income (loss) <sup>(2)</sup>	(2.8)	8.4	7.1	45.7
<b>Fee Related Earnings</b>	<u>\$ 40.1</u>	<u>\$ 45.5</u>	<u>\$ 102.7</u>	<u>\$ 115.0</u>
Realized performance fees, net of related compensation <sup>(2)</sup>	61.3	156.2	320.6	374.7
Investment income (loss) — realized <sup>(2)</sup>	(0.7)	4.6	4.6	10.7
Equity-based compensation	4.0	0.6	10.8	1.2
<b>Distributable Earnings</b>	<u>\$ 104.7</u>	<u>\$ 206.9</u>	<u>\$ 438.7</u>	<u>\$ 501.6</u>

(1) – Adjustments for partner compensation reflect amounts due to senior Carlyle professionals for compensation and performance fees allocated to them, which amounts were classified as distributions from partners' capital in our consolidated financial statements for periods prior to the reorganization and initial public offering in May 2012.

(2) – See reconciliation to most directly comparable U.S. GAAP measure below:

	Three Months Ended September 30, 2013		
	Carlyle Consolidated	Adjustments(3)	Total Reportable Segments
	(Dollars in millions)		
Performance fees			
Realized	\$ 108.6	\$ (5.5)	\$ 103.1
Unrealized	211.9	7.7	219.6
Total performance fees	320.5	2.2	322.7
Performance fee related compensation expense			
Realized	45.4	(3.6)	41.8
Unrealized	113.5	10.2	123.7
Total performance fee related compensation expense	158.9	6.6	165.5
Net performance fees			
Realized	63.2	(1.9)	61.3
Unrealized	98.4	(2.5)	95.9
Total net performance fees	\$ 161.6	\$ (4.4)	\$ 157.2
Investment income (loss)			
Realized	\$ (3.1)	\$ 2.4	\$ (0.7)
Unrealized	8.1	(10.2)	(2.1)
Total investment income (loss)	\$ 5.0	\$ (7.8)	\$ (2.8)

  

	Three Months Ended September 30, 2012		
	Carlyle Consolidated	Adjustments(3)	Total Reportable Segments
	(Dollars in millions)		
Performance fees			
Realized	\$ 291.4	\$ (15.0)	\$ 276.4
Unrealized	64.9	(15.9)	49.0
Total performance fees	356.3	(30.9)	325.4
Performance fee related compensation expense			
Realized	121.9	(1.7)	120.2
Unrealized	41.5	(0.9)	40.6
Total performance fee related compensation expense	163.4	(2.6)	160.8
Net performance fees			
Realized	169.5	(13.3)	156.2
Unrealized	23.4	(15.0)	8.4
Total net performance fees	\$ 192.9	\$ (28.3)	\$ 164.6
Investment income			
Realized	\$ 9.8	\$ (5.2)	\$ 4.6
Unrealized	0.4	3.4	3.8
Total investment income	\$ 10.2	\$ (1.8)	\$ 8.4

Nine Months Ended September 30, 2013			
	Carlyle Consolidated	Adjustments(3)	Total Reportable Segments
	(Dollars in millions)		
Performance fees			
Realized	\$ 564.6	\$ (20.0)	\$ 544.6
Unrealized	657.4	(53.0)	604.4
Total performance fees	1,222.0	(73.0)	1,149.0
Performance fee related compensation expense			
Realized	232.2	(8.2)	224.0
Unrealized	374.5	(83.9)	290.6
Total performance fee related compensation expense	606.7	(92.1)	514.6
Net performance fees			
Realized	332.4	(11.8)	320.6
Unrealized	282.9	30.9	313.8
Total net performance fees	\$ 615.3	\$ 19.1	\$ 634.4
Investment income			
Realized	\$ 5.4	\$ (0.8)	\$ 4.6
Unrealized	11.0	(8.5)	2.5
Total investment income	\$ 16.4	\$ (9.3)	\$ 7.1

  

Nine Months Ended September 30, 2012			
	Carlyle Consolidated	Adjustments(3)	Total Reportable Segments
	(Dollars in millions)		
Performance fees			
Realized	\$ 688.7	\$ (20.2)	\$ 668.5
Unrealized	88.0	(0.4)	87.6
Total performance fees	776.7	(20.6)	756.1
Performance fee related compensation expense			
Realized	188.3	105.5	293.8
Unrealized	(1.4)	71.0	69.6
Total performance fee related compensation expense	186.9	176.5	363.4
Net performance fees			
Realized	500.4	(125.7)	374.7
Unrealized	89.4	(71.4)	18.0
Total net performance fees	\$ 589.8	\$ (197.1)	\$ 392.7
Investment income			
Realized	\$ 11.4	\$ (0.7)	\$ 10.7
Unrealized	27.3	7.7	35.0
Total investment income	\$ 38.7	\$ 7.0	\$ 45.7

- (3) Adjustments to performance fees and investment income (loss) relate to amounts earned from the Consolidated Funds, which were eliminated in the U.S. GAAP consolidation but were included in the Non-GAAP results, and amounts attributable to non-controlling interests in consolidated entities, which were excluded from the Non-GAAP results. Adjustments to investment income (loss) also include the reclassification of earnings for the investment in NGP Management to the appropriate operating captions for the Non-GAAP results, and the exclusion of charges associated with the investment in NGP Management that are excluded from the Non-GAAP results. Adjustments to performance fee related compensation expense relate to the inclusion of partner compensation in the Non-GAAP results for periods prior to the reorganization and initial public offering in May 2012. Adjustments are also included in these financial statement captions to reflect Carlyle's 55% economic interest in Claren Road, ESG, and Vermillion, and Carlyle's 60% economic interest in AlpInvest (for periods prior to August 1, 2013), in the Non-GAAP results.

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Economic Net Income and Distributable Earnings for our reportable segments are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
(Dollars in millions)				
<b>Economic Net Income</b>				
Corporate Private Equity	\$ 159.4	\$ 177.2	\$ 505.0	\$ 356.6
Global Market Strategies	10.1	36.0	161.2	106.1
Real Assets	0.4	1.6	31.6	73.9
Solutions	24.6	3.7	46.4	16.8
<b>Economic Net Income</b>	<u>\$ 194.5</u>	<u>\$ 218.5</u>	<u>\$ 744.2</u>	<u>\$ 553.4</u>
<b>Distributable Earnings</b>				
Corporate Private Equity	\$ 53.6	\$ 145.0	\$ 251.4	\$ 326.7
Global Market Strategies	24.2	27.7	111.6	82.6
Real Assets	11.5	30.8	48.7	80.3
Solutions	15.4	3.4	27.0	12.0
<b>Distributable Earnings</b>	<u>\$ 104.7</u>	<u>\$ 206.9</u>	<u>\$ 438.7</u>	<u>\$ 501.6</u>

## Segment Analysis

Discussed below is our ENI for our segments for the periods presented. Our segment information is reflected in the manner utilized by our senior management to make operating decisions, assess performance and allocate resources.

For segment reporting purposes, revenues and expenses are presented on a basis that deconsolidates our Consolidated Funds. As a result, segment revenues from management fees, performance fees and investment income are different than those presented on a consolidated GAAP basis because fund management fees recognized in certain segments are received from Consolidated Funds and are eliminated in consolidation when presented on a consolidated GAAP basis. Furthermore, segment expenses are different than related amounts presented on a consolidated GAAP basis due to the exclusion of fund expenses that are paid by the Consolidated Funds. Segment revenue and expenses are also different than those presented on a consolidated GAAP basis because we present our segment revenues and expenses related to Claren Road, ESG, and Vermillion based on our 55% economic interest in those entities. For periods prior to August 1, 2013 (the date we acquired the remaining 40% equity interest in AlpInvest), we present our segment revenues and expenses based on our historical ownership interest in AlpInvest of 60%. Also, ENI excludes expenses associated with equity-based compensation that was issued in our initial public offering or is issued in acquisitions and strategic investments. Finally, for periods prior to the reorganization and initial public offering in May 2012, ENI includes an expense for base and performance fee related compensation attributable to senior Carlyle professionals, which was accounted for as distributions from equity in the consolidated GAAP basis financial statements.

Additionally, during the second quarter of 2013, we modified the definition of Distributable Earnings used by management to exclude all equity-based compensation expense; the presentation of Distributable Earnings for all periods included in this Quarterly Report on Form 10-Q has been recast to conform with the revised definition.

### Corporate Private Equity

The following table presents our results of operations for our Corporate Private Equity segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
<b>Segment Revenues</b>				
Fund level fee revenues				
Fund management fees	\$ 131.0	\$ 124.8	\$ 348.1	\$ 372.7
Portfolio advisory fees, net	4.7	3.1	13.7	15.0
Transaction fees, net	5.7	6.2	20.1	9.4
Total fund level fee revenues	141.4	134.1	381.9	397.1
Performance fees				
Realized	79.1	241.4	442.8	545.0
Unrealized	182.2	72.8	421.0	44.4
Total performance fees	261.3	314.2	863.8	589.4
Investment income (loss)				
Realized	1.6	(0.2)	5.1	2.1
Unrealized	5.5	(1.0)	10.7	17.2
Total investment income (loss)	7.1	(1.2)	15.8	19.3
Interest and other income	1.5	3.4	4.2	6.4
<b>Total revenues</b>	<b>411.3</b>	<b>450.5</b>	<b>1,265.7</b>	<b>1,012.2</b>
<b>Segment Expenses</b>				
Compensation and benefits				
Direct base compensation	53.9	56.2	158.9	166.3
Indirect base compensation	27.6	19.9	69.4	64.8
Equity-based compensation	2.1	0.4	5.9	0.8
Performance fee related				
Realized	34.6	115.6	201.3	264.2
Unrealized	79.8	39.2	172.2	30.9
Total compensation and benefits	198.0	231.3	607.7	527.0
General, administrative, and other indirect expenses	43.7	36.0	124.3	107.7
Depreciation and amortization expense	3.3	3.5	10.2	9.0
Interest expense	6.9	2.5	18.5	11.9
<b>Total expenses</b>	<b>251.9</b>	<b>273.3</b>	<b>760.7</b>	<b>655.6</b>
<b>Economic Net Income</b>	<b>\$ 159.4</b>	<b>\$ 177.2</b>	<b>\$ 505.0</b>	<b>\$ 356.6</b>
(-) Net Performance Fees	146.9	159.4	490.3	294.3
(-) Investment Income (Loss)	7.1	(1.2)	15.8	19.3
<b>(=) Fee Related Earnings</b>	<b>\$ 5.4</b>	<b>\$ 19.0</b>	<b>\$ (1.1)</b>	<b>\$ 43.0</b>
(+) Realized Net Performance Fees	44.5	125.8	241.5	280.8
(+) Realized Investment Income (Loss)	1.6	(0.2)	5.1	2.1
(+) Equity-based Compensation	2.1	0.4	5.9	0.8
<b>(=) Distributable Earnings</b>	<b>\$ 53.6</b>	<b>\$ 145.0</b>	<b>\$ 251.4</b>	<b>\$ 326.7</b>

***Three Months Ended September 30, 2013 Compared to the Three Months Ended September 30, 2012***

Total fee revenues were \$141.4 million for the three months ended September 30, 2013, representing an increase of \$7.3 million, or 5%, from the three months ended September 30, 2012. This increase reflects an increase in fund management fees of \$6.2 million and an increase in net portfolio advisory fees of \$1.6 million, partially offset by a decrease in net transaction fees of \$0.5 million. The weighted average management fee rate decreased from 1.32% at September 30, 2012 to 1.11% at September 30, 2013. This decrease was due primarily to the expiration of the investment period in our third European buyout (“CEP III”) and second Japan buyout (“CJP II”) funds, prior to the raising of a successor fund. Also contributing to the decrease in the weighted average management fee rate was the step-down in the management fee rate for CP V during the three months ended September 30, 2013. Fee-earning AUM was \$41.9 billion and \$36.9 billion as of September 30, 2013 and 2012, respectively, reflecting an increase of \$5.0 billion.

Interest and other income was \$1.5 million for the three months ended September 30, 2013, a decrease from \$3.4 million for the three months ended September 30, 2012.

Total compensation and benefits was \$198.0 million and \$231.3 million for the three months ended September 30, 2013 and 2012, respectively. Performance fee related compensation expense was \$114.4 million and \$154.8 million, or 44% and 49% of performance fees, for the three months ended September 30, 2013 and 2012, respectively. As part of the reorganization and initial public offering in May 2012, the portion of carried interest allocated to our senior Carlyle professionals and other personnel who work in our fund operations decreased from historical levels to approximately 45%.

Direct and indirect base compensation expense increased \$5.4 million for the three months ended September 30, 2013, or 7% more than the three months ended September 30, 2012, primarily reflecting higher compensation associated with fundraising activities for buyout funds.

Equity-based compensation was \$2.1 million for the three months ended September 30, 2013, an increase from \$0.4 million for the three months ended September 30, 2012. The increase is due primarily to expense associated with grants of deferred restricted common units that occurred subsequent to the initial public offering in May 2012.

General, administrative and other indirect expenses increased \$7.7 million for the three months ended September 30, 2013 as compared to 2012. The expense increase primarily reflected higher expenses associated with fundraising activities for buyout funds.

Depreciation and amortization expense was \$3.3 million for the three months ended September 30, 2013, a decrease from \$3.5 million in 2012.

Interest expense increased \$4.4 million, or 176%, for the three months ended September 30, 2013 as compared to 2012. This increase was due primarily to a higher level of outstanding borrowings and higher interest rates in 2013 as compared to 2012.

*Economic Net Income.* ENI was \$159.4 million for the three months ended September 30, 2013, reflecting a 10% decrease as compared to ENI of \$177.2 million for the three months ended September 30, 2012. The decrease in ENI in the third quarter of 2013 was driven primarily by a \$13.6 million decrease in fee related earnings and a \$12.5 million decrease in net performance fees as compared to 2012. These decreases were partially offset by an \$8.3 million increase in investment income.

*Fee Related Earnings.* Fee related earnings were \$5.4 million for the three months ended September 30, 2013, as compared to \$19.0 million for the three months ended September 30, 2012, representing a decrease of \$13.6 million. The decrease in fee related earnings is primarily attributable to increases in general, administrative and other indirect expenses of \$7.7 million and interest expense of \$4.4 million.

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**Performance Fees.** Performance fees decreased \$52.9 million for the three months ended September 30, 2013 as compared to 2012. Performance fees of \$261.3 million and \$314.2 million are inclusive of performance fees reversed of approximately \$19.8 million and \$18.2 million during the three months ended September 30, 2013 and 2012, respectively. Performance fees for this segment by type of fund are as follows:

	<b>Three Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(Dollars in millions)</b>	
Buyout funds	\$ 246.3	\$ 322.4
Growth Capital funds	15.0	(8.2)
Performance fees	<u>\$ 261.3</u>	<u>\$ 314.2</u>

The \$261.3 million in performance fees for the three months ended September 30, 2013 primarily was driven by performance fees for CP V of \$120.6 million, CP IV of \$94.0 million, and CGFSP I of \$32.6 million. The third quarter 2013 and 2012 appreciation in the remaining value of assets for funds in this segment was approximately 5% for both periods. Comparatively, the \$314.2 million of performance fees for the three months ended September 30, 2012 primarily was driven by performance fees for CP V of \$114.2 million, CAP II of \$87.5 million, and CP IV of \$79.0 million.

During the three months ended September 30, 2013, net performance fees were \$146.9 million or 56% of performance fees and \$12.5 million less than the net performance fees in the third quarter of 2012.

**Investment Income.** Investment income for the three months ended September 30, 2013 was \$7.1 million compared to a loss of \$1.2 million in the third quarter of 2012. The increase primarily relates to increases in unrealized investment income related to buyout funds.

**Distributable Earnings.** Distributable earnings decreased \$91.4 million for the three months ended September 30, 2013 to \$53.6 million from \$145.0 million for the same period in 2012. This primarily reflects a decrease in realized net performance fees of \$81.3 million for the three months ended September 30, 2013 as compared to 2012, and a decrease in fee related earnings of \$13.6 million for the three months ended September 30, 2013 as compared to 2012.

### **Nine Months Ended September 30, 2013 Compared to the Nine Months Ended September 30, 2012**

Total fee revenues were \$381.9 million for the nine months ended September 30, 2013, representing a decrease of \$15.2 million, or 4%, from the nine months ended September 30, 2012. This decrease reflects a \$24.6 million decrease in fund management fees and a decrease in net portfolio advisory fees of \$1.3 million. These decreases were partially offset by an increase in net transaction fees of \$10.7 million. The weighted average management fee rate decreased from 1.32% at September 30, 2012 to 1.11% at September 30, 2013. This decrease was due primarily to the expiration of the investment period in CEP III and CJP II funds, prior to the raising of a successor fund. Also contributing to the decrease in the weighted average management fee rate was the step-down in the management fee rate for CP V during the nine months ended September 30, 2013. Fee-earning AUM was \$41.9 billion and \$36.9 billion as of September 30, 2013 and 2012, respectively, reflecting an increase of \$5.0 billion. The decrease in net portfolio fees was primarily due to fewer portfolio advisory fees received in 2013 upon the sale or public offering of portfolio companies as compared to 2012. The increase in net transaction fees resulted primarily from several significant transaction fees that were generated by two of the buyout funds in 2013.

Interest and other income was \$4.2 million for the nine months ended September 30, 2013, a decrease from \$6.4 million for the nine months ended September 30, 2012.

Total compensation and benefits was \$607.7 million and \$527.0 million for the nine months ended September 30, 2013 and 2012, respectively. Performance fee related compensation expense was \$373.5 million and \$295.1 million, or 43% and 50% of performance fees, for the nine months ended September 30, 2013 and 2012, respectively. As part of the reorganization and initial public offering in May 2012, the portion of carried interest allocated to our senior Carlyle professionals and other personnel who work in our fund operations decreased from historical levels to approximately 45%.

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Direct and indirect base compensation expense decreased \$2.8 million for the nine months ended September 30, 2013, or 1% less than the nine months ended September 30, 2012, primarily reflecting adjustments to reflect lower expected annual bonuses, partially offset by higher compensation associated with fundraising activities.

Equity-based compensation was \$5.9 million for the nine months ended September 30, 2013, an increase from \$0.8 million for the nine months ended September 30, 2012. The increase is due primarily to equity-based compensation expense for 2012 representing approximately five months of equity-based compensation expense (from the grant in May 2012 through September 30, 2012) versus nine months of compensation expense for 2013. Also contributing to the increase is expense associated with grants of deferred restricted common units that occurred subsequent to the initial public offering in May 2012.

General, administrative and other indirect expenses increased \$16.6 million for the nine months ended September 30, 2013 as compared to 2012. The expense increase primarily reflected higher expenses associated with fundraising activities for buyout funds.

Depreciation and amortization expense was \$10.2 million for the nine months ended September 30, 2013, an increase from \$9.0 million in 2012.

Interest expense increased \$6.6 million, or 55%, for the nine months ended September 30, 2013 as compared to 2012. This increase was due primarily to a higher level of outstanding borrowings and higher interest rates in 2013 as compared to 2012.

*Economic Net Income.* ENI was \$505.0 million for the nine months ended September 30, 2013, reflecting a 42% increase as compared to ENI of \$356.6 million for the nine months ended September 30, 2012. The increase in ENI in the nine months ended September 30, 2013 was driven by a \$196.0 million increase in net performance fees as compared to 2012, partially offset by decreases of \$44.1 million in fee related earnings and \$3.5 million in investment income.

*Fee Related Earnings.* Fee related earnings were \$(1.1) million for the nine months ended September 30, 2013, as compared to \$43.0 million for the nine months ended September 30, 2012, representing a decrease of \$44.1 million. The decrease in fee related earnings is primarily attributable to an increase in general, administrative and other indirect expenses of \$16.6 million, a decrease in fee revenues of \$15.2 million, and an increase in interest expense of \$6.6 million.

*Performance Fees.* Performance fees increased \$274.4 million for the nine months ended September 30, 2013 as compared to 2012. Performance fees of \$863.8 million and \$589.4 million are inclusive of performance fees reversed of approximately \$7.9 million and \$13.3 million during the nine months ended September 30, 2013 and 2012, respectively. Performance fees for this segment by type of fund are as follows:

	Nine Months Ended September 30,	
	2013	2012
	(Dollars in millions)	
Buyout funds	\$ 844.4	\$ 584.2
Growth Capital funds	19.4	5.2
Performance fees	<u>\$ 863.8</u>	<u>\$ 589.4</u>

The \$863.8 million in performance fees for the nine months ended September 30, 2013 primarily was driven by performance fees for CP V and CP IV of \$461.1 million and \$291.7 million, respectively. The total 2013 and 2012 appreciation in the remaining value of assets for funds in this segment was approximately 20% and 12%, respectively. Comparatively, the \$589.4 million of performance fees for the nine months ended September 30, 2012 primarily was driven by performance fees for CP IV, CP V, and CAP II of \$197.8 million, \$190.3 million, and \$110.1 million, respectively.



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During the nine months ended September 30, 2013, net performance fees were \$490.3 million or 57% of performance fees and \$196.0 million more than the net performance fees in the nine months ended September 30, 2012.

*Investment Income.* Investment income for the nine months ended September 30, 2013 was \$15.8 million compared to \$19.3 million in the nine months ended September 30, 2012. The decrease in investment income from 2012 to 2013 relates primarily to the distribution in March 2012, in conjunction with the reorganization and initial public offering, of certain investments that were funded by certain existing and former owners of Carlyle indirectly through Carlyle; those investments generated unrealized investment income for the nine months ended September 30, 2012.

*Distributable Earnings.* Distributable earnings decreased \$75.3 million for the nine months ended September 30, 2013 to \$251.4 million from \$326.7 million for the same period in 2012. This decrease primarily reflects a reduction in fee related earnings of \$44.1 million and a decrease in realized net performance fees of \$39.3 million.

### **Fee-earning AUM as of and for the Three and Nine Months Ended September 30, 2013 and 2012.**

Fee-earning AUM is presented below for each period together with the components of change during each respective period.

The table below breaks out Fee-earning AUM by its respective components at each period.

	As of September 30,	
	2013	2012
	(Dollars in millions)	
Corporate Private Equity		
Components of Fee-earning AUM (1)		
Fee-earning AUM based on capital commitments	\$16,890	\$29,006
Fee-earning AUM based on invested capital	25,023	7,941
Balance, End of Period	<u>\$41,913</u>	<u>\$36,947</u>
Weighted Average Management Fee Rates (2)		
All Funds	1.13%	1.32%
Funds in Investment Period	1.42%	1.38%

- (1) For additional information concerning the components of Fee-earning AUM, please see “—Fee-earning Assets under Management.”
- (2) Represents the aggregate effective management fee rate of each fund in the segment, weighted by each fund’s fee-earning AUM, as of the end of each period presented.

The table below provides the period to period rollforward of Fee-earning AUM.

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(Dollars in millions)		(Dollars in millions)	
<b>Corporate Private Equity</b>				
<b>Fee-earning AUM Rollforward</b>				
Balance, Beginning of Period	\$38,507	\$37,129	\$33,840	\$37,996
Inflows, including Commitments (1)	3,877	285	14,500	698
Outflows, including Distributions (2)	(761)	(669)	(5,813)	(1,707)
Foreign Exchange and other (3)	290	202	(614)	(40)
<b>Balance, End of Period</b>	<b>\$41,913</b>	<b>\$36,947</b>	<b>\$41,913</b>	<b>\$36,947</b>

- (1) Inflows represent limited partner capital raised and capital invested by funds outside the investment period.
- (2) Outflows represent distributions from funds outside the investment period and changes in basis for our carry funds where the investment period has expired.
- (3) Represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of period end.

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Fee-earning AUM was \$41.9 billion at September 30, 2013, an increase of \$3.4 billion, or 9%, compared to \$38.5 billion at June 30, 2013. Inflows of \$3.9 billion were primarily a result of limited partner commitments raised by CP VI, CEP IV, CAP IV, our third Japan buyout (“CJP III”) fund, and our Sub-Saharan Africa buyout (“CSSAF I”) fund. This was offset by outflows of \$0.8 billion, which includes the corresponding change in basis for our Middle East (“MENA”) fund, in addition to the impact of distributions in funds outside of the investment period, and a \$0.3 billion foreign exchange gain. Investment and distribution activity by funds still in the investment period does not impact Fee-earning AUM as these funds are based on commitments and not invested capital. Changes in fair value have no material impact on Fee-earning AUM for Corporate Private Equity as substantially all of the funds generate management fees based on either commitments or invested capital at cost, neither of which is impacted by fair value movements.

Fee-earning AUM was \$41.9 billion at September 30, 2013, an increase of \$8.1 billion, or approximately 24%, compared to \$33.8 billion at December 31, 2012. Inflows of \$14.5 billion were primarily a result of limited partner commitments raised by CP VI, CAP IV, CGFSP II, CAP IV, CEP IV, CSSAF I, and CJP III. This was offset by outflows of \$5.8 billion, which includes the corresponding change in basis for CP V, our third Asia buyout fund (“CAP III”) and our first financial services buyout fund (“CGFSP I”), in addition to distributions in funds outside the investment period and a \$0.6 billion foreign exchange loss.

Fee-earning AUM was \$41.9 billion at September 30, 2013, an increase of \$5.0 billion, or approximately 13%, compared to \$36.9 billion at September 30, 2012. This increase reflects new limited partner commitments raised by several of our buyout funds, including CP VI, CAP IV, CGFSP II, and CEP IV, offset by the corresponding change in basis for predecessor funds, the expiration of the investment period for MENA, as well as distributions in various funds outside of their original investment period.

Fee-earning AUM was \$36.9 billion at September 30, 2012, a decrease of \$0.2 billion, or less than 1%, compared to \$37.1 billion at June 30, 2012. Outflows of \$0.7 billion were principally a result of distributions from several buyout funds that were outside of their investment period. Inflows of \$0.3 billion were primarily related to limited partner commitments raised by our equity opportunities fund (“CEO”)”, as well as equity invested by various funds outside of their investment period.

Fee-earning AUM was \$36.9 billion at September 30, 2012, a decrease of \$1.1 billion, or 3%, compared to \$38.0 billion at December 31, 2011. Outflows of \$1.7 billion were principally a result of distributions from several of the funds outside of their investment period. Inflows of \$0.7 billion were primarily related to limited partner commitments raised by our Peru buyout fund (“CPF I”), CSSAF I, and CEO, as well as equity invested by various funds outside of their investment period.

### **Total AUM as of and for the Three and Nine Months Ended September 30, 2013.**

The table below provides the period to period rollforwards of Available Capital and Fair Value of Capital, and the resulting rollforward of Total AUM.

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Available Capital	Fair Value of Capital	Total AUM	Available Capital	Fair Value of Capital	Total AUM
	(Dollars in millions)			(Dollars in millions)		
<b>Corporate Private Equity</b>						
Balance, Beginning of Period	\$20,098	\$ 37,794	\$57,892	\$17,642	\$ 35,696	\$53,338
Commitments (1)	3,652	—	3,652	8,905	—	8,905
Capital Called, net (2)	(1,178)	1,057	(121)	(4,115)	3,931	(184)
Distributions (3)	158	(1,791)	(1,633)	382	(6,925)	(6,543)
Market Appreciation/(Depreciation) (4)	—	1,931	1,931	—	6,628	6,628
Foreign Exchange and other (5)	85	369	454	1	30	31
<b>Balance, End of Period</b>	<b>\$22,815</b>	<b>\$ 39,360</b>	<b>\$62,175</b>	<b>\$22,815</b>	<b>\$ 39,360</b>	<b>\$62,175</b>

(1) Represents capital raised by our carry funds, net of expired available capital.

(2) Represents capital called by our carry funds, net of fund fees and expenses. Equity Invested amounts may vary from Capital Called due to timing differences between acquisition and capital call dates.

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- (3) Represents distributions from our carry funds, net of amounts recycled. Distributions are based on when proceeds are actually distributed to investors, which may differ from when they are realized.
- (4) Market Appreciation/(Depreciation) represents realized and unrealized gains (losses) on portfolio investments.
- (5) Represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end.

Total AUM was \$62.2 billion at September 30, 2013, an increase of \$4.3 billion, or approximately 7%, compared to \$57.9 billion at June 30, 2013. This increase was primarily driven by \$3.7 billion in new commitments for several funds and co-investment vehicles, including CP VI, CAP IV, CEP IV, and CJP III, as well as \$1.9 billion in market appreciation. Our portfolio experienced a 5% increase in value over the period, due to a 5% increase across our buyout funds, and a 7% increase across our growth capital funds. The 5% increase in our buyout funds was primarily driven by appreciation in CP IV, CP V and CEP III. This increase was partially offset by distributions of \$1.6 billion.

Total AUM was \$62.2 billion at September 30, 2013, an increase of \$8.8 billion, or approximately 17%, compared to \$53.3 billion at December 31, 2012. This increase was primarily driven by new commitments of \$8.9 billion for several funds and co-investment vehicles, including CP VI, CEP IV and CAP IV, as well as \$6.6 billion of market appreciation across our portfolio, which experienced a 20% increase in value over the period, due to a 20% increase across our buyout funds, and an 11% increase across our growth capital funds. The 20% increase in our buyout funds was primarily driven by appreciation in CP IV, CP V, CAP III and CEP III. This increase was partially offset by distributions of \$6.5 billion.

### ***Fund Performance Metrics***

Fund performance information for our investment funds that have at least \$1.0 billion in capital commitments, cumulative equity invested or total value as September 30, 2013, which we refer to as our “significant funds” is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund return information reflected in this discussion and analysis is not indicative of the performance of The Carlyle Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Carlyle Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

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The following tables reflect the performance of our significant funds in our Corporate Private Equity business. Please see “— Our Family of Funds” for a legend of the fund acronyms listed below.

Fund Inception Date(1)	Committed Capital	TOTAL INVESTMENTS as of September 30, 2013						REALIZED/PARTIALLY REALIZED INVESTMENTS(5) as of September 30, 2013			
		Cumulative Invested Capital(2)	Total Fair Value(3)	MOIC(4)	Gross IRR(7)	Net IRR(8)	Cumulative Invested Capital(2)	Total Fair Value(3)	MOIC(4)	Gross IRR(7)	
(Reported in Local Currency, in Millions)											
Corporate Private Equity											
Fully Invested Funds(6)											
CP II	10/1994	\$ 1,331.1	\$ 1,362.4	\$ 4,071.5	3.0x	34%	25%	\$ 1,362.4	\$ 4,071.5	3.0x	34%
CP III	2/2000	\$ 3,912.7	\$ 4,031.6	\$ 10,146.6	2.5x	27%	21%	\$ 4,031.6	\$ 10,146.6	2.5x	27%
CP IV	12/2004	\$ 7,850.0	\$ 7,612.6	\$ 16,909.6	2.2x	16%	13%	\$ 5,063.6	\$ 12,477.9	2.5x	19%
CP V	5/2007	\$ 13,719.7	\$ 12,165.1	\$ 19,741.4	1.6x	18%	13%	\$ 3,033.8	\$ 7,269.3	2.4x	28%
CEP I	12/1997	€ 1,003.6	€ 981.6	€ 2,126.5	2.2x	18%	11%	€ 981.6	€ 2,126.5	2.2x	18%
CEP II	9/2003	€ 1,805.4	€ 2,048.4	€ 3,762.6	1.8x	37%	20%	€ 1,230.8	€ 3,059.2	2.5x	61%
CAP I	12/1998	\$ 750.0	\$ 627.7	\$ 2,491.0	4.0x	25%	18%	\$ 627.7	\$ 2,491.0	4.0x	25%
CAP II	2/2006	\$ 1,810.0	\$ 1,626.6	\$ 2,833.1	1.7x	12%	8%	\$ 664.7	\$ 1,950.5	2.9x	27%
CAP III	5/2008	\$ 2,551.6	\$ 2,238.3	\$ 2,855.9	1.3x	12%	7%	\$ 585.7	\$ 1,039.1	1.8x	20%
CJP I	10/2001	¥ 50,000.0	¥ 47,291.4	¥134,285.1	2.8x	61%	37%	¥ 39,756.6	¥130,976.9	3.3x	65%
CJP II	7/2006	¥ 165,600.0	¥ 141,866.7	¥149,199.4	1.1x	1%	(3%)	¥ 31,806.1	¥ 52,822.8	1.7x	22%
CGFSP I	9/2008	\$ 1,100.2	\$ 1,007.2	\$ 1,486.6	1.5x	17%	10%	\$ 184.3	\$ 435.7	2.4x	27%
All Other Funds(9)	Various		\$ 3,814.2	\$ 5,635.6	1.5x	16%	6%	\$ 2,559.0	\$ 4,300.7	1.7x	20%
Coinvestments and Other(10)	Various		\$ 7,554.7	\$ 18,304.3	2.4x	36%	33%	\$ 4,759.9	\$ 14,623.3	3.1x	36%
Total Fully Invested Funds			\$ 48,066.6	\$ 95,331.1	2.0x	27%	19%	\$ 26,595.2	\$ 67,694.4	2.5x	30%
Funds in the Investment Period(6)											
CP VI(12)	5/2012	\$ 11,588.3	n/a	n/a	n/a	n/a	n/m				
CEP III	12/2006	€ 5,294.9	€ 4,966.4	€ 6,705.9	1.4x	11%	8%				
CAP IV(12)	11/2012	\$ 1,442.6	n/a	n/a	n/a	n/a	n/m				
CAGP IV	6/2008	\$ 1,041.4	\$ 665.2	\$ 805.9	1.2x	10%	1%				
CEOF I	5/2011	\$ 1,119.1	\$ 388.0	\$ 457.3	1.2x	19%	7%				
All Other Funds(11)	Various		\$ 1,022.0	\$ 1,288.7	1.3x	12%	1%				
Total Funds in the Investment Period			\$ 8,795.6	\$ 11,626.2	1.3x	11%	7%	\$ 1,013.1	\$ 2,114.6	2.1x	22%
TOTAL CORPORATE PRIVATE EQUITY(13)											
			\$ 56,862.3	\$106,957.3	1.9x	26%	18%	\$ 27,608.3	\$ 69,809.0	2.5x	30%

- The data presented herein that provides “inception to date” performance results of our segments relates to the period following the formation of the first fund within each segment. For our Corporate Private Equity segment our first fund was formed in 1990.
- Represents the original cost of all capital called for investments since inception of the fund.
- Represents all realized proceeds combined with remaining fair value, before management fees, expenses and carried interest.
- Multiple of invested capital (“MOIC”) represents total fair value, before management fees, expenses and carried interest, divided by cumulative invested capital.
- An investment is considered realized when the investment fund has completely exited, and ceases to own an interest in, the investment. An investment is considered partially realized when the total amount of proceeds received in respect of such investment, including dividends, interest or other distributions and/or return of capital, represents at least 85% of invested capital and such investment is not yet fully realized. Because part of our value creation strategy involves pursuing best exit alternatives, we believe information regarding Realized/Partially Realized MOIC and Gross IRR, when considered together with the other investment performance metrics presented, provides investors with meaningful information regarding our investment performance by removing the impact of investments where significant realization activity has not yet occurred. Realized/Partially Realized MOIC and Gross IRR have limitations as measures of investment performance, and should not be considered in isolation. Such limitations include the fact that these measures do not include the performance of earlier stage and other investments that do not satisfy the criteria provided above. The exclusion of such investments will have a positive impact on Realized/Partially Realized MOIC and Gross IRR in instances when the MOIC and Gross IRR in respect of such investments are less than the aggregate MOIC and Gross IRR. Our measurements of Realized/Partially Realized MOIC and Gross IRR may not be comparable to those of other companies that use similarly titled measures. We do not present Realized/Partially Realized performance information separately for funds that are still in the investment period because of the relatively insignificant level of realizations for funds of this type. However, to the extent such funds have had realizations, they are included in the Realized/Partially Realized performance information presented for Total Corporate Private Equity.

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- (6) Fully Invested funds are past the expiration date of the investment period as defined in the respective limited partnership agreement. In instances where a successor fund has had its first capital call, the predecessor fund is categorized as fully invested.
- (7) Gross Internal Rate of Return (“Gross IRR”) represents the annualized IRR for the period indicated on Limited Partner invested capital based on contributions, distributions and unrealized value before management fees, expenses and carried interest.
- (8) Net Internal Rate of Return (“Net IRR”) represents the annualized IRR for the period indicated on Limited Partner invested capital based on contributions, distributions and unrealized value after management fees, expenses and carried interest.
- (9) Aggregate includes the following funds: CP I, CMG, CVP I, CVP II, CUSGF III, CEVP, CETP I, CAVP I, CAVP II, CAGP III , Mexico and MENA.
- (10) Includes co-investments, prefund investments and certain other stand-alone investments arranged by us.
- (11) Aggregate includes the following funds: CJP III, CGFSP II, CSABF, CSSAF, CETP II, CBPF and CPF I.
- (12) Returns are not considered meaningful, as the investment period commenced in May 2012 for CP VI and November 2012 for CAP IV.
- (13) For purposes of aggregation, funds that report in foreign currency have been converted to U.S. dollars at the reporting period spot rate.

### Global Market Strategies

For purposes of presenting our results of operations for this segment, we include only our 55% economic interest in the results of operations of Claren Road, ESG, and Vermillion. Vermillion was acquired on October 1, 2012. The following table presents our results of operations for our Global Market Strategies segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
<b>Segment Revenues</b>				
Fund level fee revenues				
Fund management fees	\$ 65.7	\$ 58.2	\$205.8	\$ 166.3
Portfolio advisory fees, net	0.1	0.8	0.8	2.0
Transaction fees, net	—	0.3	0.1	0.3
Total fund level fee revenues	65.8	59.3	206.7	168.6
Performance fees				
Realized	5.8	0.9	47.8	34.6
Unrealized	(13.6)	5.7	73.7	22.4
Total performance fees	(7.8)	6.6	121.5	57.0
Investment income (loss)				
Realized	2.0	4.6	16.1	8.7
Unrealized	3.2	0.8	(3.6)	9.3
Total investment income (loss)	5.2	5.4	12.5	18.0
Interest and other income	0.7	0.5	3.3	1.5
<b>Total revenues</b>	<b>63.9</b>	<b>71.8</b>	<b>344.0</b>	<b>245.1</b>
<b>Segment Expenses</b>				
Compensation and benefits				
Direct base compensation	23.6	17.4	74.2	62.3
Indirect base compensation	4.6	5.9	14.9	15.3
Equity-based compensation	0.6	—	1.6	0.1
Performance fee related				
Realized	0.8	0.2	17.2	18.7
Unrealized	3.1	(1.8)	18.9	8.1
Total compensation and benefits	32.7	21.7	126.8	104.5
General, administrative, and other indirect expenses	17.8	11.7	46.8	28.1
Depreciation and amortization expense	1.2	1.1	3.5	2.5
Interest expense	2.1	1.3	5.7	3.9
<b>Total expenses</b>	<b>53.8</b>	<b>35.8</b>	<b>182.8</b>	<b>139.0</b>
<b>Economic Net Income</b>	<b>\$ 10.1</b>	<b>\$ 36.0</b>	<b>\$161.2</b>	<b>\$ 106.1</b>
(-) Net Performance Fees	(11.7)	8.2	85.4	30.2
(-) Investment Income	5.2	5.4	12.5	18.0
<b>(=) Fee Related Earnings</b>	<b>\$ 16.6</b>	<b>\$ 22.4</b>	<b>\$ 63.3</b>	<b>\$ 57.9</b>
(+) Realized Net Performance Fees	5.0	0.7	30.6	15.9
(+) Realized Investment Income	2.0	4.6	16.1	8.7
(+) Equity-based Compensation	0.6	—	1.6	0.1
<b>(=) Distributable Earnings</b>	<b>\$ 24.2</b>	<b>\$ 27.7</b>	<b>\$111.6</b>	<b>\$ 82.6</b>

**Three Months Ended September 30, 2013 Compared to the Three Months Ended September 30, 2012**

Total fee revenues were \$65.8 million for the three months ended September 30, 2013, an increase of \$6.5 million from 2012. The increase primarily was due to an increase of \$5.7 million in management fees from the Claren Road and ESG hedge funds from greater assets under management and \$2.5 million of incremental management fees from the acquisition of Vermillion on October 1, 2012. The weighted average management fee rate for our carry funds and hedge funds collectively was 1.74% and 1.78% as of September 30, 2013 and 2012, respectively. The weighted average management fee rate on our hedge funds decreased from 1.87% at September 30, 2012 to 1.79% at September 30, 2013 due to lower rates charged on the Vermillion hedge funds. The weighted average management fee rate on our carry funds increased from 1.45% at September 30, 2012 to 1.53% at September 30, 2013 due to increased commitments to our first energy mezzanine fund (“CEMOF I”) and our third distressed and corporate opportunities fund (“CSP III”), which are both currently in the investment period. Fee-earning AUM was \$33.7 billion and \$28.5 billion as of September 30, 2013 and 2012, respectively, reflecting an increase of \$5.2 billion.

Interest and other income was \$0.7 million for the three months ended September 30, 2013 as compared to \$0.5 million for the same period in 2012.

Total compensation and benefits was \$32.7 million and \$21.7 million for the three months ended September 30, 2013 and 2012, respectively. Performance fee related compensation expense was \$3.9 million and \$(1.6) million, for the three months ended September 30, 2013 and 2012, respectively. Since we only include our 55% economic interest in Claren Road, ESG and Vermillion in our segment results, the percentage of performance fee related compensation expense to performance fees is generally not a meaningful percentage for Global Market Strategies.

Direct and indirect base compensation increased \$4.9 million for the three months ended September 30, 2013 as compared to 2012, which primarily relates to the acquisition of Vermillion and higher compensation associated with fundraising activities for the business development companies, partially offset by adjustments to reflect lower expected annual bonuses.

Equity-based compensation was \$0.6 million for the three months ended September 30, 2013, an increase from \$0 for the three months ended September 30, 2012. The increase is due primarily to expense associated with grants of deferred restricted common units that occurred subsequent to the initial public offering in May 2012.

General, administrative and other indirect expenses increased \$6.1 million to \$17.8 million for the three months ended September 30, 2013 as compared to 2012. The expense increase primarily reflected higher expenses associated with fundraising activities for the business development companies.

Depreciation and amortization expense was \$1.2 million for the three months ended September 30, 2013, an increase from \$1.1 million in 2012.

Interest expense increased \$0.8 million, or 62%, for the three months ended September 30, 2013 as compared to 2012. This increase was due primarily to a higher level of outstanding borrowings and higher interest rates in 2013 as compared to 2012.

*Economic Net Income.* ENI was \$10.1 million for the three months ended September 30, 2013, a decrease of \$25.9 million from \$36.0 million for the three months ended September 30, 2012. The decrease in ENI for the three months ended September 30, 2013 as compared to 2012 was primarily driven by a decrease in net performance fees of \$19.9 million and fee related earnings of \$5.8 million.

*Fee Related Earnings.* Fee related earnings decreased \$5.8 million to \$16.6 million for the three months ended September 30, 2013 as compared to 2012. The decrease primarily was due to increases in general, administrative and other indirect expenses of \$6.1 million and increases in base compensation of \$4.9 million, partially offset by an increase in fee revenues of \$6.5 million.

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**Performance Fees.** Performance fees of \$(7.8) million and \$6.6 million for the three months ended September 30, 2013 and 2012, respectively, are inclusive of performance fees reversed of approximately \$25.6 million and \$4.7 million, respectively. Performance fees for this segment by type of fund are as follows:

	<b>Three Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(Dollars in millions)</b>	
Carry funds	\$ (1.4)	\$ 3.1
Hedge funds	(7.8)	2.9
Structured credit funds	1.4	0.6
Performance fees	<u>\$ (7.8)</u>	<u>\$ 6.6</u>

Performance fees for the three months ended September 30, 2013 were generated primarily by the hedge funds, including \$(14.8) million from the Claren Road Master Fund. Performance fees for the three months ended September 30, 2012 were generated primarily by the carry funds, including \$4.6 million of performance fees from CSP II.

Net performance fees decreased \$19.9 million to \$(11.7) million for the three months ended September 30, 2013 as compared to \$8.2 million for the same period in 2012.

**Investment Income.** Investment income was \$5.2 million for the three months ended September 30, 2013 as compared to \$5.4 million for the same period in 2012.

**Distributable Earnings.** Distributable earnings decreased \$3.5 million to \$24.2 million for the three months ended September 30, 2013 from \$27.7 million for the three months ended September 30, 2012. The decrease related primarily to a decrease in fee related earnings of \$5.8 million and realized investment income of \$2.6 million for the three months ended September 30, 2013 as compared to 2012. These decreases were partially offset by increases in realized net performance fees of \$4.3 million for the three months ended September 30, 2013 as compared to 2012.

### ***Nine Months Ended September 30, 2013 Compared to the Nine Months Ended September 30, 2012***

Total fee revenues were \$206.7 million for the nine months ended September 30, 2013, an increase of \$38.1 million from 2012. The increase was due primarily to approximately \$10.4 million of “catch-up” management fees earned from a subsequent closing of CSP III during the nine months ended September 30, 2013, an increase of \$12.5 million in management fees from the Claren Road and ESG hedge funds from greater assets under management, and \$10.7 million of incremental management fees from the acquisition of Vermillion on October 1, 2012. Also included in management fees for the nine months ended September 30, 2013 were \$7.4 million of subordinated management fees earned from two CLOs that liquidated during the period. The weighted average management fee rate on our hedge funds decreased from 1.87% at September 30, 2012 to 1.79% at September 30, 2013 due to lower rates charged on the Vermillion hedge funds. The weighted average management fee rate on our carry funds increased from 1.45% at September 30, 2012 to 1.53% at September 30, 2013 due to increased commitments to CEMOF I and CSP III, which are both currently in the investment period. Fee-earning AUM was \$33.7 billion and \$28.5 billion as of September 30, 2013 and 2012, respectively, reflecting an increase of \$5.2 billion.

Interest and other income was \$3.3 million for the nine months ended September 30, 2013 as compared to \$1.5 million for the same period in 2012.

Total compensation and benefits was \$126.8 million and \$104.5 million for the nine months ended September 30, 2013 and 2012, respectively. Performance fee related compensation expense was \$36.1 million and \$26.8 million for the nine months ended September 30, 2013 and 2012, respectively. Since we only include our 55% economic interest in Claren Road, ESG and Vermillion in our segment results, the percentage of performance fee related compensation expense to performance fees is generally not a meaningful percentage for Global Market Strategies.



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Direct and indirect base compensation increased \$11.5 million for the nine months ended September 30, 2013 as compared to 2012, which primarily relates to the acquisition of Vermillion and higher compensation associated with fundraising activities for the business development companies, partially offset by adjustments to reflect lower expected annual bonuses.

Equity-based compensation was \$1.6 million for the nine months ended September 30, 2013, an increase from \$0.1 million for the nine months ended September 30, 2012. The increase is due primarily to equity-based compensation expense for 2012 representing approximately five months of equity-based compensation expense (from the grant in May 2012 through September 30, 2012) versus nine months of compensation expense for 2013. Also contributing to the increase is expense associated with grants of deferred restricted common units that occurred subsequent to the initial public offering in May 2012.

General, administrative and other indirect expenses increased \$18.7 million to \$46.8 million for the nine months ended September 30, 2013 as compared to 2012. The expense increase primarily reflected higher expenses associated with fundraising activities for the business development companies and for carry funds.

Depreciation and amortization expense was \$3.5 million for the nine months ended September 30, 2013, an increase from \$2.5 million in 2012.

Interest expense increased \$1.8 million, or 46%, for the nine months ended September 30, 2013 as compared to 2012. This increase was due primarily to a higher level of outstanding borrowings and higher interest rates in 2013 as compared to 2012.

*Economic Net Income.* ENI was \$161.2 million for the nine months ended September 30, 2013, an increase of \$55.1 million from \$106.1 million for the nine months ended September 30, 2012. The increase in ENI for the nine months ended September 30, 2013 as compared to 2012 was primarily driven by an increase in net performance fees of \$55.2 million and an increase in fee related earnings of \$5.4 million. These increases were partially offset by a decrease in investment income of \$5.5 million.

*Fee Related Earnings.* Fee related earnings increased \$5.4 million to \$63.3 million for the nine months ended September 30, 2013 as compared to 2012. The increase was primarily due to increases in fee revenues of \$38.1 million, partially offset by increases in general, administrative and other indirect expenses of \$18.7 million and base compensation expense of \$11.5 million.

*Performance Fees.* Performance fees of \$121.5 million and \$57.0 million for the nine months ended September 30, 2013 and 2012, respectively, are inclusive of \$0.3 million and \$0.8 million of performance fees reversed. Performance fees for this segment by type of fund are as follows:

	<u>Nine Months Ended September 30,</u>	
	<u>2013</u>	<u>2012</u>
	<u>(Dollars in millions)</u>	
Carry funds	\$ 33.6	\$ 46.1
Hedge funds	84.1	9.5
Structured credit funds	3.8	1.4
Performance fees	<u>\$ 121.5</u>	<u>\$ 57.0</u>

Performance fees for the nine months ended September 30, 2013 were generated primarily by the hedge funds, including \$32.5 million from the Claren Road Master Fund and \$26.6 million from the ESG Cross Border Equity fund, as well as the carry funds, including \$30.2 million of performance fees from CSP II. Performance fees for the nine months ended September 30, 2012 were generated primarily by the carry funds, including \$44.6 million from CSP II.

Net performance fees increased \$55.2 million to \$85.4 million for the nine months ended September 30, 2013 as compared to \$30.2 million for the same period in 2012.

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**Investment Income.** Investment income was \$12.5 million for the nine months ended September 30, 2013 as compared to \$18.0 million for the same period in 2012. During the nine months ended September 30, 2013, realized investment income was \$16.1 million as compared to \$8.7 million for the nine months ended September 30, 2012. The increase in realized investment income was due primarily to a realization of a debt investment in 2013 that resulted in a gain of approximately \$10.0 million. Unrealized investment income was \$(3.6) million for the nine months ended September 30, 2013 as compared to \$9.3 million for the nine months ended September 30, 2012. The decrease in unrealized investment income was due primarily to the reclassification of the unrealized gain on the debt investment to a realized gain, as well as changes to the fair value of our investments in the equity tranches of our CLOs.

**Distributable Earnings.** Distributable earnings increased \$29.0 million to \$111.6 million for the nine months ended September 30, 2013 from \$82.6 million for the nine months ended September 30, 2012. The increase related primarily to increases in net realized performance fees of \$14.7 million, realized investment income of \$7.4 million, and fee related earnings of \$5.4 million for the nine months ended September 30, 2013 as compared to 2012.

### **Fee-earning AUM as of and for the Three and Nine Months Ended September 30, 2013 and 2012.**

Fee-earning AUM is presented below for each period together with the components of change during each respective period.

The table below breaks out Fee-earning AUM by its respective components at each period.

	As of September 30,	
	2013	2012
	(Dollars in millions)	
Global Market Strategies		
Components of Fee-earning AUM (1)		
Fee-earning AUM based on capital commitments	\$ 2,439	\$ 1,512
Fee-earning AUM based on invested capital	651	1,136
Fee-earning AUM based on collateral balances, at par	17,029	15,845
Fee-earning AUM based on net asset value	13,479	9,436
Fee-earning AUM based on lower of cost or fair value and other (2)	139	521
Balance, End of Period	<u>\$33,737</u>	<u>\$28,450</u>
Weighted Average Management Fee Rates (3)		
All Funds, excluding CLOs	1.74%	1.78%

(1) For additional information concerning the components of Fee-earning AUM, please see “—Fee-earning Assets under Management.”

(2) Includes funds with fees based on notional value and gross asset value, less cash and cash equivalents.

(3) Represents the aggregate effective management fee rate for carry funds and hedge funds, weighted by each fund’s fee-earning AUM, as of the end of each period presented. Management fees for CLOs are based on the total par amount of the assets (collateral) in the fund and are not calculated as a percentage of equity and are therefore not included.

The table below provides the period to period rollforward of Fee-earning AUM.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in millions)		(Dollars in millions)	
Global Market Strategies				
Fee-earning AUM Rollforward				
Balance, Beginning of Period	\$33,057	\$27,740	\$31,034	\$23,186
Acquisitions	—	—	—	2,866
Inflows, including Commitments (1)	138	203	473	705
Outflows, including Distributions (2)	(49)	(46)	(416)	(428)
Subscriptions, net of Redemptions (3)	423	407	1,179	1,778
Changes in CLO collateral balances	(76)	171	728	675
Market Appreciation/(Depreciation) (4)	(6)	(131)	577	(200)
Foreign Exchange and other (5)	250	106	162	(132)
Balance, End of Period	\$33,737	\$28,450	\$33,737	\$28,450

- (1) Inflows represent limited partner capital raised and capital invested by our carry funds outside the investment period.
- (2) Outflows represent limited partner distributions from our carry funds and changes in basis for our carry funds where the investment period has expired.
- (3) Represents subscriptions and redemptions in our hedge funds.
- (4) Market Appreciation/(Depreciation) represents changes in the net asset value of our hedge funds and open-end structured credit funds.
- (5) Includes funds with fees based on gross asset value, less cash and cash equivalents, and represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end.

Fee-earning AUM was \$33.7 billion at September 30, 2013, an increase of \$0.7 billion, or 2%, compared to \$33.1 billion at June 30, 2013. This increase was primarily a result of net subscriptions to our hedge funds of \$0.4 billion, foreign exchange gains of \$0.3 billion, and inflows of \$0.1 billion from limited partner commitments to CSP III. This increase was offset by decreases in the aggregate par value of our CLO collateral balances of \$0.1 billion.

Fee-earning AUM was \$33.7 billion at September 30, 2013, an increase of \$2.7 billion, or approximately 9%, compared to \$31.0 billion at December 31, 2012. This increase was primarily a result of net subscriptions to our hedge funds of \$1.2 billion, increases in the aggregate par value of our CLO collateral balances of \$0.7 billion and market appreciation of \$0.6 billion. Outflows of \$0.4 billion were primarily driven by distributions from funds outside the investment period. Distributions from carry funds still in the investment period do not impact Fee-earning AUM as these funds are based on commitments and not invested capital.

Fee-earning AUM was \$33.7 billion at September 30, 2013, an increase of \$5.3 billion, or approximately 19%, compared to \$28.5 billion at September 30, 2012. This increase was driven by the acquisition of a 55% equity interest in Vermillion Asset Management, additional closes in CEMOF I and CSP III, and net subscriptions to our existing hedge funds.

Fee-earning AUM was \$28.5 billion at September 30, 2012, an increase of \$0.8 billion, or 3%, compared to \$27.7 billion at June 30, 2012. This increase was primarily a result of \$0.4 billion of subscriptions, net of redemptions in our hedge funds, \$0.2 billion of new commitments raised by our carry funds, and a \$0.2 billion increase in the aggregate par value of our CLO collateral balances due to the launch of a \$0.6 billion new-issue CLO.

Fee-earning AUM was \$28.5 billion at September 30, 2012, an increase of \$5.3 billion, or 23%, compared to \$23.2 billion at December 31, 2011. This increase was primarily a result of the \$2.9 billion acquisition of four CLO management contracts from Highland Capital Management, L.P. Additionally, we had subscriptions, net of redemptions, of \$1.8 billion in our hedge funds and \$0.7 billion in new commitments to our carry funds. The aggregate par value of our CLO collateral balances increased \$0.7 billion due to the launch of three new-issue CLOs totaling \$1.6 billion. These increases were offset by outflows of \$0.4 billion due to distributions from our fully invested carry funds, and \$0.2 billion of market depreciation in our hedge funds.

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### **Total AUM as of and for the Three and Nine Months Ended September 30, 2013.**

The table below provides the period to period rollforwards of Available Capital and Fair Value of Capital, and the resulting rollforward of Total AUM.

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Available Capital	Fair Value of Capital	Total AUM	Available Capital	Fair Value of Capital	Total AUM
	(Dollars in millions)			(Dollars in millions)		
<b>Global Market Strategies</b>						
Balance, Beginning of Period	\$ 1,797	\$ 32,946	\$34,743	\$ 1,820	\$ 30,722	\$32,542
Commitments (1)	(14)	—	(14)	259	—	259
Capital Called, net (2)	(184)	309	125	(548)	704	156
Distributions (3)	41	(133)	(92)	109	(861)	(752)
Subscriptions, net of Redemptions (4)	—	419	419	—	1,290	1,290
Changes in CLO collateral balances (5)	—	(52)	(52)	—	819	819
Market Appreciation/(Depreciation) (6)	—	31	31	—	936	936
Foreign Exchange and other (7)	—	260	260	—	170	170
<b>Balance, End of Period (8)</b>	<b>\$ 1,640</b>	<b>\$ 33,780</b>	<b>\$35,420</b>	<b>\$ 1,640</b>	<b>\$ 33,780</b>	<b>\$35,420</b>

- (1) Represents capital raised by our carry funds, net of expired available capital.
- (2) Represents capital called by our carry funds, net of fund fees and expenses. Equity Invested amounts may vary from Capital Called due to timing differences between acquisition and capital call dates.
- (3) Represents distributions from our carry funds, net of amounts recycled. Distributions are based on when proceeds are actually distributed to investors, which may differ from when they are realized.
- (4) Represents the net result of subscriptions to and redemptions from our hedge funds.
- (5) Represents the net change in the aggregate collateral balance and principal cash at par of the CLOs.
- (6) Market Appreciation/(Depreciation) represents realized and unrealized gains (losses) on portfolio investments and changes in the net asset value of our hedge funds.
- (7) Represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds and other changes in Total AUM. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end.
- (8) Ending balance is comprised of approximately \$17.5 billion from our structured credit funds, \$14.0 billion in our hedge funds, \$3.6 billion (including \$1.6 billion of Available Capital) in our carry funds, and \$0.2 billion from our business development companies.

Total AUM was \$35.4 billion at September 30, 2013, an increase of \$0.7 billion, or approximately 2%, compared to \$34.7 billion at June 30, 2013. This increase was driven by net subscriptions to our hedge funds of \$0.4 billion, \$0.3 billion of foreign exchange gain and \$0.1 billion of capital calls, net of recycled capital, in our carry funds. These increases were partially offset by distributions of \$0.1 billion from our carry funds.

Total AUM was \$35.4 billion at September 30, 2013, an increase of \$2.9 billion, or approximately 9%, compared to \$32.5 billion at December 31, 2012. This increase was driven by net subscriptions to our hedge funds of \$1.3 billion, an increase of \$0.8 billion in the par value of our CLO collateral balances due to the launch of five new-issue CLOs totaling \$2.7 billion, as well as market appreciation of \$0.9 billion. These increases were partially offset by distributions of \$0.8 billion from our carry funds.

### **Fund Performance Metrics**

Fund performance information for certain of our Global Market Strategies Funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund return information reflected in this discussion and analysis is not indicative of the performance of The Carlyle Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Carlyle Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

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The following tables reflect the performance of certain funds in our Global Market Strategies business. These tables separately present funds that, as of the periods presented, had at least \$1.0 billion in capital commitments, cumulative equity invested or total equity value. Please see “— Our Family of Funds” for a legend of the fund acronyms listed below.

	Fund Inception Date(1)	Committed Capital	TOTAL INVESTMENTS				
			as of September 30, 2013			Inception to September 30, 2013	
			Cumulative Invested Capital(2)	Total Fair Value(3)	MOIC(4)	Gross IRR(5)	Net IRR(6)
			(Reported in Local Currency, in Millions)				
			Global Market Strategies				
CSP II	6/2007	\$ 1,352.3	\$ 1,352.3	\$2,418.8	1.8x	18%	13%
CEMOF I	12/2010	\$ 1.382.5	\$ 489.0	\$ 589.0	1.2x	27%	9%

- (1) The data presented herein that provides “inception to date” performance results of our segments relates to the period following the formation of the first fund within each segment. For our Global Market Strategies segment, CSP II was formed in 2007 and CEMOF I was formed in 2010.
- (2) Represents the original cost of investments net of investment level recallable proceeds which is adjusted to reflect recyclability of invested capital for the purpose of calculating the fund MOIC.
- (3) Represents all realized proceeds combined with remaining fair value, before management fees, expenses and carried interest.
- (4) Multiple of invested capital (“MOIC”) represents total fair value, before management fees, expenses and carried interest, divided by cumulative invested capital.
- (5) Gross Internal Rate of Return (“Gross IRR”) represents the annualized IRR for the period indicated on Limited Partner invested capital based on contributions, distributions and unrealized value before management fees, expenses and carried interest.
- (6) Net Internal Rate of Return (“Net IRR”) represents the annualized IRR for the period indicated on Limited Partner invested capital based on contributions, distributions and unrealized value after management fees, expenses and carried interest.

The following table reflects the performance of the Claren Road Master Fund and the Claren Road Opportunities Fund, which had AUM of approximately \$5.8 billion and \$2.0 billion, respectively, as of September 30, 2013:

	1 Year (2)	3-Year (2)	5-Year (2)	Inception (3)
<b>Net Annualized Return (1)</b>				
Claren Road Master Fund	2%	4%	9%	9%
Claren Road Opportunities Fund	4%	5%	n/a	14%
Barclays Aggregate Bond Index	4%	6%	6%	5%
<b>Volatility (4)</b>				
Claren Road Master Fund Standard Deviation (Annualized)	4%	4%	4%	4%
Claren Road Opportunities Fund Standard Deviation (Annualized)	5%	6%	n/a	7%
Barclays Aggregate Bond Index Standard Deviation (Annualized)	2%	2%	4%	3%
<b>Sharpe Ratio (1M LIBOR) (5)</b>				
Claren Road Master Fund	0.36	1.04	1.92	1.82
Claren Road Opportunities Fund	0.64	1.23	n/a	1.72
Barclays Aggregate Bond Index	1.99	2.46	1.48	0.95

- (1) For the Claren Road funds, net annualized return is presented for fee-paying investors only on a total return basis, net of all fees and expenses. The Barclays Aggregate Bond Index is a market-value weighted, intermediate-term bond index of over 8,400 intermediate-term government bonds, investment grade corporate debt securities and mortgage-backed securities. This index is an unmanaged statistical composite and its returns do not include payment of any sales charge or fees an investor would pay to purchase the securities the index represents, which would lower performance if taken into account. The index results are shown for illustrative purposes only.
- (2) As of December 31, 2012.
- (3) The Claren Road Master Fund was established in January 2006. The Claren Road Opportunities Fund was established in April 2008. Performance is from inception through September 30, 2013.
- (4) Volatility is the annualized standard deviation of monthly net investment returns.
- (5) The Sharpe Ratio compares the historical excess return on an investment over the risk free rate of return with its historical annualized volatility.

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The following table reflects the performance of the ESG Cross Border Equity Master Fund Ltd., which had AUM of approximately \$3.4 billion as of September 30, 2013:

	<u>1 Year (2)</u>	<u>3-Year (2)</u>	<u>5-Year (2)</u>	<u>Inception (3)</u>
<b>Net Annualized Return (1)</b>				
CBE	7%	9%	2%	6%
MSCI EM index	18%	5%	(1%)	4%
<b>Volatility (4)</b>				
CBE Standard Deviation (Annualized)	6%	6%	8%	7%
MSCI EM index Standard Deviation (Annualized)	20%	22%	29%	26%
<b>Sharpe Ratio (1M LIBOR) (5)</b>				
CBE	1.11	1.57	0.21	0.66
MSCI EM index	0.94	0.22	(0.04)	0.12

- (1) For the CBE fund, net annualized return is presented on a total return basis, net of all fees and expenses. The MSCI EM Index comprises large and mid-cap securities across 21 emerging markets countries. This index is an unmanaged statistical composite and its returns do not include payment of any sales charges or fees an investor would pay to purchase the securities the index represents, which would lower performance if taken into account. The index results are shown for illustrative purposes only.
- (2) As of December 31, 2012.
- (3) The CBE Fund was established in January 2007. Performance is from inception through September 30, 2013.
- (4) Volatility is the annualized standard deviation of monthly net investment returns.
- (5) The Sharpe Ratio compares the historical excess return on an investment over the risk free rate of return with its historical annualized volatility.

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**Real Assets**

For purposes of presenting results of operations for this segment, our earnings from our investment in NGP Management are presented in the respective operating captions. The following table presents our results of operations for our Real Assets segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
<b>Segment Revenues</b>				
Fund level fee revenues				
Fund management fees	\$ 47.3	\$ 34.4	\$ 140.7	\$ 105.1
Portfolio advisory fees, net	0.2	0.7	0.8	2.6
Transaction fees, net	0.2	0.7	2.9	3.9
Total fund level fee revenues	47.7	35.8	144.4	111.6
Performance fees				
Realized	12.5	31.9	44.1	82.1
Unrealized	12.1	(27.7)	28.2	(1.3)
Total performance fees	24.6	4.2	72.3	80.8
Investment income (loss)				
Realized	(4.3)	0.2	(16.6)	(0.1)
Unrealized	(10.9)	4.0	(4.7)	8.5
Total investment income (loss)	(15.2)	4.2	(21.3)	8.4
Interest and other income	0.4	0.4	1.3	1.2
Total revenues	57.5	44.6	196.7	202.0
<b>Segment Expenses</b>				
Compensation and benefits				
Direct base compensation	17.1	16.1	53.2	51.2
Indirect base compensation	7.9	5.7	21.8	17.7
Equity-based compensation	1.2	0.2	3.0	0.3
Performance fee related				
Realized	3.8	2.5	0.5	4.9
Unrealized	11.1	5.3	37.6	13.3
Total compensation and benefits	41.1	29.8	116.1	87.4
General, administrative, and other indirect expenses	12.8	11.4	39.7	34.2
Depreciation and amortization expense	1.0	1.1	3.3	2.8
Interest expense	2.2	0.7	6.0	3.7
Total expenses	57.1	43.0	165.1	128.1
<b>Economic Net Income</b>	<b>\$ 0.4</b>	<b>\$ 1.6</b>	<b>\$ 31.6</b>	<b>\$ 73.9</b>
(-) Net Performance Fees	9.7	(3.6)	34.2	62.6
(-) Investment Income	(15.2)	4.2	(21.3)	8.4
<b>(=) Fee Related Earnings</b>	<b>\$ 5.9</b>	<b>\$ 1.0</b>	<b>\$ 18.7</b>	<b>\$ 2.9</b>
(+) Realized Net Performance Fees	8.7	29.4	43.6	77.2
(+) Realized Investment Income	(4.3)	0.2	(16.6)	(0.1)
(+) Equity-based Compensation	1.2	0.2	3.0	0.3
<b>(=) Distributable Earnings</b>	<b>\$ 11.5</b>	<b>\$ 30.8</b>	<b>\$ 48.7</b>	<b>\$ 80.3</b>

***Three Months Ended September 30, 2013 Compared to the Three Months Ended September 30, 2012***

Total fee revenues were \$47.7 million for the three months ended September 30, 2013, an increase of \$11.9 million from the three months ended September 30, 2012. The increase in total fee revenues reflects an increase in fund management fees of \$12.9 million, partially offset by declines in net transaction fees and portfolio advisory fees of \$1.0 million. The increase in fund management fees primarily reflects our share of management fees from NGP Management totaling \$15.8 million for the three months ended September 30, 2013. This increase was partially offset by declines in management fees due to the change in basis from commitments to invested capital for our infrastructure fund in 2013. The weighted average management fee rate was 1.19% at September 30, 2013 compared to 1.18% at September 30, 2012. Fee-earning AUM was \$28.5 billion and \$19.5 billion as of September 30, 2013 and 2012, respectively, reflecting an increase of \$9.0 billion.

Interest and other income was \$0.4 million for the three months ended September 30, 2013 and 2012.

Total compensation and benefits was \$41.1 million and \$29.8 million for the three months ended September 30, 2013 and 2012, respectively. Performance fee related compensation expense was \$14.9 million and \$7.8 million for the three months ended September 30, 2013 and 2012, respectively. Performance fees earned from the Legacy Energy funds are allocated solely to Carlyle and are not otherwise shared or allocated with our investment professionals. To date, performance fee related compensation expense in Real Assets reflects amounts earned primarily by our real estate investment professionals as we generally incur no compensation expense for the Legacy Energy funds and we have not yet generated any performance fees or related compensation from our infrastructure fund. Accordingly, performance fee compensation as a percentage of performance fees is generally not a meaningful percentage for Real Assets.

Direct and indirect base compensation was \$25.0 million for the three months ended September 30, 2013 as compared to \$21.8 million for the same period in 2012.

Equity-based compensation was \$1.2 million for the three months ended September 30, 2013, an increase from \$0.2 million for the three months ended September 30, 2012. The increase is due primarily to expense associated with grants of deferred restricted common units that occurred subsequent to the initial public offering in May 2012.

General, administrative and other indirect compensation increased \$1.4 million to \$12.8 million for the three months ended September 30, 2013 as compared to 2012. The increase primarily relates to expenses from NGP Management.

Depreciation and amortization expense was \$1.0 million for the three months ended September 30, 2013, a decline from \$1.1 million in 2012.

Interest expense increased \$1.5 million, or 214%, for the three months ended September 30, 2013 as compared to 2012. This increase was due primarily to a higher level of outstanding borrowings and higher interest rates in 2013 as compared to 2012.

*Economic Net Income.* ENI was \$0.4 million for the three months ended September 30, 2013, a decline of \$1.2 million from \$1.6 million for the same period in 2012. The decline in ENI for the three months ended September 30, 2013 as compared to 2012 was primarily driven by a decline in investment income of \$19.4 million, partially offset by increases in net performance fees of \$13.3 million and fee related earnings of \$4.9 million.

*Fee Related Earnings.* Fee related earnings increased \$4.9 million for the three months ended September 30, 2013 as compared to 2012 to \$5.9 million. The increase in fee related earnings is primarily attributable to an increase in fee revenues of \$11.9 million, partially offset by increases in base compensation of \$3.2 million, interest expense of \$1.5 million, and general, administrative, and other indirect expenses of \$1.4 million.



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**Performance Fees.** Performance fees of \$24.6 million and \$4.2 million for the three months ended September 30, 2013 and 2012, respectively, are inclusive of performance fees reversed of approximately \$14.3 million and \$16.9 million, respectively. Performance fees for this segment by type of fund are as follows:

	<b>Three Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(Dollars in millions)</b>	
Energy funds	\$ (6.3)	\$ (13.9)
Real Estate funds	30.9	18.1
Performance fees	<u>\$ 24.6</u>	<u>\$ 4.2</u>

Performance fees for the three months ended September 30, 2013 were primarily driven by performance fees related to our sixth U.S. real estate fund (“CRP VI”) of \$23.7 million. Investments in our Real Assets portfolio appreciated 1% during the three months ended September 30, 2013, with energy investments remaining flat and real estate investments appreciating 3%. This compares to investments in our Real Assets portfolio remaining flat overall during the three months ended September 30, 2012, with energy investments declining 3% and real estate investments appreciating 5%. Performance fees for the three months ended September 30, 2012 were primarily driven by performance fees related to several of our real estate funds, partially offset by negative performance fees related to several of our energy funds, including our second Legacy Energy fund (“Energy II”) of \$(6.9) million and our third Legacy Energy fund (“Energy III”) (including co-investments) of \$(6.2) million.

Net performance fees for the three months ended September 30, 2013 were \$9.7 million, representing an increase of \$13.3 million from \$(3.6) million in net performance fees for the three months ended September 30, 2012.

**Investment Income (Loss).** Investment loss was \$15.2 million for the three months ended September 30, 2013 compared to investment income of \$4.2 million for the same period in 2012. The decline in investment income was due primarily to investment losses on the investment in Urbplan and investments in certain European real estate funds.

**Distributable Earnings.** Distributable earnings declined \$19.3 million to \$11.5 million for the three months ended September 30, 2013 from \$30.8 million for the same period in 2012. The decline was primarily due to declines in realized net performance fees of \$20.7 million and realized investment income of \$4.5 million, partially offset by an increase in fee related earnings of \$4.9 million.

### ***Nine Months Ended September 30, 2013 Compared to the Nine Months Ended September 30, 2012***

Total fee revenues were \$144.4 million for the nine months ended September 30, 2013, an increase of \$32.8 million from the nine months ended September 30, 2012. The increase in total fee revenues reflects an increase in fund management fees of \$35.6 million, partially offset by a decline in net portfolio advisory and transaction fees of \$2.8 million. The increase in fund management fees primarily reflects our share of management fees from NGP Management totaling \$47.6 million for the nine months ended September 30, 2013. This increase was partially offset by declines in management fees due to the change in basis from commitments to invested capital for our infrastructure fund in 2013 and from distributions from real estate funds outside of their investment period. The weighted average management fee rate was 1.19% at September 30, 2013, a slight increase from 1.18% at September 30, 2012. Fee-earning AUM was \$39.0 billion and \$29.5 billion as of September 30, 2013 and 2012, respectively, reflecting an increase of \$10.5 billion.

Interest and other income was \$1.3 million for the nine months ended September 30, 2013, an increase from \$1.2 million for the same period in 2012.

Total compensation and benefits was \$116.1 million and \$87.4 million for the nine months ended September 30, 2013 and 2012, respectively. Performance fee related compensation expense was \$38.1 million and \$18.2 million for the nine months ended September 30, 2013 and 2012, respectively. Performance fees earned from the Legacy Energy funds are allocated solely to Carlyle and are not otherwise shared or allocated with our investment professionals. To date, performance fee related compensation expense in Real Assets reflects amounts earned primarily by our real estate investment professionals as we generally incur no compensation expense for the Legacy Energy funds and we have not yet generated any performance fees or related compensation from our infrastructure fund. Accordingly, performance fee compensation as a percentage of performance fees is generally not a meaningful percentage for Real Assets.

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Direct and indirect base compensation was \$75.0 million for the nine months ended September 30, 2013 as compared to \$68.9 million for the same period in 2012.

Equity-based compensation was \$3.0 million for the nine months ended September 30, 2013, an increase from \$0.3 million for the nine months ended September 30, 2012. The increase is due primarily to equity-based compensation expense for 2012 representing approximately five months of equity-based compensation expense (from the grant in May 2012 through September 30, 2012) versus nine months of compensation expense for 2013. Also contributing to the increase is expense associated with grants of deferred restricted common units that occurred subsequent to the initial public offering in May 2012.

General, administrative and other indirect expenses increased \$5.5 million to \$39.7 million for the nine months ended September 30, 2013 as compared to 2012. The increase primarily relates to an increase in professional fees as well as expenses from NGP Management.

Depreciation and amortization expense was \$3.3 million for the nine months ended September 30, 2013, an increase from \$2.8 million in 2012.

Interest expense increased \$2.3 million, or 62%, for the nine months ended September 30, 2013 as compared to 2012. This increase was due primarily to a higher level of outstanding borrowings and higher interest rates in 2013 as compared to 2012.

*Economic Net Income.* ENI was \$31.6 million for the nine months ended September 30, 2013, a decline of \$42.3 million from \$73.9 million for the same period in 2012. The decline in ENI for the nine months ended September 30, 2013 as compared to 2012 was primarily driven by declines in net performance fees of \$28.4 million and investment income of \$29.7 million, partially offset by increases in fee related earnings of \$15.8 million.

*Fee Related Earnings.* Fee related earnings increased \$15.8 million for the nine months ended September 30, 2013 as compared to 2012 to \$18.7 million. The increase in fee related earnings is primarily attributable to an increase in fee revenues of \$32.8 million, partially offset by increases in general, administrative, and other indirect expenses of \$5.5 million, base compensation of \$6.1 million, and interest expense of \$2.3 million.

*Performance Fees.* Performance fees of \$72.3 million and \$80.8 million for the nine months ended September 30, 2013 and 2012, respectively, are inclusive of performance fees reversed of approximately \$16.8 million and \$2.4 million, respectively. Performance fees for this segment by type of fund are as follows:

	Nine Months Ended September 30,	
	2013	2012
	(Dollars in millions)	
Energy funds	\$ (9.9)	\$ 43.8
Real Estate funds	82.2	37.0
Performance fees	<u>\$ 72.3</u>	<u>\$ 80.8</u>

Performance fees for the nine months ended September 30, 2013 were primarily driven by performance fees related to CRP VI of \$60.0 million. Investments in our Real Assets portfolio appreciated 2% during the nine months ended September 30, 2013, with energy investments appreciating 1% and real estate investments appreciating 4%. This compares to an 8% increase during the nine months ended September 30, 2012, with energy investments appreciating 6% and real estate investments appreciating 12%. Performance fees for the nine months ended September 30, 2012 were primarily driven by performance fees related to our Legacy Energy funds, including Energy III (including co-investments) of \$22.3 million and Energy II (including co-investments) of \$9.7 million, and our third U.S. real estate fund ("CRP III") of \$12.3 million.

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Net performance fees for the nine months ended September 30, 2013 were \$34.2 million, representing a decline of \$28.4 million from \$62.6 million in net performance fees for the nine months ended September 30, 2012.

*Investment Income (Loss).* Investment loss was \$21.3 million for the nine months ended September 30, 2013 compared to investment income of \$8.4 million for the same period in 2012. The decline in investment income was due primarily to investment losses on the investment in Urbplan and investments in certain European real estate funds.

*Distributable Earnings.* Distributable earnings declined \$31.6 million to \$48.7 million for the nine months ended September 30, 2013 from \$80.3 million for the same period in 2012. The decline was due to declines in realized net performance fees of \$33.6 million and realized investment income of \$16.5 million, partially offset by an increase in fee related earnings of \$15.8 million for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012.

### **Fee-earning AUM as of and for the Three and Nine Months Ended September 30, 2013 and 2012.**

Fee-earning AUM is presented below for each period together with the components of change during each respective period.

The table below breaks out Fee-earning AUM by its respective components at each period.

	As of September 30,	
	2013	2012
	(Dollars in millions)	
Real Assets		
Components of Fee-earning AUM		
Fee-earning AUM based on capital commitments (1)	\$ 9,520	\$ 6,726
Fee-earning AUM based on invested capital (2)	18,501	12,845
Fee-earning AUM based on other (3)	509	—
Balance, End of Period (4)	<u>\$28,530</u>	<u>\$19,571</u>
Weighted Average Management Fee Rates (5)		
All Funds	1.19%	1.18%
Funds in Investment Period	1.26%	1.32%

(1) For additional information concerning the components of Fee-earning AUM, please see “—Fee-earning Assets under Management.”

(2) Includes amounts committed to or reserved for investments for certain real estate funds.

(3) Includes certain funds that are calculated on gross asset value.

(4) Energy I, Energy II, Energy III, Energy IV, Renew I, and Renew II (collectively, the “Legacy Energy Funds”), are managed with Riverstone Holdings LLC and its affiliates. Affiliates of both Carlyle and Riverstone act as investment advisers to each of the Legacy Energy Funds. With the exception of Energy IV and Renew II, where Carlyle has a minority representation on the funds’ management committees, management of each of the Legacy Energy Funds is vested in committees with equal representation by Carlyle and Riverstone, and the consent of representatives of both Carlyle and Riverstone are required for investment decisions. As of September 30, 2013, the Legacy Energy Funds had, in the aggregate, approximately \$13.0 billion in AUM and \$8.5 billion in Fee-earning AUM. NGP VII, NGP VIII, NGP IX, NGP X, or in the case of NGP M&R, NGP ETP I, NGP ETP II, and NGPC, certain affiliated entities (collectively, the “NGP management fee funds”), are managed by NGP Energy Capital Management. As of September 30, 2013, the NGP management fee funds had, in the aggregate, approximately \$11.8 billion in AUM and \$9.6 billion in Fee-earning AUM.

(5) Represents the aggregate effective management fee rate of each fund in the segment, weighted by each fund’s Fee-earning AUM, as of the end of each period presented. Calculation reflects Carlyle’s 10% and 47.5% interest in management fees earned by the Legacy Energy funds and the NGP management fee funds, respectively.

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The table below provides the period to period rollforward of Fee-earning AUM.

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(Dollars in millions)		(Dollars in millions)	
<b>Real Assets</b>				
<b>Fee-earning AUM Rollforward</b>				
Balance, Beginning of Period	\$28,685	\$19,528	\$29,305	\$22,172
Inflows, including Commitments (1)	680	327	1,678	1,504
Outflows, including Distributions (2)	(963)	(347)	(2,446)	(4,126)
Foreign Exchange and other (3)	128	63	(7)	21
<b>Balance, End of Period</b>	<b>\$28,530</b>	<b>\$19,571</b>	<b>\$28,530</b>	<b>\$19,571</b>

- (1) Inflows represent limited partner capital raised and capital invested by funds outside the investment period.
- (2) Outflows represent distributions from funds outside the investment period and changes in basis for our carry funds where the investment period has expired.
- (3) Represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end.

Fee-earning AUM was \$28.5 billion at September 30, 2013, a decrease of \$0.2 billion, or less than 1%, compared to \$28.7 billion at June 30, 2013. This decrease was driven by outflows of \$1.0 billion, primarily a result of distributions from our fully invested real estate funds, Legacy and NGP Energy funds and related co-investments, as well as foreign exchange losses of \$0.1 billion. This decrease is offset by inflows of \$0.7 billion, primarily related to commitments to our new International Energy ("CIEP I") fund and investment activity in our real estate funds outside of the investment period. Investment and distribution activity by funds still in the investment period do not impact Fee-earning AUM as these funds are based on commitments and not invested capital. Changes in fair value have no impact on Fee-earning AUM for Real Assets as substantially all of the funds generate management fees based on either commitments or invested capital at cost, neither of which is impacted by fair value movements.

Fee-earning AUM was \$28.5 billion at September 30, 2013, a decrease of \$0.8 billion compared to \$29.3 billion at December 31, 2012. Outflows of \$2.4 billion were primarily related to distributions from our fully invested real estate funds, Legacy and NGP Energy funds and related co-investments. Offsetting this decrease were inflows of \$1.7 billion, principally a result of investment activity in our real estate funds outside of the investment period.

Fee-earning AUM was \$28.5 billion at September 30, 2013, an increase of \$9.0 billion, or approximately 46%, compared to \$19.6 billion at September 30, 2012. This increase was primarily related to the acquisition of an equity interest in NGP, offset by the change in basis of our infrastructure fund ("CIP I") and our fourth Legacy Energy fund ("Energy IV"), along with distributions from our fully invested real estate funds and related co-investments.

Fee-earning AUM was \$19.6 billion at September 30, 2012, an increase of \$0.1 billion, or less than 1%, compared to \$19.5 billion at June 30, 2012. Inflows of \$0.3 billion were primarily related to investment activity in both our energy funds and several of our real estate funds in the U.S., Europe and Asia. Outflows of \$0.3 billion were principally due to distributions from our fully invested energy funds, and U.S. real estate funds and related co-investments.

Fee-earning AUM was \$19.6 billion at September 30, 2012, a decrease of \$2.6 billion, or nearly 12%, compared to \$22.2 billion at December 31, 2011. Outflows of \$4.1 billion were principally due to the completion of the investment period of one of our energy funds (Energy IV), resulting in a change in basis from commitments to invested equity, in addition to distributions from our fully invested energy funds, U.S. and Europe real estate funds and related co-investments. Inflows of \$1.5 billion were primarily related to follow-on investment activity by funds across both our real estate and energy portfolios that are outside of their investment period.

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### **Total AUM as of and for the Three and Nine Months Ended September 30, 2013.**

The table below provides the period to period rollforwards of Available Capital and Fair Value of Capital, and the resulting rollforward of Total AUM.

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Available Capital	Fair Value of Capital	Total AUM	Available Capital	Fair Value of Capital	Total AUM
	(Dollars in millions)			(Dollars in millions)		
<b>Real Assets</b>						
Balance, Beginning of Period	\$ 9,189	\$ 30,580	\$39,769	\$ 9,944	\$ 30,250	\$40,194
Commitments (1)	790	—	790	1,505	—	1,505
Capital Called, net (2)	(1,119)	1,318	199	(2,875)	2,959	84
Distributions (3)	235	(2,618)	(2,383)	529	(4,827)	(4,298)
Market Appreciation/(Depreciation) (4)	—	468	468	—	1,533	1,533
Foreign Exchange and other (5)	18	129	147	10	(38)	(28)
<b>Balance, End of Period (6)</b>	<b>\$ 9,113</b>	<b>\$ 29,877</b>	<b>\$38,990</b>	<b>\$ 9,113</b>	<b>\$ 29,877</b>	<b>\$38,990</b>

- (1) Represents capital raised by our carry funds, net of expired available capital.
- (2) Represents capital called by our carry funds, net of fund fees and expenses. Equity Invested amounts may vary from Capital Called due to timing differences between acquisition and capital call dates.
- (3) Represents distributions from our carry funds, net of amounts recycled. Distributions are based on when proceeds are actually distributed to investors, which may differ from when they are realized.
- (4) Market Appreciation/(Depreciation) represents realized and unrealized gains (losses) on portfolio investments.
- (5) Represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end.
- (6) Amounts related to the NGP funds are based on the latest available information (in most cases as of June 30, 2013).

Total AUM was \$39.0 billion at September 30, 2013, a decrease of \$0.8 billion, or approximately 2%, compared to \$39.8 billion at June 30, 2013. This decrease was driven by distributions of \$2.4 billion, offset by \$0.8 billion of new commitments to CIEP and co-investment amounts related to our Asia real estate funds, and \$0.5 billion of market appreciation.

Total AUM was \$39.0 billion at September 30, 2013, a decrease of \$1.2 billion, or approximately 3%, compared to \$40.2 billion at December 31, 2012. This decrease was driven by \$4.3 billion of distributions from our real estate funds and Legacy Energy funds. This was offset by \$1.5 billion of new commitments and \$1.5 billion of market appreciation.

### **Fund Performance Metrics**

Fund performance information for our investment funds that have at least \$1.0 billion in capital commitments, cumulative equity invested or total value as of September 30, 2013, which we refer to as our “significant funds,” is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund return information reflected in this discussion and analysis is not indicative of the performance of The Carlyle Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Carlyle Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns. The following tables reflect the performance of our significant funds in our Real Assets business. Please see “— Our Family of Funds” for a legend of the fund acronyms listed below.

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	Fund Inception Date(1)	Committed Capital	TOTAL INVESTMENTS as of September 30, 2013					REALIZED/PARTIALLY REALIZED INVESTMENTS(5) as of September 30, 2013			
			Cumulative Invested Capital(2)	Total Fair Value(3)	MOIC(4)	Gross IRR(7)	Net IRR(8)	Cumulative Invested Capital(2)	Total Fair Value(3)	MOIC(4)	Gross IRR(7)
(Reported in Local Currency, in Millions)											
Real Assets											
Fully Invested Funds(6)											
CRP III	11/2000	\$ 564.1	\$ 522.5	\$ 1,396.7	2.7x	44%	30%	\$ 522.5	\$ 1,396.7	2.7x	44%
CRP IV	12/2004	\$ 950.0	\$ 1,186.2	\$ 1,237.2	1.0x	1%	(3%)	\$ 442.0	\$ 466.1	1.1x	10%
CRP V	11/2006	\$ 3,000.0	\$ 3,259.1	\$ 4,576.8	1.4x	11%	7%	\$ 2,357.4	\$ 3,405.1	1.4x	13%
CEREP I	3/2002	€ 426.6	€ 517.0	€ 741.6	1.4x	13%	7%	€ 503.2	€ 739.1	1.5x	14%
CEREP II	4/2005	€ 762.7	€ 826.9	€ 106.3	0.1x	n/a	n/a	€ 416.6	€ 120.1	0.3x	n/a
CEREP III	5/2007	€ 2,229.5	€ 1,900.6	€ 1,879.5	1.0x	0%	(5%)	€ 83.7	€ 50.4	0.6x	(15%)
CIP	9/2006	\$ 1,143.7	\$ 911.7	\$ 989.2	1.1x	3%	(2%)	\$ 180.7	\$ —	0.0x	n/a
Energy II	7/2002	\$ 1,100.0	\$ 1,334.8	\$ 3,616.2	2.7x	81%	54%	\$ 827.4	\$ 3,354.0	4.1x	105%
Energy III	10/2005	\$ 3,800.0	\$ 3,559.9	\$ 6,620.7	1.9x	15%	11%	\$ 1,545.4	\$ 4,396.6	2.8x	27%
Energy IV	12/2007	\$ 5,979.1	\$ 5,171.5	\$ 8,188.9	1.6x	20%	13%	\$ 1,997.1	\$ 4,090.2	2.0x	31%
All Other Funds(9)	Various		\$ 2,289.6	\$ 2,309.8	1.0x	0%	(5%)	\$ 1,484.1	\$ 1,699.4	1.1x	8%
Coinvestments and Other(10)	Various		\$ 4,286.9	\$ 7,089.5	1.7x	20%	15%	\$ 1,828.8	\$ 4,001.5	2.2x	28%
Total Fully Invested Funds			\$ 26,912.8	\$ 39,715.5	1.5x	15%	9%	\$ 12,543.1	\$ 24,040.6	1.9x	26%
Funds in the Investment Period(6)											
CRP VI	9/2010	\$ 2,340.0	\$ 1,100.7	\$ 1,525.7	1.4x	33%	19%				
Renew II	3/2008	\$ 3,417.5	\$ 2,779.0	\$ 3,758.5	1.4x	13%	8%				
All Other Funds(11)	Various		\$ 360.7	\$ 428.6	1.2x	29%	21%				
Total Funds in the Investment Period			\$ 4,240.4	\$ 5,712.7	1.3x	15%	9%	\$ 714.0	\$ 1,018.9	1.4x	16%
TOTAL REAL ASSETS(12)			\$ 31,153.2	\$ 45,428.2	1.5x	15%	9%	\$ 13,257.1	\$ 25,059.4	1.9x	26%

- The data presented herein that provides “inception to date” performance results of our segments relates to the period following the formation of the first fund within each segment. For our Real Assets segment our first fund was formed in 1997.
- Represents the original cost of all capital called for investments since inception of the fund.
- Represents all realized proceeds combined with remaining fair value, before management fees, expenses and carried interest.
- Multiple of invested capital (“MOIC”) represents total fair value, before management fees, expenses and carried interest, divided by cumulative invested capital.
- An investment is considered realized when the investment fund has completely exited, and ceases to own an interest in, the investment. An investment is considered partially realized when the total amount of proceeds received in respect of such investment, including dividends, interest or other distributions and/or return of capital, represents at least 85% of invested capital and such investment is not yet fully realized. Because part of our value creation strategy involves pursuing best exit alternatives, we believe information regarding Realized/Partially Realized MOIC and Gross IRR, when considered together with the other investment performance metrics presented, provides investors with meaningful information regarding our investment performance by removing the impact of investments where significant realization activity has not yet occurred. Realized/Partially Realized MOIC and Gross IRR have limitations as measures of investment performance, and should not be considered in isolation. Such limitations include the fact that these measures do not include the performance of earlier stage and other investments that do not satisfy the criteria provided above. The exclusion of such investments will have a positive impact on Realized/Partially Realized MOIC and Gross IRR in instances when the MOIC and Gross IRR in respect of such investments are less than the aggregate MOIC and Gross IRR. Our measurements of Realized/Partially Realized MOIC and Gross IRR may not be comparable to those of other companies that use similarly titled measures. We do not present Realized/Partially Realized performance information separately for funds that are still in the investment period because of the relatively insignificant level of realizations for funds of this type. However, to the extent such funds have had realizations, they are included in the Realized/Partially Realized performance information presented for Total Real Assets.
- Fully Invested funds are past the expiration date of the investment period as defined in the respective limited partnership agreement. In instances where a successor fund has had its first capital call, the predecessor fund is categorized as fully invested.
- Gross Internal Rate of Return (“Gross IRR”) represents the annualized IRR for the period indicated on Limited Partner invested capital based on contributions, distributions and unrealized value before management fees, expenses and carried interest.
- Net Internal Rate of Return (“Net IRR”) represents the annualized IRR for the period indicated on Limited Partner invested capital based on contributions, distributions and unrealized value after management fees, expenses and carried interest.
- Aggregate includes the following funds: CRP I, CRP II, CAREP I, CAREP II, ENERGY I and Renew I.
- Includes co-investments, prefund investments and certain other stand-alone investments arranged by us.
- Aggregate includes the following funds: CRCP I and CPCOP.
- For purposes of aggregation, funds that report in foreign currency have been converted to U.S. dollars at the reporting period spot rate.

## Solutions

For periods prior to August 1, 2013, our Solutions segment results reflect our 60% ownership interest in AlpInvest's operations, while our consolidated financial statements reflect 100% of AlpInvest's operations and a non-controlling interest of 40%. As a result of our acquisition of the remaining 40% equity interest in AlpInvest on August 1, 2013, our segment results prospectively from that date reflect our 100% ownership interest in AlpInvest.

The following table presents our results of operations for our Solutions segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
<b>Segment Revenues</b>				
Fund level fee revenues				
Fund management fees	\$ 37.2	\$ 16.5	\$ 76.6	\$ 50.2
Portfolio advisory fees, net	—	—	—	—
Transaction fees, net	—	—	—	—
Total fund level fee revenues	37.2	16.5	76.6	50.2
Performance fees				
Realized	5.7	2.2	9.9	6.8
Unrealized	38.9	(1.8)	81.5	22.1
Total performance fees	44.6	0.4	91.4	28.9
Investment income				
Realized	—	—	—	—
Unrealized	0.1	—	0.1	—
Total investment income	0.1	—	0.1	—
Interest and other income	—	0.1	0.2	0.4
<b>Total revenues</b>	<b>81.9</b>	<b>17.0</b>	<b>168.3</b>	<b>79.5</b>
<b>Segment Expenses</b>				
Compensation and benefits				
Direct base compensation	16.8	8.2	34.1	25.1
Indirect base compensation	1.1	1.4	3.7	4.4
Equity-based compensation	0.1	—	0.3	—
Performance fee related				
Realized	2.6	1.9	5.0	6.0
Unrealized	29.7	(2.1)	61.9	17.3
Total compensation and benefits	50.3	9.4	105.0	52.8
General, administrative, and other indirect expenses	5.7	3.2	13.5	7.7
Depreciation and amortization expense	0.7	0.5	1.7	1.1
Interest expense	0.6	0.2	1.7	1.1
<b>Total expenses</b>	<b>57.3</b>	<b>13.3</b>	<b>121.9</b>	<b>62.7</b>
<b>Economic Net Income</b>	<b>\$ 24.6</b>	<b>\$ 3.7</b>	<b>\$ 46.4</b>	<b>\$ 16.8</b>
(-) Net Performance Fees	12.3	0.6	24.5	5.6
(-) Investment Income	0.1	—	0.1	—
<b>(=) Fee Related Earnings</b>	<b>\$ 12.2</b>	<b>\$ 3.1</b>	<b>\$ 21.8</b>	<b>\$ 11.2</b>
(+) Realized Net Performance Fees	3.1	0.3	4.9	0.8
(+) Realized Investment Income	—	—	—	—
(+) Equity-based Compensation	0.1	—	0.3	—
<b>(=) Distributable Earnings</b>	<b>\$ 15.4</b>	<b>\$ 3.4</b>	<b>\$ 27.0</b>	<b>\$ 12.0</b>

***Three Months Ended September 30, 2013 Compared to the Three Months Ended September 30, 2012***

We completed our acquisition of the remaining 40% equity interest in AlpInvest on August 1, 2013. Accordingly, the financial results for the three months ended September 30, 2013 represent our 100% interest in AlpInvest since August 1, 2013. As a result, a comparison of the financial results for the three months ended September 30, 2013 to the three months ended September 30, 2012 is not meaningful. Unless otherwise discussed below, the variance in the financial results for the three months ended September 30, 2013 as compared to the same period in 2012 was due to the increase in our equity interests in AlpInvest in 2013.

Total fee revenues were \$37.2 million and \$16.5 million for the three months ended September 30, 2013 and 2012, respectively. Management fees from our fund of funds vehicles generally range from 0.3% to 1.0% on the fund or vehicle's capital commitments during the commitment fee period of the relevant fund. Following the expiration of the commitment fee period of such funds, the management fees generally range from 0.3% to 1.0% on the lower of cost or fair value of the capital invested. After considering the increase in management fees from our acquisition of the remaining 40% equity interest in AlpInvest, the increase in management fees was also due to an increase in Fee-earning AUM. Fee-earning AUM was \$33.7 billion and \$30.2 billion as of September 30, 2013 and 2012, respectively, representing an increase of \$3.5 billion. Also, co-investments represent a larger percentage of Fee-earning AUM in 2013 as compared to 2012. The management fee rate for co-investments generally is higher than the management fee rates for fund investments and secondary investments.

Total compensation and benefits were \$50.3 million and \$9.4 million for the three months ended September 30, 2013 and 2012, respectively. Performance fee related compensation expense was \$32.3 million and \$(0.2) million, or 72% and 50% of performance fees for the three months ended September 30, 2013 and 2012, respectively.

Direct and indirect base compensation expense was \$17.9 million and \$9.6 million for the three months ended September 30, 2013 and 2012, respectively. Equity-based compensation was \$0.1 million for the three months ended September 30, 2013.

General, administrative and other indirect expenses were \$5.7 million and \$3.2 million for the three months ended September 30, 2013 and 2012, respectively. Such expenses are comprised primarily of professional fees and rent.

Depreciation and amortization expense was \$0.7 million and \$0.5 million for the three months ended September 30, 2013 and 2012, respectively.

Interest expense was \$0.6 million and \$0.2 million for the three months ended September 30, 2013 and 2012, respectively.

*Economic Net Income.* Economic net income was \$24.6 million and \$3.7 million for the three months ended September 30, 2013 and 2012, respectively. After considering the increase in ENI from our acquisition of the remaining 40% equity interest in AlpInvest, the increase was also due to increases in net performance fees and fee related earnings.

*Fee Related Earnings.* Fee related earnings were \$12.2 million for the three months ended September 30, 2013, as compared to \$3.1 million for the three months ended September 30, 2012. After considering the increase in fee related earnings from our acquisition of the remaining 40% equity interest in AlpInvest, the increase was also due to increases in fee revenues.

*Performance Fees.* Performance fees were \$44.6 million and \$0.4 million for the three months ended September 30, 2013 and 2012, respectively. Under our arrangements with the historical owners and management team of AlpInvest, the management team and employees of AlpInvest are allocated all carried interest in respect of the historical investments and commitments to our fund of funds vehicles that existed as of July 1, 2011 (including any options to increase any such commitments exercised after such date), 85% of the carried interest in respect of commitments from the historical owners of AlpInvest for the period between 2011 and 2020 and 60% of the carried interest in respect of all other commitments (including all future commitments from third parties).



*Distributable Earnings.* Distributable earnings were \$15.4 million for the three months ended September 30, 2013 as compared to \$3.4 million for the same period in 2012. After considering the increase in distributable earnings from our acquisition of the remaining 40% equity interest in AlpInvest, the increase was also due to increases in fee related earnings.

***Nine Months Ended September 30, 2013 Compared to the Nine Months Ended September 30, 2012***

We completed our acquisition of the remaining 40% interest in AlpInvest on August 1, 2013. Accordingly, the financial results for the nine months ended September 30, 2013 represent our 100% interest in AlpInvest since August 1, 2013. Unless otherwise discussed below, the variance in the financial results for the nine months ended September 30, 2013 as compared to the same period in 2012 was due to the increase in our equity interests in AlpInvest in 2013.

Total fee revenues were \$76.6 million and \$50.2 million for the nine months ended September 30, 2013 and 2012, respectively. Management fees from our fund of funds vehicles generally range from 0.3% to 1.0% on the fund or vehicle's capital commitments during the commitment fee period of the relevant fund. Following the expiration of the commitment fee period of such funds, the management fees generally range from 0.3% to 1.0% on the lower of cost or fair value of the capital invested. After considering the increase in management fees from our acquisition of the remaining 40% equity interest in AlpInvest, the increase in management fees was also due to an increase in Fee-earning AUM. Fee-earning AUM was \$33.7 billion and \$30.2 billion as of September 30, 2013 and 2012, respectively, representing an increase of \$3.5 billion. Also, co-investments represent a larger percentage of Fee-earning AUM in 2013 as compared to 2012. The management fee rate for co-investments generally is higher than the management fee rates for fund investments and secondary investments.

Total compensation and benefits were \$105.0 million and \$52.8 million for the nine months ended September 30, 2013 and 2012, respectively. Performance fee related compensation expense was \$66.9 million and \$23.3 million, or 73% and 81% of performance fees for the nine months ended September 30, 2013 and 2012, respectively. The decrease in performance fee compensation as a percentage of performance fees is due primarily to incremental allocations of carried interest to Carlyle under our existing arrangements with the historical owners and management team of AlpInvest.

Direct and indirect base compensation expense was \$37.8 million and \$29.5 million for the nine months ended September 30, 2013 and 2012, respectively. Equity-based compensation expense was \$0.3 million for the nine months ended September 30, 2013.

General, administrative and other indirect expenses were \$13.5 million and \$7.7 million for the nine months ended September 30, 2013 and 2012, respectively. Such expenses are comprised primarily of professional fees and rent.

Depreciation and amortization expense was \$1.7 million and \$1.1 million for the nine months ended September 30, 2013 and 2012, respectively.

Interest expense was \$1.7 million and \$1.1 million for the nine months ended September 30, 2013 and 2012, respectively.

*Economic Net Income.* Economic net income was \$46.4 million and \$16.8 million for the nine months ended September 30, 2013 and 2012, respectively. After considering the increase in ENI from our acquisition of the remaining 40% equity interest in AlpInvest, the increase was also due to increases in net performance fees and fee related earnings.

*Fee Related Earnings.* Fee related earnings were \$21.8 million for the nine months ended September 30, 2013, as compared to \$11.2 million for the nine months ended September 30, 2012. After considering the increase in fee related earnings from our acquisition of the remaining 40% equity interest in AlpInvest, the increase was also due to increases in fee revenues.

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**Performance Fees.** Performance fees were \$91.4 million and \$28.9 million for the nine months ended September 30, 2013 and 2012, respectively. Under our arrangements with the historical owners and management team of AlpInvest, the management team and employees of AlpInvest are allocated all carried interest in respect of the historical investments and commitments to our fund of funds vehicles that existed as of July 1, 2011 (including any options to increase any such commitments exercised after such date), 85% of the carried interest in respect of commitments from the historical owners of AlpInvest for the period between 2011 and 2020 and 60% of the carried interest in respect of all other commitments (including all future commitments from third parties).

**Distributable Earnings.** Distributable earnings were \$27.0 million for the nine months ended September 30, 2013 as compared to \$12.0 million for the same period in 2012. After considering the increase in distributable earnings from our acquisition of the remaining 40% equity interest in AlpInvest, the increase was also due to increases in fee related earnings.

### **Fee-earning AUM as of and for the Three and Nine Months Ended September 30, 2013.**

Fee-earning AUM is presented below for each period together with the components of change during each respective period.

	As of September 30,	
	2013	2012
	(Dollars in millions)	
<b>Solutions</b>		
<b>Components of Fee-earning AUM (1)</b>		
Fee-earning AUM based on capital commitments	\$ 11,290	\$ 8,665
Fee-earning AUM based on lower of cost or fair value	22,454	21,491
<b>Balance, End of Period</b>	<b>\$33,744</b>	<b>\$30,156</b>

- (1) For additional information concerning the components of Fee-earning AUM, please see “-Fee-earning Assets under Management.”

The table below breaks out fee-earning AUM by its respective components during the period.

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	(Dollars in millions)		(Dollars in millions)	
<b>Solutions</b>				
<b>Fee-earning AUM Rollforward</b>				
Balance, Beginning of Period	\$31,775	\$27,576	\$28,942	\$27,671
Inflows, including Commitments (1)	1,793	2,945	6,714	6,143
Outflows, including Distributions (2)	(1,089)	(674)	(3,219)	(4,291)
Market Appreciation/(Depreciation) (3)	(35)	1	352	680
Foreign Exchange and other (4)	1,300	308	955	(47)
<b>Balance, End of Period</b>	<b>\$33,744</b>	<b>\$30,156</b>	<b>\$33,744</b>	<b>\$30,156</b>

- (1) Inflows represent capital raised and capital invested by fund of funds vehicles outside the investment period.
- (2) Outflows represent distributions from fund of funds vehicles outside the investment period and changes in basis for fund of funds vehicles where the investment period has expired.
- (3) Market Appreciation/(Depreciation) represents changes in the net asset value of our fund of funds vehicles based on the lower of cost or fair value.
- (4) Includes onboarding of fully committed existing funds from another manager and represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end.

Fee-earning AUM was \$33.7 billion at September 30, 2013, an increase of \$2.0 billion, or more than 6%, compared to \$31.8 billion at June 30, 2013. This increase is driven by inflows of \$1.8 billion and foreign exchange gain of \$1.3 billion, offset by outflows of \$1.1 billion. Distributions from funds still in the commitment period do not impact Fee-earning AUM as these funds are based on commitments and not invested capital. Increases in fair value have an impact on Fee-earning AUM for Solutions as fully committed funds are based on the lower of cost or fair value of the underlying investments. However, all funds still in their commitment period charge management fees on commitments, which are not impacted by fair value movements.

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Fee-earning AUM was \$33.7 billion at September 30, 2013, an increase of \$4.8 billion, or approximately 17%, compared to \$28.9 billion at December 31, 2012. This increase was driven by inflows of \$6.7 billion and foreign exchange gain of \$1.0 billion, offset by outflows of \$3.2 billion. Changes in fair value of \$0.4 billion have an impact on Fee-earning AUM for Solutions as fully committed funds are based on the lower of cost or fair value of the underlying investments.

Fee-earning AUM was \$30.2 billion at September 30, 2012, an increase of \$2.6 billion, or approximately 9%, compared to \$27.6 billion at June 30, 2012. Inflows of \$2.9 billion were primarily related to the initiation of fees on several 2012 mandates that made their first investment during the quarter. For our fund of funds vehicles, existing investor mandates are typically activated at the beginning of each year, but fees are not charged until the first investment is made. Therefore, several mandates that became active earlier this year made their first investment and began charging fees (based on total commitments) during the current quarter. The related impact to management fee revenue will be reflected in future quarters. Inflows also include amounts invested by funds outside of their commitment fee period that are based on the lower of cost or fair value. Outflows of \$0.7 billion were principally a result of distributions from several funds outside of their commitment fee period. In addition, the segment experienced a \$0.3 billion increase resulting from the translation of the euro-denominated funds into U.S. Dollars as of the end of the period.

Fee-earning AUM was \$30.2 billion at September 30, 2012, an increase of \$2.5 billion, or approximately 9%, compared to \$27.7 billion at December 31, 2011. Inflows of \$6.1 billion were primarily related to the initiation of fees on new fund investment mandates activated during the period, as well as capital called on the funds outside the commitment fee period. Outflows of \$4.3 billion were principally a result of a change in basis from commitments to the lower of cost or fair value for vehicles that reached the end of their commitment fee period, as well as distributions from several funds outside of their commitment fee period. Market appreciation of \$0.7 billion was due to changes in investment values on funds that are based on the lower of cost or fair value of the underlying investments.

### **Total AUM as of and for the Three and Nine Month Period Ended September 30, 2013.**

The table below provides the period to period rollforwards of Available Capital and Fair Value of Capital, and the resulting rollforward of Total AUM.

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Available Capital	Fair Value of Capital	Total AUM	Available Capital	Fair Value of Capital	Total AUM
	(Dollars in millions)			(Dollars in millions)		
<b>Solutions</b>						
<b>Balance, Beginning of Period</b>	<b>\$17,931</b>	<b>\$ 30,113</b>	<b>\$48,044</b>	<b>\$14,528</b>	<b>\$ 29,554</b>	<b>\$44,082</b>
Commitments (1)	126	—	126	4,664	—	4,664
Capital Called, net (2)	(939)	832	(107)	(2,139)	2,189	50
Distributions (3)	121	(1,824)	(1,703)	339	(5,413)	(5,074)
Market Appreciation/(Depreciation) (4)	—	1,251	1,251	—	4,279	4,279
Foreign Exchange and other (5)	340	488	828	187	251	438
<b>Balance, End of Period</b>	<b><u>\$17,579</u></b>	<b><u>\$ 30,860</u></b>	<b><u>\$48,439</u></b>	<b><u>\$17,579</u></b>	<b><u>\$ 30,860</u></b>	<b><u>\$48,439</u></b>

- (1) Represents capital raised by our fund of funds vehicles, net of expired available capital.
- (2) Represents capital called by our fund of funds vehicles, net of fund fees and expenses.
- (3) Represents distributions from our fund of funds vehicles, net of amounts recycled.
- (4) Market Appreciation/(Depreciation) represents realized and unrealized gains (losses) on fund investments, secondary investments, and co-investments. Fair market values for AlpInvest primary fund investments and secondary investment funds are based on the latest available valuations of the underlying limited partnership interests (in most cases as of June 30, 2013) as provided by their general partners, plus the net cash flows since the latest valuation, up to September 30, 2013.
- (5) Includes onboarding of fully committed existing funds from another manager and represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end.

Total AUM was \$48.4 billion at September 30, 2013, an increase of \$0.4 billion, or less than 1%, compared to \$48.0 billion at June 30, 2013. This increase was primarily driven by \$1.3 billion of market appreciation and \$0.8 of foreign exchange gain. This increase was offset by \$1.7 billion of distributions.

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Total AUM was \$48.4 billion at September 30, 2013, an increase of \$4.4 billion, or approximately 10%, compared to \$44.1 billion at December 31, 2012. This increase was primarily driven by \$4.7 billion of commitments, \$4.3 billion of market appreciation and \$0.4 billion of foreign exchange gain. This increase was offset by \$5.1 billion of distributions.

### **Fund Performance Metrics**

Fund performance information for our investment funds that have at least \$1.0 billion in capital commitments, cumulative equity invested or total value as of September 30, 2013, which we refer to as our “significant funds” is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund return information reflected in this discussion and analysis is not indicative of the performance of The Carlyle Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Carlyle Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

The following tables reflect the performance of our significant funds in our Solutions business.

			TOTAL INVESTMENTS				
			as of September 30, 2013				
	Vintage Year	Fund Size	Cumulative Invested Capital (2)(8)	Total Fair Value (3)(8)	MOIC (4)	Gross IRR (6)	Net IRR (7)
(Reported in Local Currency, in Millions)							
Solutions (1)							
Fully Committed Funds (5)							
Main Fund I - Fund Investments	2000	€ 5,174.6	€ 3,834.9	€ 6,171.5	1.6x	12%	12%
Main Fund II - Fund Investments	2003	€ 4,545.0	€ 4,342.9	€ 6,325.2	1.5x	10%	9%
Main Fund III - Fund Investments	2005	€11,500.0	€ 10,078.6	€12,673.5	1.3x	7%	6%
Main Fund IV - Fund Investments	2009	€ 4,880.0	€ 1,777.3	€ 1,900.4	1.1x	5%	4%
Main Fund I - Secondary Investments	2002	€ 519.4	€ 454.3	€ 848.3	1.9x	54%	50%
Main Fund II - Secondary Investments	2003	€ 998.4	€ 906.6	€ 1,618.4	1.8x	28%	26%
Main Fund III - Secondary Investments	2006	€ 2,250.0	€ 2,058.5	€ 2,787.9	1.4x	10%	9%
Main Fund IV - Secondary Investments	2010	€ 1,856.4	€ 1,621.1	€ 2,202.6	1.4x	20%	18%
Main Fund II - Co-Investments	2003	€ 1,090.0	€ 858.6	€ 2,331.6	2.7x	45%	43%
Main Fund III - Co-Investments	2006	€ 2,760.0	€ 2,400.8	€ 3,162.2	1.3x	5%	5%
Main Fund IV - Co-Investments	2010	€ 1,475.0	€ 1,216.7	€ 1,843.4	1.5x	22%	19%
Main Fund II - Mezzanine Investments	2004	€ 700.0	€ 691.5	€ 939.9	1.4x	8%	7%
Main Fund III - Mezzanine Investments	2006	€ 2,000.0	€ 1,396.5	€ 1,806.1	1.3x	10%	9%
All Other Funds (9)	Various		€ 1,328.9	€ 1,934.4	1.5x	17%	14%
Total Fully Committed Funds			€ 32,967.2	€46,545.5	1.4x	12%	11%
Funds in the Commitment Period							
Main Fund V - Fund Investments	2012	€ 4,830.4	€ 134.8	€ 124.0	0.9x	(22%)	(34%)
Main Fund V - Secondary Investments	2011	€ 2,665.3	€ 733.6	€ 953.5	1.3x	39%	35%
Main Fund V - Co-Investments	2012	€ 1,228.0	€ 362.7	€ 443.1	1.2x	40%	35%
All Other Funds (9)	Various		€ 156.4	€ 181.7	1.2x	27%	28%
Total Funds in the Commitment Period			€ 1,387.5	€ 1,702.3	1.2x	35%	31%
TOTAL SOLUTIONS			€ 34,354.7	€48,247.8	1.4x	12%	11%
TOTAL SOLUTIONS (USD) (10)			\$ 46,488.1	\$65,287.9	1.4x		

- (1) Includes private equity and mezzanine primary fund investments, secondary fund investments and co-investments originated by the AlpInvest team. Excluded from the performance information shown are a) investments that were not originated by AlpInvest and b) Direct Investments, which was spun off from AlpInvest in 2005. As of September 30, 2013, these excluded investments represent \$0.7 billion of AUM.
- (2) Represents the original cost of all capital called for investments since inception of the fund.
- (3) Represents all realized proceeds combined with remaining fair value, before management fees, expenses and carried interest.
- (4) Multiple of invested capital (“MOIC”) represents total fair value, before management fees, expenses and carried interest, divided by cumulative invested capital.

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- (5) Fully Committed funds are past the expiration date of the commitment period as defined in the respective limited partnership agreement. In instances where a successor fund has had its first capital call, the predecessor fund is categorized as fully invested.
- (6) Gross Internal Rate of Return (“Gross IRR”) represents the annualized IRR for the period indicated on Limited Partner invested capital based on contributions, distributions and unrealized value before management fees, expenses and carried interest.
- (7) Net Internal Rate of Return (“Net IRR”) represents the annualized IRR for the period indicated on Limited Partner invested capital based on contributions, distributions and unrealized value after management fees, expenses and carried interest.
- (8) To exclude the impact of FX, all foreign currency cash flows have been converted to Euro at the reporting period spot rate.
- (9) Aggregate includes Main Fund I—Co-Investments, Main Fund I—Mezzanine Investments, AlpInvest CleanTech Funds and funds which are not included as part of a main fund.
- (10) Represents the U.S. dollar equivalent balance translated at the spot rate as of period end.

## Liquidity and Capital Resources

### Historical Liquidity and Capital Resources

We have historically required limited capital resources to support the working capital and operating needs of our business. Our management fees have largely covered our operating costs and we have distributed all realized performance fees after related compensation to equityholders. Historically, approximately 95% of all capital commitments to our funds have been provided by our fund investors, with the remaining amount typically funded by our senior Carlyle professionals, operating executives and other professionals.

For periods prior to our initial public offering in May 2012, our cash distributions included compensatory payments to our senior Carlyle professionals, which we accounted for as distributions from equity rather than as employee compensation, and also included distributions in respect of co-investments made by the owners of the Parent Entities indirectly through the Parent Entities. Distributions related to co-investments are allocable solely to the individuals that funded those co-investments.

### Cash Flows

The significant captions and amounts from our consolidated statements of cash flows which include the effects of our Consolidated Funds and CLOs in accordance with U.S. GAAP are summarized below.

	Nine Months Ended September 30,	
	2013	2012
	(Dollars in millions)	
<b>Statements of Cash Flows Data</b>		
Net cash provided by operating activities	\$ 2,556.6	\$ 2,052.3
Net cash used in investing activities	(64.0)	(70.6)
Net cash used in financing activities	(2,225.5)	(1,724.9)
Effect of foreign exchange rate change	21.5	2.8
Net change in cash and cash equivalents	<u>\$ 288.6</u>	<u>\$ 259.6</u>

*Net Cash Provided by Operating Activities.* Net cash provided by operating activities is primarily driven by our earnings in the respective periods after adjusting for non-cash performance fees, the related non-cash performance fee related compensation, and non-cash equity-based compensation, all of which are included in earnings. Cash flows from operating activities prior to our initial public offering in May 2012 do not reflect any amounts paid or distributed to senior Carlyle professionals as these amounts are included as a use of cash for distributions in financing activities. Subsequent to our initial public offering, we record cash compensation expense related to senior Carlyle professionals, which has the effect of reducing cash provided by operating activities and cash used in financing activities as compared to the periods prior to the initial public offering. Cash used to purchase investments and trading securities as well as the proceeds from the sale of such investments are also reflected in our operating activities as investments are a normal part of our operating activities. Over time investment proceeds may be greater than investment purchases. During the nine months ended September 30, 2013, proceeds were \$231.4 million while purchases were \$112.2 million. In the nine months ended September 30, 2012, investment proceeds were \$178.3 million as compared to purchases of \$56.2 million. Also included in our net cash provided by operating activities are proceeds from sales of investments by the Consolidated Funds, offset by purchases of

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investments by the Consolidated Funds. For the nine months ended September 30, 2013, proceeds from the sales and settlements of investments by the Consolidated Funds were \$8,916.5 million, while purchases of investments by the Consolidated Funds were \$8,993.1 million. For the nine months ended September 30, 2012, proceeds from the sales and settlements of investments by the Consolidated Funds were \$6,409.4 million, while purchases of investments by the Consolidated Funds were \$5,212.5 million.

*Net Cash Used in Investing Activities.* Our investing activities generally reflect cash used for acquisitions, fixed assets and software for internal use, and changes in restricted cash. During the nine months ended September 30, 2013, we received \$40.5 million of cash on behalf of a non-consolidated Carlyle fund that was remitted to the fund in October 2013; this amount was classified as restricted cash as of September 30, 2013. We acquired \$41.0 million of intangible assets during the nine months ended September 30, 2012, consisting of CLO management contracts.

*Net Cash Used in Financing Activities.* Financing activities are a net use of cash in each of the historical periods presented. As noted above, for periods prior to the initial public offering in May 2012, financing activities include distributions to senior Carlyle professionals, CalPERS, and Mubadala of \$452.3 million for the nine months ended September 30, 2012. For the nine months ended September 30, 2013, we received net proceeds of \$495.3 million, net of financing costs, from the \$500.0 million senior notes issuance in January 2013 and \$394.1 million, net of financing costs, for the \$400.0 million senior notes issuance in March 2013. The proceeds from these senior notes issuances were used to repay outstanding borrowings under our revolving credit facility and our term loan. For the nine months ended September 30, 2013, our repayments under our revolving credit facility were \$386.3 million and our payments on our loans payable were \$475.0 million. For the nine months ended September 30, 2012, our net borrowings under our revolving credit facility were \$310.9 million and our payments on our loans payable were \$310.0 million. The net proceeds from our initial public offering in May 2012 were \$615.8 million. The net payments on loans payable by our Consolidated Funds during the nine months ended September 30, 2013 and 2012, respectively, were \$1,462.7 million and \$1,071.8 million, respectively. Contributions from non-controlling interest holders were \$1,909.5 million and \$1,579.4 million for the nine months ended September 30, 2013 and 2012, respectively, and distributions to non-controlling interest holders were \$2,728.5 million and \$1,757.7 million for the nine months ended September 30, 2013 and 2012, respectively; these amounts primarily relate to activity with the noncontrolling interest holders in Consolidated Funds.

### ***Our Sources of Cash and Liquidity Needs***

In the future, we expect that our primary liquidity needs will be to:

- provide capital to facilitate the growth of our existing business lines;
- provide capital to facilitate our expansion into new, complementary business lines, including acquisitions;
- pay operating expenses, including compensation and other obligations as they arise;
- fund capital expenditures;
- repay borrowings and related interest costs and expenses;
- pay earnouts and contingent cash consideration associated with our acquisitions and strategic investments;
- pay income taxes;
- make distributions to our unitholders and the holders of the Carlyle Holdings partnership units in accordance with our distribution policy; and
- fund the capital investments of Carlyle in our funds.

During the three months ended September 30, 2013, we paid distributions totaling \$0.16 per common unit, or approximately \$7.9 million, to common unitholders in respect of the second quarter of 2013. Also, in November 2013, the Board of Directors of our general partner declared a quarterly distribution of \$0.16 per common unit to common unitholders of record on November 18, 2013, which is payable on November 27, 2013.

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We currently anticipate that we will cause Carlyle Holdings to make quarterly distributions to its partners, including The Carlyle Group L.P.'s wholly owned subsidiaries, that will enable The Carlyle Group L.P. to pay a quarterly distribution of \$0.16 per common unit for each of the first three quarters of each year and for the fourth quarter of each year, to pay a distribution of at least \$0.16 per common unit that, taken together with the prior quarterly distributions in respect of that year, represents its share, net of taxes and amounts payable under the tax receivable agreement, of Carlyle's Distributable Earnings in excess of the amount determined by Carlyle's general partner to be necessary or appropriate to provide for the conduct of Carlyle's business, to make appropriate investments in its business and its funds or to comply with applicable law or any of its financing agreements. We anticipate that the aggregate amount of our distributions for most years will be less than our Distributable Earnings for that year due to these funding requirements.

Notwithstanding the foregoing, the declaration and payment of any distributions will be at the sole discretion of our general partner, which may change our distribution policy at any time. Our general partner will take into account general economic and business conditions, our strategic plans and prospects, our business and investment opportunities, our financial condition and operating results, working capital requirements and anticipated cash needs, contractual restrictions and obligations, legal, tax and regulatory restrictions, other constraints on the payment of distributions by us to our common unitholders or by our subsidiaries to us, and such other factors as our general partner may deem relevant.

We intend to have Carlyle commit to fund approximately 1-2% of the capital commitments to our future carry funds. We may, from time to time, exercise our right to purchase additional interests in our investment funds that become available in the ordinary course of their operations. We expect our senior Carlyle professionals and employees to continue to make significant capital contributions to our funds based on their existing commitments, and to make capital commitments to future funds consistent with the level of their historical commitments. We also intend to make investments in our open-end funds, our business development companies, and our CLO vehicles.

We generally use our working capital and cash flows to invest in growth initiatives, service our debt, fund the working capital needs of our investment funds and pay distributions to our equity owners. We have multiple sources of liquidity to meet our capital needs, including cash on hand, annual cash flows, accumulated earnings, funds from our senior credit facility, including a term loan facility and a revolving credit facility with \$750.0 million available as of September 30, 2013. We believe these sources will be sufficient to fund our capital needs for at least the next 12 months. From time to time, we may access the capital markets, including through the issuance of debt or equity securities, in order to further enhance our liquidity and capital structure. For example, during the first quarter of 2013, we issued \$500 million of senior notes due 2023 and \$400 million of senior notes due 2043 and used the proceeds from those note issuances to repay the outstanding balance under our revolving credit facility and \$475.0 million of our term loan borrowings.

Since our inception through September 30, 2013, we and our senior Carlyle professionals, operating executives and other professionals have invested or committed to invest in or alongside our funds. Approximately 5% of all capital commitments to our funds are funded collectively by us and our senior Carlyle professionals, operating executives and other professionals. The current invested capital and unfunded commitment of Carlyle and our senior Carlyle professionals, operating executives and other professionals to our investment funds as of September 30, 2013, consisted of the following:

<u>Asset Class</u>	<u>Current Equity Invested</u>	<u>Unfunded Commitment</u>	<u>Total Current Equity Invested and Unfunded Commitment</u>
		(Dollars in millions)	
Corporate Private Equity	\$1,438.5	\$ 2,095.3	\$ 3,533.8
Global Market Strategies	917.7	241.0	1,158.7
Real Assets	582.0	385.6	967.6
Total	<u>\$2,938.2</u>	<u>\$ 2,721.9</u>	<u>\$ 5,660.1</u>

A substantial majority of these investments have been funded by, and a substantial majority of the remaining commitments are expected to be funded by, senior Carlyle professionals, operating executives and other professionals through our internal co-investment program. Of the \$2.7 billion of unfunded commitments, approximately \$2.5 billion is subscribed individually by senior Carlyle professionals, operating executives and other professionals, with the balance funded directly by the Partnership.

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Investments as of September 30, 2013 consist of the following (dollars in millions):

Investments	\$ 794.0
Less: Amounts attributable to non-controlling interests in consolidated entities	(274.7)
Less: Strategic equity method investment in NGP Management	(364.4)
Investments excluding non-controlling interests and NGP Management	154.9
Plus: investments in Consolidated Funds, eliminated in consolidation	109.2
Total investments attributable to Carlyle Holdings, exclusive of NGP management	<u>\$ 264.1</u>

Another source of liquidity we may use to meet our capital needs is the realized carried interest and incentive fee revenue generated by our investment funds. Carried interest is realized when an underlying investment is profitably disposed of and the fund's cumulative returns are in excess of the preferred return. Incentive fees earned on hedge fund structures are realized at the end of each fund's measurement period. Incentive fees earned on our CLO vehicles are paid upon the dissolution of such vehicles.

Our accrued performance fees by segment as of September 30, 2013, gross and net of accrued giveback obligations, are set forth below:

<u>Asset Class</u>	<u>Accrued Performance Fees</u>	<u>Accrued Giveback Obligation</u>	<u>Net Accrued Performance Fees</u>
	<u>(Dollars in millions)</u>		
Corporate Private Equity	\$ 2,172.5	\$ 11.7	\$ 2,160.8
Global Market Strategies	113.7	1.4	112.3
Real Assets	271.9	35.6	236.3
Solutions	319.6	—	319.6
Total	<u>\$ 2,877.7</u>	<u>\$ 48.7</u>	<u>\$ 2,829.0</u>
Less: Accrued performance fee-related compensation			(1,259.5)
Plus: Receivable for giveback obligations from current and former employees			24.9
Less: Net accrued performance fees attributable to non-controlling interests in consolidated entities			(21.9)
Net accrued performance fees excluding compensation and non-controlling interests			1,572.5
Plus: Net accrued performance fees in Consolidated Funds, eliminated in consolidation			39.8
Net accrued performance fees attributable to Carlyle Holdings			<u>\$ 1,612.3</u>

### **Our Balance Sheet and Indebtedness**

Total assets were \$33.9 billion at September 30, 2013, an increase of \$2.3 billion from December 31, 2012. The increase in total assets was primarily attributable to increases in investments of Consolidated Funds and accrued performance fees. Assets of the Consolidated Funds were approximately \$28.1 billion at September 30, 2013, representing an increase of \$1.3 billion from December 31, 2012. Accrued performance fees were approximately \$2.9 billion at September 30, 2013, representing an increase of \$0.7 billion from December 31, 2012. Additionally, the consolidation in the third quarter of 2013 of a real estate VIE resulted in an increase in total assets of approximately \$0.2 billion from December 31, 2012.



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Total liabilities were \$20.1 billion at September 30, 2013, an increase of \$2.2 billion from December 31, 2012. The increase in liabilities was primarily attributable to increases in the liabilities of the Consolidated Funds and accrued compensation and benefits. The liabilities of the Consolidated funds were approximately \$16.2 billion at September 30, 2013, representing an increase of \$1.2 billion from December 31, 2012. Accrued compensation and benefits were approximately \$1.8 billion at September 30, 2013, representing an increase of \$0.5 billion from December 31, 2012. Additionally, the consolidation in the third quarter of 2013 of a real estate VIE resulted in an increase in total liabilities of approximately \$0.2 billion from December 31, 2012.

The assets and liabilities of the Consolidated Funds are generally held within separate legal entities and, as a result, the assets of the Consolidated Funds are not available to meet our liquidity requirements and similarly the liabilities of the Consolidated Funds are non-recourse to us. The assets and liabilities of the consolidated real estate VIE are also held in separate legal entities; we have not guaranteed or assumed any obligation for repayment of its liabilities nor are its assets available to meet our liquidity requirements.

Our balance sheet without the effect of the Consolidated Funds can be seen in Note 20 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q. At September 30, 2013, our total assets were \$5.9 billion, including cash and cash equivalents of \$855.7 million, accrued performance fees of \$2,927.6 million, and investments of \$903.2 million.

*Loans Payable.* Loans payable on our balance sheet at September 30, 2013 reflects \$25.0 million outstanding under our senior secured credit facility, comprised of \$25.0 million of term loan balance outstanding. No amount was outstanding under the revolving credit facility of our senior secured credit facility.

*Senior Credit Facility.* The senior credit facility includes \$25.0 million in a term loan and \$750.0 million in a revolving credit facility. The term loan and revolving credit facility mature on August 9, 2018. Principal amounts outstanding under the amended term loan and revolving credit facility accrue interest, at the option of the borrowers, either (a) at an alternate base rate plus an applicable margin not to exceed 0.75%, or (b) at LIBOR plus an applicable margin not to exceed 1.75% (1.25% at September 30, 2013).

The senior credit facility is unsecured. We are required to maintain management fee-earning assets (as defined in the new senior credit facility) of at least \$61.8 billion plus 70% of any future acquired AUM and a total debt leverage ratio of less than 3.0 to 1.0, in each case, tested on a quarterly basis. Non-compliance with any of the financial or non-financial covenants without cure or waiver would constitute an event of default under the senior credit facility. An event of default resulting from a breach of certain financial or non-financial covenants may result, at the option of the lenders, in an acceleration of the principal and interest outstanding, and a termination of the revolving credit facility. The senior credit facility also contains other customary events of default, including defaults based on events of bankruptcy and insolvency, nonpayment of principal, interest or fees when due, breach of specified covenants, change in control and material inaccuracy of representations and warranties.

*3.875% Senior Notes.* In January 2013, Carlyle Holdings Finance L.L.C., an indirect finance subsidiary of the Partnership, issued \$500.0 million of 3.875% senior notes due February 1, 2023 at 99.966% of par. Interest is payable semi-annually on February 1 and August 1, beginning August 1, 2013. The notes are unsecured and unsubordinated obligations of Carlyle Holdings Finance L.L.C. and are fully and unconditionally guaranteed, jointly and severally, by The Carlyle Group L.P. and each of the Carlyle Holdings partnerships. The indenture governing the notes contains customary covenants that, among other things, limit Carlyle Holdings Finance L.L.C. and the guarantors' ability, subject to certain exceptions, to incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The notes also contain customary events of default. All or a portion of the notes may be redeemed at our option, in whole or in part, at any time and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the notes. If a change of control repurchase event occurs, the notes are subject to repurchase at the repurchase price as set forth in the notes.

*5.625% Senior Notes.* In March 2013, Carlyle Holdings II Finance L.L.C., an indirect finance subsidiary of the Partnership, issued \$400.0 million of 5.625% Senior Notes due March 30, 2043 at 99.583% of par. Interest is payable semi-annually on March 30 and September 30, beginning September 30, 2013. The notes are unsecured and unsubordinated obligations of Carlyle Holdings Finance L.L.C. and are fully and unconditionally guaranteed, jointly and severally, by The Carlyle Group L.P. and each of the Carlyle Holdings partnerships. The indenture governing the notes contains customary covenants that, among other things, limit Carlyle Holdings II Finance L.L.C. and the

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guarantors' ability, subject to certain exceptions, to incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The notes also contain customary events of default. All or a portion of the notes may be redeemed at our option, in whole or in part, at any time and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the notes. If a change of control repurchase event occurs, the notes are subject to repurchase at the repurchase price as set forth in the notes.

**Obligations of CLOs.** Loans payable of the Consolidated Funds represent amounts due to holders of debt securities issued by the CLOs. We are not liable for any loans payable of the CLOs. Several of the CLOs issued preferred shares representing the most subordinated interest, however these tranches are mandatorily redeemable upon the maturity dates of the senior secured loans payable, and as a result have been classified as liabilities under U.S. GAAP, and are included in loans payable of Consolidated Funds in our consolidated balance sheets.

As of September 30, 2013, the following borrowings were outstanding at our CLOs, including preferred shares classified as liabilities (Dollars in millions):

	<b>Borrowings Outstanding</b>	<b>Weighted Average Interest Rate</b>	<b>Weighted Average Remaining Maturity in Years</b>
Senior secured notes	\$ 14,290.8	1.39%	8.98
Subordinated notes, Income notes and Preferred shares	1,277.0	N/A <sup>(1)</sup>	8.11
Combination notes	15.2	N/A <sup>(2)</sup>	8.38
Total	<u>\$ 15,583.0</u>		

- (1) – The subordinated notes, income notes and preferred shares do not have contractual interest rates, but instead receive distributions from the excess cash flows of the CLOs.
- (2) – The combination notes do not have contractual interest rates and have recourse only to securities specifically held to collateralize such combination notes.

The fair value of senior secured notes, subordinated notes, income notes and preferred shares, and combination notes of our CLOs as of September 30, 2013 was \$13,800.0 million, \$1,254.4 million, and \$16.2 million, respectively.

Loans payable of the CLOs are collateralized by the assets held by the CLOs and the assets of one CLO may not be used to satisfy the liabilities of another. This collateral consists of cash and cash equivalents, corporate loans, corporate bonds and other securities.

In addition, certain CLOs entered into liquidity facility agreements with various liquidity facility providers on or about the various closing dates in order to fund payments of interest when there are insufficient funds available. The proceeds from such draw-downs are available for payments of interest at each interest payment date and the acquisition or exercise of an option or warrant comprised in any collateral enhancement obligation. The liquidity facilities, in aggregate, allow for a maximum borrowing of \$13.5 million and bear weighted average interest at EURIBOR plus 0.25% per annum. Amounts borrowed under the liquidity facilities are repaid based on cash flows available subject to priority of payments under each CLO's governing documents. There were no borrowings outstanding under this liquidity facility as of September 30, 2013.

**Loans Payable of a Consolidated Real Estate VIE.** This balance consists of the borrowings of Urbplan for its real estate development activities. As of September 30, 2013, the principal amount outstanding on the loans was approximately \$335.1 million. The fair value of the loans upon initial consolidation at September 30, 2013 was \$123.8 million. The principal amounts of the loans accrue interest at a variable rate based on an index plus an applicable margin. Interest rates are based on: (i) CDI plus a margin ranging from 4.0% to 7.4% (12.9% to 16.3% as of September 30, 2013); (ii) IGP-M plus a margin of 12.0% (18.3% as of September 30, 2013); or (iii) IPCA plus a margin ranging from 10.0% to 13.5% (16.2% to 19.7% as of September 30, 2013).

Substantially all of Urbplan's customer and other receivables and investments have been pledged as collateral for the loans. As of September 30, 2013, substantially all of the loans payable of Urbplan are not in compliance with their related debt covenants or are otherwise in technical default. These violations do not cause a default or event of default under the Partnership's senior credit facility or senior notes. Urbplan management is in

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discussions with the lenders to cure or re-negotiate the loans in default. Currently there are no outstanding notices of acceleration of payment on the loans in default. Urbplan management is also negotiating to extend \$24.2 million of its borrowings maturing in 2013. There can be no assurances that Urbplan will be successful in its discussions.

All of the loans payable of Urbplan are contractually non-recourse to us.

### ***Unconsolidated Entities***

Our Corporate Private Equity funds have not historically utilized substantial leverage at the fund level other than short-term borrowings under certain fund level lines of credit which are used to fund liquidity needs in the interim between the date of an investment and the receipt of capital from the investing fund's investors. These funds do, however, make direct or indirect investments in companies that utilize leverage in their capital structure. The degree of leverage employed varies among portfolio companies.

Certain of our real estate funds have entered into lines of credits secured by their investors' unpaid capital commitments or by a pledge of the equity of the underlying investment. Due to the relatively large number of investments made by these funds, the lines of credit are primarily employed to reduce the overall number of capital calls or for working capital needs. In certain instances, however, they may be used for other investment related activities, including serving as bridge financing for investments. The degree of leverage employed varies among portfolio companies.

### ***Off-Balance Sheet Arrangements***

In the normal course of business, we enter into various off-balance sheet arrangements including sponsoring and owning limited or general partner interests in consolidated and non-consolidated funds, entering into derivative transactions, entering into operating leases and entering into guarantee arrangements. We also have ongoing capital commitment arrangements with certain of our consolidated and non-consolidated funds. We do not have any other off-balance sheet arrangements that would require us to fund losses or guarantee target returns to investors in any of our other investment funds.

For further information regarding our off-balance sheet arrangements, see Note 2 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

### Contractual Obligations

The following table sets forth information relating to our contractual obligations as of September 30, 2013 on a consolidated basis and on a basis excluding the obligations of the Consolidated Funds:

	October 1, 2013 to December 31, 2013	2014-2015	2016-2017	Thereafter	Total
	(Dollars in millions)				
Loans payable and senior notes(a)	\$ —	\$ —	\$ —	\$ 925.0	\$ 925.0
Interest payable(b)	11.4	90.2	86.1	667.3	855.0
Contingent cash consideration(c)	91.2	156.5	88.2	466.6	802.5
Operating lease obligations(d)	12.0	89.9	66.3	105.0	273.2
Capital commitments to Carlyle funds(e)	2,721.9	7.5	—	—	2,729.4
Tax receivable agreement payments(f)	0.9	2.7	2.9	27.3	33.8
Loans payable of Consolidated Funds(g)	50.2	941.3	658.6	15,674.9	17,325.0
Loans payable of a consolidated real estate VIE(h)	66.4	130.4	90.3	256.9	544.0
Unfunded commitments of the CLOs and Consolidated Funds(i)	1,286.6	—	—	—	1,286.6
Redemptions payable of Consolidated Funds(j)	174.4	—	—	—	174.4
Consolidated contractual obligations	4,415.0	1,418.5	992.4	18,123.0	24,948.9
Loans payable of Consolidated Funds(g)	(50.2)	(941.3)	(658.6)	(15,674.9)	(17,325.0)
Loans payable of a consolidated real estate VIE(h)	(66.4)	(130.4)	(90.3)	(256.9)	(544.0)
Unfunded commitments of the CLOs and Consolidated Funds(i)	(1,286.6)	—	—	—	(1,286.6)
Redemptions payable of Consolidated Funds(j)	(174.4)	—	—	—	(174.4)
Carlyle Operating Entities contractual obligations	<u>\$ 2,837.4</u>	<u>\$ 346.8</u>	<u>\$ 243.5</u>	<u>\$ 2,191.2</u>	<u>\$ 5,618.9</u>

- (a) – The table above assumes that no prepayments are made on the term loan or senior notes and that the outstanding balance on the revolving credit facility is repaid on the maturity date of the senior credit facility. On August 9, 2013, we entered into Amendment No. 1 to the senior credit facility to extend the maturity date of the term loan and revolving credit facility from September 30, 2016 until August 9, 2018, and to eliminate all amortization of outstanding term loans, with all such term loans being due and payable on the new maturity date.
- (b) – The interest rate on the loans payable consist of 3.875% on \$500.0 million of senior notes, 5.625% on \$400.0 million of senior notes and approximately 2.33% on \$25.0 million of term loan. Interest payments assume that no prepayments are made and loans are held until maturity.
- (c) – These obligations represent our probability-weighted estimate of amounts to be paid on the contingent cash consideration obligations associated with our business acquisitions and strategic investment in NGP Management. The actual amounts to be paid under these agreements will not be determined until the specific performance conditions are met. Refer to “— Contingent Cash Payments for Business Acquisitions and Strategic Investments” below for the maximum amounts we may be required to pay under these arrangements and Note 6 and Note 9 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for more information. Included in these amounts are \$84.3 million of employment-based contingent consideration payments that have been earned but are not payable until the individuals are no longer employees of Carlyle, the timing of which cannot be predicted. For purposes of the table above, this amount has been included in the less than one year category. Excluded from this table are two options we have to purchase additional investments in NGP for a total payment of approximately \$97 million. One option is exercisable now through January 2015 for approximately \$36 million; the other option is exercisable from July 2014 through July 2015 for approximately \$61 million.
- (d) – We lease office space in various countries around the world and maintain our headquarters in Washington, D.C., where we lease our primary office space under a non-cancelable lease agreement expiring on July 31, 2026. Our office leases in other locations expire in various years from 2013 through 2021. The amounts in this table represent the minimum lease payments required over the term of the lease.
- (e) – These obligations represent commitments by us to fund a portion of the purchase price paid for each investment made by our funds. These amounts are generally due on demand and are therefore presented in the less than one year category. A substantial majority of these investments is expected to be funded by senior Carlyle professionals and other professionals through our internal co-investment program. Of the \$2.7 billion of unfunded commitments, approximately \$2.5 billion is subscribed individually by senior Carlyle professionals, operating executives and other professionals, with the balance funded directly by the Partnership. Also included in these amounts is \$7.5 million that will be paid to NGP in exchange for an additional 7.5% equity interest in NGP Management.

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- (f) – Represents obligations by the Partnership’s corporate taxpayers to make payments under the tax receivable agreement. Holders of partnership units in Carlyle Holdings may exchange their Carlyle Holdings partnership units for common units in The Carlyle Group L.P. on a one-for-one basis. These exchanges may reduce the amount of tax that the corporate taxpayers would be required to pay in the future. The corporate taxpayers will pay to the limited partner of Carlyle Holdings making the exchange 85% of the amount of cash savings that the corporate taxpayers realize upon an exchange. See “Tax Receivable Agreement” below.
- (g) – These obligations represent amounts due to holders of debt securities issued by the consolidated CLO vehicles. These obligations include interest to be paid on debt securities issued by the consolidated CLO vehicles. Interest payments assume that no prepayments are made and loans are held until maturity. For debt securities with rights only to the residual value of the CLO and no stated interest, no interest payments were included in this calculation. Interest payments on variable-rate debt securities are based on interest rates in effect as of September 30, 2013, at spreads to market rates pursuant to the debt agreements, and range from 0.45% to 12.65%.
- (h) – These obligations represent amounts owed to the lenders of Urbplan. These obligations include interest to be paid on the loans of Urbplan. Principal and interest payments shown herein assume that amounts will be paid according to the contractual maturities of the loans without acceleration due to default or covenant violation or other voluntarily prepayments. Interest payments on variable-rate debt are based on interest rates in effect as of September 30, 2013, at spreads to market rates pursuant to the loan agreements, and range from 12.9% to 19.7%. Due to the timing and availability of financial information from Urbplan, we consolidate the financial position and results of operations of Urbplan on a financial reporting lag of 90 days. The balances shown in this table are based on Urbplan’s outstanding borrowings as of June 30, 2013.
- (i) – These obligations represent commitments of the CLOs and Consolidated Funds to fund certain investments. These amounts are generally due on demand and are therefore presented in the less than one year category.
- (j) – Our consolidated hedge funds are subject to quarterly or monthly redemption by investors in these funds. These obligations represent the amount of redemptions where the amount requested in the redemption notice has become fixed and payable.

Excluded from the table above are liabilities for uncertain tax positions of \$18.8 million at September 30, 2013 as we are unable to estimate when such amounts may be paid. Also excluded from the table above are outstanding commitments of Urbplan for land development services with an estimated \$144 million of future costs to be incurred; these amounts have been excluded as we are unable to determine when such amounts will be paid.

### ***Contingent Funding of the Consolidated Real Estate VIE***

As described in Note 17 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, we and certain of our senior Carlyle professionals have made and may make additional investments in Urbplan. During the nine months ended September 30, 2013, Urbplan has received additional capital funding of \$32.0 million, of which \$6.4 million was funded by us and \$25.6 million was funded by certain senior Carlyle professionals. Subsequent to September 30, 2013, we and certain senior Carlyle professionals have funded an additional \$18.0 million (\$3.6 million from us). Urbplan is expected to require additional funding of approximately \$200 million to enable it to continue operations. While no contractual or other obligations exist to provide additional financial support to Urbplan, we and our senior Carlyle professionals expect to provide additional capital funding to Urbplan in the future and Urbplan will continue to seek capital funding from unaffiliated parties. We and our senior Carlyle professionals will evaluate the possibility of further capital infusions based on the circumstances at the time (including levels of third-party funding participation). It is anticipated that we would fund 25% and our senior Carlyle professionals would fund 75% of any additional investments made by us and our senior Carlyle professionals.

We may not recover, in whole or in part, the capital that we have invested in Urbplan (the fair value of which was estimated to be \$0 as of September 30, 2013) or any additional capital that we may elect to invest in Urbplan in the future, and our results of operations could be adversely impacted by impairments, write-downs, lawsuits by customers or creditors, other claims against Urbplan or us or other losses associated with our investment in Urbplan. The assets and liabilities of Urbplan are held in separate legal entities; we have not guaranteed or assumed any obligation for repayment of Urbplan’s liabilities nor are the assets of Urbplan available to meet our liquidity requirements. However, if Urbplan fails to complete its construction projects, customers or other creditors in certain circumstances might seek to assert claims against us under certain consumer protection or other laws.

### Contingent Cash Payments For Business Acquisitions and Strategic Investments

We have certain contingent cash obligations associated with our business acquisitions and our strategic investment in NGP Management. For our business acquisitions, these contingent cash payments relate to performance-based contingent cash consideration payable to the sellers of the businesses, some of whom are senior Carlyle professionals. Certain of these payments to those senior Carlyle professionals require such senior Carlyle professional to be employed by us at the time the performance conditions are met, while other payments are not contingent upon employment. For our strategic investment in NGP Management, the contingent cash payments relate to performance-based contingent cash consideration payable to NGP and an affiliate of Barclays Bank PLC, as well as two options we have to purchase additional investments in NGP that would entitle us to an allocation of income equal to 40% of the carried interest generated from certain NGP funds. The exercise of the NGP options and the resulting payments under the option agreements are at our discretion. See Note 6 and Note 9 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for more information.

The amounts shown in the contractual obligations table above represent our probability-weighted estimate of amounts to be paid on the contingent cash consideration obligations associated with our business acquisitions and our strategic investment in NGP Management. Except as noted below, the following table represents the maximum amounts that could be paid from our contingent cash obligations associated with our business acquisitions and our strategic investment in NGP Management and the amount payable if we elect to exercise our options related to NGP:

	As of September 30, 2013			Liability Recognized on Financial Statements <sup>(1)</sup>
	Hedge Fund Acquisitions	NGP Investment	Total	
	(Dollars in millions)			
Performance-based contingent cash consideration	\$ 354.2	\$ 183.0	\$ 537.2	\$ 171.5
Employment-based contingent cash consideration	389.3	45.0	434.3	143.5
Options to acquire additional investments in NGP	—	97.2	97.2	—
Total	<u>\$ 743.5</u>	<u>\$ 325.2</u>	<u>\$1,068.7</u>	<u>\$ 315.0</u>

- (1) – On our consolidated balance sheet, the liability for performance-based contingent cash consideration is included in due to affiliates (for amounts owed to senior Carlyle professionals) and accounts payable, accrued expenses, and other liabilities (for amounts owed to other sellers), and the liability for employment-based contingent cash consideration is included in accrued compensation and benefits. Also, the amounts shown here exclude the liabilities that have been recognized on our consolidated financial statements for performance-based contingent equity consideration.

Some of the employment-based contingent cash consideration agreements do not contain provisions limiting the amount that could be paid by us. For purposes of the table above, we have used our current estimate of the amount to be paid upon the determination dates for such payments. In our consolidated financial statements, we record the performance-based contingent cash consideration from our business acquisitions at fair value at each reporting period. For the employment-based contingent cash consideration, we accrue the compensation liability over the implied service period. If we exercise our options to acquire additional investments in NGP, the amount paid will be included in the carrying value of our equity-method investment in NGP at such time.

In October 2013, the Partnership and the sellers of Claren Road agreed to modifications to the terms of the performance-based contingent cash consideration associated with the 2010 acquisition of Claren Road as well as adjustments to separation payments made upon the sellers' departure from Claren Road. The modifications resulted in changes to the performance conditions and measurement date to earn the performance-based contingent cash consideration and changes to the basis of calculation and length of time for the separation payments. The modifications also include a new performance-based compensatory cash payment of \$25.0 million, which is payable in 2018 based on the achievement of certain performance conditions.

### ***Guarantees***

In 2001, we entered into an agreement with a financial institution pursuant to which we are the guarantor on a credit facility for eligible employees investing in Carlyle sponsored funds. This credit facility renews on an annual basis, allowing for annual incremental borrowings up to an aggregate of \$16.3 million, and accrues interest at the lower of the prime rate, as defined, or three-month LIBOR plus 2%, reset quarterly. At September 30, 2013, approximately \$9.4 million was outstanding under the credit facility and payable by the employees. No material funding under the guarantee has been required, and we believe the likelihood of any material funding under the guarantee to be remote.

In July 2012, we provided a guarantee to the French tax authorities as credit support for a €45.7 million tax assessment and in October 2012, placed an additional €4.4 million in escrow, in each case, related to CEREP I. We expect to incur costs on behalf of CEREP I and its related entities. We will attempt to recover any amounts advanced or paid under the guarantee from proceeds of subsequent portfolio dispositions by CEREP I. The amount of any unrecoverable costs that may be incurred by us is not estimable at this time. Refer to “Contingencies” below and Note 11 to the consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information.

In October 2013, we entered into an agreement with a financial institution to guarantee repayment on a \$200.0 million credit facility entered into by one of Carlyle’s hedge funds. The credit facility expires on December 20, 2013. We believe the likelihood of any material funding under this guarantee to be remote. The fair value of this guarantee would not be significant to our condensed consolidated financial statements.

### ***Indemnifications***

In many of our service contracts, we agree to indemnify the third-party service provider under certain circumstances. The terms of the indemnities vary from contract to contract, and the amount of indemnification liability, if any, cannot be determined and has not been included in the table above or recorded in our condensed consolidated financial statements as of September 30, 2013.

### ***Tax Receivable Agreement***

Holders of partnership units in Carlyle Holdings (other than The Carlyle Group L.P.’s wholly-owned subsidiaries), subject to the vesting and minimum retained ownership requirements and transfer restrictions applicable to such holders as set forth in the partnership agreements of the Carlyle Holdings partnerships, may (subject to the terms of the exchange agreement) exchange their Carlyle Holdings partnership units for The Carlyle Group L.P. common units on a one-for-one basis. A Carlyle Holdings limited partner must exchange one partnership unit in each of the three Carlyle Holdings partnerships to effect an exchange for a common unit. The exchanges are expected to result in increases in the tax basis of the tangible and intangible assets of Carlyle Holdings. These increases in tax basis may increase (for tax purposes) depreciation and amortization deductions and therefore reduce the amount of tax that Carlyle Holdings I GP Inc. and any other corporate taxpayers would otherwise be required to pay in the future, although the IRS may challenge all or part of that tax basis increase, and a court could sustain such a challenge.

In connection with the reorganization and initial public offering, we have entered into a tax receivable agreement with the limited partners of the Carlyle Holdings partnerships that will provide for the payment by the corporate taxpayers to such parties of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that the corporate taxpayers realize as a result of these increases in tax basis and of certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. This payment obligation is an obligation of the corporate taxpayers and not of Carlyle Holdings. While the actual increase in tax basis, as well as the amount and timing of any payments under this agreement, will vary depending upon a number of factors, including the timing of exchanges, the price of our common units at the time of the exchange, the extent to which such exchanges are taxable and the amount and timing of our income, we expect that as a result of the size of the transfers and increases in the tax basis of the tangible and intangible assets of Carlyle Holdings, the payments that we may make under the tax receivable agreement will be substantial. The payments under the tax receivable agreement are not conditioned upon these parties’ continued ownership of us. In the event that The Carlyle Group L.P. or any of its wholly-owned subsidiaries that are not treated as corporations for U.S. federal income tax purposes become taxable as a corporation for U.S. federal income tax purposes, these entities will also be obligated to make payments under the tax receivable agreement on the same basis and to the same extent as the corporate taxpayers.

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The tax receivable agreement provides that upon certain changes of control, or if, at any time, the corporate taxpayers elect an early termination of the tax receivable agreement, the corporate taxpayers' obligations under the tax receivable agreement (with respect to all Carlyle Holdings partnership units whether or not previously exchanged) would be calculated by reference to the value of all future payments that the counterparties would have been entitled to receive under the tax receivable agreement using certain valuation assumptions, including that the corporate taxpayers' will have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the tax receivable agreement and, in the case of an early termination election, that any Carlyle Holdings partnership units that have not been exchanged are deemed exchanged for the market value of the common units at the time of termination. In addition, the counterparties will not reimburse us for any payments previously made under the tax receivable agreement if such tax basis increase is successfully challenged by the IRS. The corporate taxpayers' ability to achieve benefits from any tax basis increase, and the payments to be made under this agreement, will depend upon a number of factors, including the timing and amount of our future income. As a result, even in the absence of a change of control or an election to terminate the tax receivable agreement, payments under the tax receivable agreement could be in excess of the corporate taxpayers' actual cash tax savings.

### ***Contingent Obligations (Giveback)***

An accrual for potential repayment of previously received performance fees of \$48.7 million at September 30, 2013 (\$58.8 million before \$10.1 million is eliminated in the consolidation of Consolidated Funds) is shown as accrued giveback obligations on the condensed consolidated balance sheet, representing the giveback obligation that would need to be paid if the funds were liquidated at their current fair values at September 30, 2013. However, the ultimate giveback obligation, if any, does not arise until the end of a fund's life. We have recorded \$24.9 million of unbilled receivables from former and current employees and our individual senior Carlyle professionals as of September 30, 2013 related to giveback obligations, which are included in due from affiliates and other receivables, net in our consolidated balance sheet as of such date.

During the nine months ended September 30, 2013, we repaid \$14.0 million of giveback obligations to certain funds. This amount was funded primarily through collection of employee receivables related to giveback obligations and from contributions from non-controlling interests for their portion of the obligation.

If, as of September 30, 2013, all of the investments held by our funds were deemed worthless, the amount of realized and distributed carried interest subject to potential giveback would be \$1.0 billion, on an after-tax basis where applicable.

Our senior Carlyle professionals and employees who have received carried interest distributions are severally responsible for funding their proportionate share of any giveback obligations. However, the governing agreements of certain of our funds provide that to the extent a current or former employee from such funds does not fund his or her respective share, then we may have to fund additional amounts beyond what we received in carried interest, although we will generally retain the right to pursue any remedies that we have under such governing agreements against those carried interest recipients who fail to fund their obligations.

### ***Contingencies***

In the ordinary course of business, we are a party to litigation, investigations, disputes and other potential claims. Certain of these matters are described below. We are not currently able to estimate for any such matters the reasonably possible amount of loss or range of loss. We do not believe it is probable that the outcome of any existing litigation, investigations, disputes or other potential claims will materially affect us. We believe that these matters are without merit and intend to vigorously contest them.

In September 2006 and March 2009, Carlyle received requests for certain documents and other information from the Antitrust Division of the U.S. Department of Justice ("DOJ") in connection with the DOJ's investigation of global alternative asset firms to determine whether they have engaged in conduct prohibited by U.S. antitrust laws. We fully cooperated with the DOJ's investigation.



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On February 14, 2008, a private class-action lawsuit challenging “club” bids and other alleged anti-competitive business practices was filed in the U.S. District Court for the District of Massachusetts (*Police and Fire Retirement System of the City of Detroit v. Apollo Global Management, LLC*). The complaint alleges, among other things, that certain global alternative asset firms, including Carlyle, violated Section 1 of the Sherman Act by forming multi-sponsor consortiums for the purpose of bidding collectively in company buyout transactions in certain going private transactions, which the plaintiffs allege constitutes a “conspiracy in restraint of trade.” Count One of the complaint alleges an overarching conspiracy relating to certain large buyout transactions. Count Two of the complaint alleges a conspiracy with regard to the buyout of Healthcare Corporation of America. The plaintiffs seek damages as provided for in Section 4 of the Clayton Act and an injunction against such conduct in restraint of trade in the future. The defendants moved for summary judgment on both counts. On March 13, 2013, the U.S. District Court for the District of Massachusetts ruled that plaintiffs could proceed on Count One solely on the basis of an alleged conspiracy to refrain from “jumping” announced proprietary (i.e., non-auction) deals. The Court stated that it would entertain further summary judgment motions by individual defendants as to their participation in the more narrowly-defined alleged conspiracy. The Court also denied summary judgment as to Count Two. On April 16, 2013, Carlyle filed a consolidated motion, renewing its motion for summary judgment on Count One, and moving for reconsideration on Count Two. On April 22, 2013, Carlyle joined a motion seeking reconsideration on Count Two filed on behalf of all Count Two defendants. On June 20, 2013, the Court denied the motion for reconsideration on Count Two filed by the Count Two defendants. On July 18, 2013, the Court denied Carlyle’s individual summary judgment motion regarding its participation in the conspiracy alleged in Count One. The U.S. District Court for the District of Massachusetts has set a schedule for class certification proceedings, which calls for a hearing on class certification sometime after May 19, 2014.

Along with many other companies and individuals in the financial sector, Carlyle and CMP are named as defendants in *Foy v. Austin Capital*, a case filed in June 2009, pending in the State of New Mexico’s First Judicial District Court, County of Santa Fe, which purports to be a qui tam suit on behalf of the State of New Mexico. The suit alleges that investment decisions by New Mexico public investment funds were improperly influenced by campaign contributions and payments to politically connected placement agents. The plaintiffs seek, among other things, actual damages, actual damages for lost income, rescission of the investment transactions described in the complaint and disgorgement of all fees received. In May 2011, the Attorney General of New Mexico moved to dismiss certain defendants including Carlyle and CMP on the grounds that separate civil litigation by the Attorney General is a more effective means to seek recovery for the State from these defendants. The Attorney General has brought two civil actions against certain of those defendants, not including the Carlyle defendants. The Attorney General has stated that its investigation is continuing and it may bring additional civil actions.

Carlyle Capital Corporation Limited (“CCC”) was a fund sponsored by Carlyle that invested in AAA-rated residential mortgage backed securities on a highly leveraged basis. In March of 2008, amidst turmoil throughout the mortgage markets and money markets, CCC filed for insolvency protection in Guernsey. Several different lawsuits, described below, developed from the CCC insolvency.

First, on July 13, 2009, a former shareholder of CCC, claiming to have lost \$20.0 million, filed a claim against CCC, Carlyle and certain affiliates and one of our officers (*Huffington v. TC Group L.L.C., et al.*) alleging violations of Massachusetts “blue sky” law provisions relating to material misrepresentations and omissions allegedly made during and after the marketing of CCC. The plaintiff sought treble damages, interest, expenses, attorney’s fees and to have the subscription agreement deemed null and void and to receive a full refund of the investment. In March 2010, the United States District Court for the District of Massachusetts dismissed the plaintiff’s complaint on the grounds that it should have been filed in Delaware instead of Massachusetts based on the forum selection provision in the plaintiff’s subscription agreement. The plaintiff subsequently filed a notice of appeal to the United States Court of Appeals for the First Circuit. The plaintiff lost his appeal to the First Circuit and filed a new claim in Delaware State Court. The Delaware State Court granted in part and denied in part defendants’ motion to dismiss, which was converted to a motion for summary judgment. The plaintiff has since dismissed his claim without any monetary compensation, in exchange for Carlyle’s dismissal of its counterclaim against him for violation of the forum selection clause.

Second, in November 2009, another CCC investor, National Industries Group (Holding) (“National Industries”) instituted legal proceedings on similar grounds in Kuwait’s Court of First Instance (*National Industries Group v. Carlyle Group*) seeking to recover losses incurred in connection with an investment in CCC. In July 2011, the Delaware Court of Chancery issued a decision restraining National Industries from proceeding in Kuwait on any CCC-related claims based on the forum selection clause in National Industries’ subscription agreement,

which provided for exclusive jurisdiction in the Delaware courts. In September 2011, National Industries reissued its complaint in Kuwait naming CCC only, and reissued its complaint in January 2012 joining Carlyle Investment Management, L.L.C. as a defendant. In April 2013, the court in Kuwait dismissed National Industries' claim without prejudice for failure to serve process. Hearings in the case and related to the case have nevertheless taken place on several occasions since that time, most recently in September 2013. Meanwhile, in August 2012, National Industries had filed a motion to vacate the Delaware Court of Chancery's decision. Carlyle successfully opposed that motion and the Court's injunction remained in effect. In November 2012, National Industries appealed that decision to the Delaware Supreme Court. On May 29, 2013, the Delaware Supreme Court affirmed the Chancery Court's decision and upheld the 2011 injunction barring National Industries from filing or prosecuting any CCC-related action in any forum other than the courts of Delaware.

Third, the Guernsey liquidators who took control of CCC in March 2008 filed four suits on July 7, 2010 against Carlyle, certain of its affiliates and the former directors of CCC in the Delaware Chancery Court, the Royal Court of Guernsey, the Superior Court of the District of Columbia and the Supreme Court of New York, New York County, (*Carlyle Capital Corporation Limited v. Conway et al.*) seeking \$1.0 billion in damages. They allege that Carlyle and the CCC board of directors were negligent, grossly negligent or willfully mismanaged the CCC investment program and breached certain fiduciary duties allegedly owed to CCC and its shareholders. The liquidators further allege (among other things) that the directors and Carlyle put the interests of Carlyle ahead of the interests of CCC and its shareholders and gave priority to preserving and enhancing Carlyle's reputation and its "brand" over the best interests of CCC. In July 2011, the Royal Court of Guernsey held that the case should be litigated in Delaware pursuant to the exclusive jurisdiction clause in the investment management agreement. That ruling was appealed by the liquidators, and in February 2012 was reversed by the Guernsey Court of Appeal, which held that the case should proceed in Guernsey. Defendants' attempts to appeal to the Privy Council were unsuccessful and the plaintiffs' case is proceeding in Guernsey. Two claims in that case, which sought the return of certain documents and other property purportedly belonging to CCC, were resolved by agreement of the parties and order of the Royal Court of Guernsey in December 2012. Carlyle has now completed its document production pursuant to that order. On July 24, 2013, plaintiffs filed an amended complaint, which contained further detail in support of the existing claims but no new defendants or claims. Defendants are now preparing a defense to the amended claim, which will be filed by December 20, 2013. After the defense is filed, the court is expected to set a schedule for the remainder of the case. In addition, the liquidators' lawsuits in New York and the District of Columbia were dismissed in December 2011 without prejudice.

Fourth, on June 21, 2011, August 24, 2011 and September 1, 2011, respectively, three putative shareholder class actions were filed against Carlyle, certain of its affiliates and former directors of CCC alleging that the fund offering materials and various public disclosures were materially misleading or omitted material information. Two of the shareholder class actions (*Phelps v. Stomber, et al.* and *Glaubach v. Carlyle Capital Corporation Limited, et al.*) were filed in the United States District Court for the District of Columbia. *Phelps v. Stomber, et al.* was also filed in the Supreme Court of New York, New York County and was subsequently removed to the United States District Court for the Southern District of New York. The two original D.C. cases were consolidated into one case under the caption of *Phelps v. Stomber* and the Phelps named plaintiffs were designated "lead plaintiffs" by the Court. The New York case was transferred to the D.C. federal court and the plaintiffs requested that it be consolidated with the other two D.C. actions. The plaintiffs were seeking compensatory damages sustained as a result of the alleged misrepresentations, costs and expenses, as well as reasonable attorney's fees. On August 13, 2012, the United States District Court for the District of Columbia dismissed both the D.C. and New York shareholder class actions. The plaintiffs moved for leave to amend their complaint and/or for amendment of the Court's decision, but the trial court denied that motion on June 4, 2013. The plaintiffs' previously filed notice of appeal to the Court of Appeals for the District of Columbia Circuit was then automatically reinstated and that appeal is now proceeding.

From 2007 to 2009, a Luxembourg subsidiary of Carlyle Europe Real Estate Partners, L.P. (CEREP I), a real estate fund, received proceeds from the sale of real estate located in Paris, France. The relevant French tax authorities have asserted that CEREP I was ineligible to claim certain exemptions from French tax under the Luxembourg-French tax treaty, and have issued a tax assessment seeking to collect approximately €97.0 million, consisting of taxes, interest and penalties. Additionally, the French Ministry of Justice has commenced an investigation regarding the legality under French law of claiming the exemptions under the tax treaty.

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CEREP I and its subsidiaries are contesting the French tax assessment while exploring settlement opportunities. In July 2012, the Partnership provided a guarantee to the French tax authorities as credit support for the €45.7 million tax assessment and in October 2012, placed an additional €4.4 million in escrow, in each case, related to CEREP I. The Partnership expects to incur costs on behalf of CEREP I and its related entities. The Partnership will attempt to recover any amounts advanced or paid from proceeds of subsequent portfolio dispositions by CEREP I. The amount of any unrecoverable costs that may be incurred by the Partnership is not estimable at this time. Commencing with the issuance of the credit support on behalf of CEREP I in July 2012, the Partnership consolidated the fund into its consolidated financial statements. As of September 30, 2013, CEREP I had accrued €41.8 million (\$56.5 million as of September 30, 2013) related to this contingency, which is included in other liabilities of Consolidated Funds in the consolidated financial statements.

During 2006, CEREP I completed a reorganization of several Italian subsidiaries. Certain of those Italian subsidiaries sold various properties located in Italy. The Italian tax authorities issued formal notices of assessment to certain of those subsidiaries, in each case, disallowing deductions of certain capital losses claimed with respect to the reorganization of the Italian subsidiaries. CEREP I and its relevant subsidiaries recently reached a settlement with the Italian tax authorities regarding this dispute and, in connection therewith, paid approximately €16.0 million.

### **Carlyle Holdings Partnership Units**

A rollforward of the outstanding Carlyle Holdings partnership units from December 31, 2012 through September 30, 2013 is as follows:

	Units as of December 31, 2012	Units Issued	Units Forfeited	Units Exchanged	Units as of September 30, 2013
Carlyle Holdings partnership units held by the Partnership	43,244,180	5,040,725	—	177,104	48,462,009
Carlyle Holdings partnership units not held by the Partnership	262,873,250	—	(562,269)	(177,104)	262,133,877
Total Carlyle Holdings partnership units	<u>306,117,430</u>	<u>5,040,725</u>	<u>(562,269)</u>	<u>—</u>	<u>310,595,886</u>

The Carlyle Holdings partnership units issued to the Partnership were issued in conjunction with (i) the vesting of the Partnership's deferred restricted common units during the nine months ended September 30, 2013; and (ii) the acquisition of the remaining 40% equity interest in AlpInvest. The Partnership is expected to acquire an additional 747,536 Carlyle Holdings partnership units in future periods at such time as certain of the Partnership's unvested common units vest. See Note 3 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

The Carlyle Holdings partnership units forfeited relate to unvested Carlyle Holdings partnership units that are forfeited when the holder ceases to provide services to the Partnership. The Carlyle Holdings partnership units exchanged relate to the exchange by the other limited partners of Carlyle Holdings of their Carlyle Holdings partnership units for common units of the Partnership on a one-for-one basis, which resulted in an increase in the number of Carlyle Holdings partnership units held by the Partnership.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Our primary exposure to market risk is related to our role as general partner or investment advisor to our investment funds and the sensitivities to movements in the fair value of their investments, including the effect on management fees, performance fees and investment income. Although our investment funds share many common themes, each of our alternative asset management asset classes runs its own investment and risk management processes, subject to our overall risk tolerance and philosophy. The investment process of our investment funds involves a comprehensive due diligence approach, including review of reputation of shareholders and management, company size and sensitivity of cash flow generation, business sector and competitive risks, portfolio fit, exit risks and other key factors highlighted by the deal team. Key investment decisions are subject to approval by both the fund-level managing directors, as well as the investment committee, which is generally comprised of one or more of the three founding partners, one "sector" head, one or more operating executives and senior investment professionals associated with that particular fund. Once an investment in a portfolio company has been made, our fund teams closely monitor the performance of the portfolio company, generally through frequent contact with management and the receipt of financial and management reports.

There was no material change in our market risks during the three months ended September 30, 2013. For additional information, refer to our Annual Report on Form 10-K for the year ended December 31, 2012.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our co-principal executive officers and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. In designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Our management, with the participation of our co-principal executive officers and principal financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation and subject to the foregoing, our co-principal executive officers and principal financial officer concluded that, as of the end of the period covered by this report, the design and operation of our disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2013 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

Not applicable.

**Item 1A. Risk Factors**

For a discussion of our potential risks and uncertainties, see the information under Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2012, which is accessible on the SEC’s website at [sec.gov](http://sec.gov).

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not applicable.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits**

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

**SIGNATURE**

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

**The Carlyle Group L.P.**

By: Carlyle Group Management L.L.C.,  
its general partner

By: /s/ Adena T. Friedman

Name: Adena T. Friedman

Title: Chief Financial Officer

Date: November 12, 2013

**INDEX TO EXHIBITS**

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

<b><u>Exhibit No.</u></b>	<b><u>Description</u></b>
3.1	Certificate of Limited Partnership of The Carlyle Group L.P. (incorporated by reference to Exhibit 3.1 to Registrant's Registration Statement on Form S-1 (file No. 333-176685) filed with the SEC on September 6, 2011).
3.2	Amended and Restated Limited Partnership Agreement of The Carlyle Group L.P. (incorporated by reference to Exhibit 3.1 on Form 8-K filed with the SEC on May 8, 2012).
31.1 *	Certification of the co-principal executive officer pursuant to Rule 13a – 14(a).
31.2 *	Certification of the co-principal executive officer pursuant to Rule 13a – 14(a).
31.3 *	Certification of the co-principal executive officer pursuant to Rule 13a – 14(a).
31.4 *	Certification of the principal financial officer pursuant to Rule 13a – 14(a).
32.1 *	Certification of the co-principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 *	Certification of the co-principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.3 *	Certification of the co-principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.4 *	Certification of the principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith.

\*\* XBRL (Extensible Business Reporting Language) information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

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

I, William E. Conway, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 of The Carlyle Group L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2013

/s/ William E. Conway, Jr.

William E. Conway, Jr.

Co-Chief Executive Officer

(Co-Principal Executive Officer)



I, Daniel A. D’Aniello, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 of The Carlyle Group L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 12, 2013

/s/ Daniel A. D’Aniello

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Daniel A. D’Aniello

Chairman

(Co-Principal Executive Officer)

I, David M. Rubenstein, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 of The Carlyle Group L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2013

/s/ David M. Rubenstein

David M. Rubenstein

Co-Chief Executive Officer

(Co-Principal Executive Officer)

I, Adena T. Friedman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 of The Carlyle Group L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2013

/s/ Adena T. Friedman

Adena T. Friedman

Chief Financial Officer

(Principal Financial Officer)

**Certification of the Co-Chief Executive Officer  
Pursuant to 18 U.S.C. Section 1350,  
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of The Carlyle Group L.P. (the “Company”) on Form 10-Q for the quarter ended September 30, 2013 filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, William E. Conway, Jr., Co-Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William E. Conway, Jr.

William E. Conway, Jr.

Co-Chief Executive Officer

Date: November 12, 2013

\* The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

**Certification of the Chairman**  
**Pursuant to 18 U.S.C. Section 1350,**  
**As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of The Carlyle Group L.P. (the “Company”) on Form 10-Q for the quarter ended September 30, 2013 filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Daniel A. D’Aniello, Chairman of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Daniel A. D’Aniello

Daniel A. D’Aniello

Chairman

Date: November 12, 2013

\* The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

**Certification of the Co-Chief Executive Officer  
Pursuant to 18 U.S.C. Section 1350,  
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of The Carlyle Group L.P. (the “Company”) on Form 10-Q for the quarter ended September 30, 2013 filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David M. Rubenstein, Co-Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David M. Rubenstein

David M. Rubenstein

Co-Chief Executive Officer

Date: November 12, 2013

\* The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

**Certification of the Chief Financial Officer**  
**Pursuant to 18 U.S.C. Section 1350,**  
**As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of The Carlyle Group L.P. (the “Company”) on Form 10-Q for the quarter ended September 30, 2013 filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Adena T. Friedman, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Adena T. Friedman

Adena T. Friedman

Chief Financial Officer

Date: November 12, 2013

\* The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.