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**ANNUAL AUDITED REPORT**  
**FORM X-17A-5**  
**PART III**

SEC FILE NUMBER
8-67578

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/18 AND ENDING 12/31/18  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: **KKR Capital Markets LLC**

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
**9 West 57th Street**

FIRM I.D. NO.

(No. and street)

**New York**  
(City)

**NY**  
(State)

**10019**  
(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

**John Knox**

**(212) 659-2022**

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

**Deloitte & Touche LLP**

(Name - if individual, state last, first, middle name)

**30 Rockefeller Plaza**  
(Address)

**New York**  
(City)

**NY**  
(State)

**10112**  
(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

\* Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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# KKR CAPITAL MARKETS LLC

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**\*\* For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

AFFIRMATION

I, John Knox, affirm that, to the best of my knowledge and belief, the accompanying financial statements and supporting schedules pertaining to KKR Capital Markets LLC for the year ended December 31, 2018 are true and correct. I further affirm that neither the Company nor any officer or director has any proprietary interest in any account classified solely as that of a customer.

John Knox February 28, 2019  
Signature Date

Financial and Operations Principal  
Title

Subscribed and sworn to before me,

On this 28<sup>th</sup> day of February, 2019

*Jessamine Konert*

JESSAMINE KONERT  
Notary Public, State of New York  
No. 01KO5033200  
Qualified in Richmond County  
Commission Expires Sept. 12, 2022



Deloitte & Touche LLP  
30 Rockefeller Plaza  
New York, NY 10112-0015  
USA  
Tel: +1 212 492 4000  
Fax: +1 212 489 1687  
www.deloitte.com

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Member of KKR Capital Markets LLC

### **Opinion on the Financial Statement**

We have audited the accompanying statement of financial condition of KKR Capital Markets LLC (the "Company") as of December 31, 2018, and the related notes (collectively referred to as the "financial statement"). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

*DELOITTE & TOUCHE LLP*

February 28, 2019

We have served as the Company's auditor since 2007.

# KKR CAPITAL MARKETS LLC

## STATEMENT OF FINANCIAL CONDITION AS OF DECEMBER 31, 2018

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### ASSETS

Cash and cash equivalents	\$ 142,676,782
Investments, at fair value	51,000,000
Syndication fees receivable	3,364,289
Prepaid expenses and other assets	1,905,827
Due from clearing broker	512,923
Due from affiliates	86,903
Fixed assets, at cost (net of accumulated depreciation and amortization of \$1,973,712)	<u>2,135,094</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 201,681,818</u></b>

### LIABILITIES AND MEMBER'S CAPITAL

Income tax payable	\$ 2,220,000
Accounts payable and accrued expenses	3,341,529
Due to affiliates	<u>11,429,954</u>
Total liabilities	16,991,483
Commitments and contingencies (see Note 3)	
Member's capital	<u>184,690,335</u>
<b>TOTAL LIABILITIES AND MEMBER'S CAPITAL</b>	<b><u>\$ 201,681,818</u></b>

The accompanying notes are an integral part of this financial statement.

# KKR CAPITAL MARKETS LLC

## NOTES TO FINANCIAL STATEMENT AS OF DECEMBER 31, 2018

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### 1. Organization and Business

KKR Capital Markets LLC (the “Company”), a wholly owned subsidiary of KKR Capital Markets Holdings L.P. (the “Parent” or “KCMH”), is a limited liability company that was formed under the laws of Delaware. The Company is an indirect subsidiary of Kohlberg Kravis Roberts & Co. L.P. (“KKR”). The Company is a registered broker-dealer with the Securities and Exchange Commission (the “SEC”) and a member of the Financial Industry Regulatory Authority (“FINRA”).

The Company’s primary operations are to provide capital markets, advisory and underwriting services to companies in which KKR’s affiliated private equity funds take a controlling or other equity interest, where they are seeking to raise capital through the public or private capital markets. The Company may also provide similar services to third party entities.

### 2. Summary of Significant Accounting Policies

#### **Basis of presentation**

This financial statement was prepared in conformity with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement. Actual results could differ materially from these estimates.

#### **Investment banking revenue**

Investment banking revenue represents income earned in connection with services related to private placement, arranging, underwriting and advisory activities. Such fees are recognized once the performance obligation has been satisfied in the period when the transaction closes.

Syndication fees receivable, presented in the accompanying Statement of Financial Condition, are recorded net of related estimated syndicate deal expenses.

#### **Cash and cash equivalents**

The Company considers its investments in money market funds or time deposits to be cash equivalents if the original maturities are 90 days or less. Cash and cash equivalents are held by three financial institutions and are subject to the credit risk of each respective financial institution. The Company has not experienced any losses and does not believe there to be any significant credit risk with respect to these balances.

The Company’s cash equivalents are measured at fair value on a recurring basis based on the quoted Net Asset Value (“NAV”) of the respective open-end registered money market funds. Such cash equivalents, totaling \$121,575,744, are classified as Level 1 in the fair value hierarchy because they trade in an active market at reported NAV.

Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these instruments does not entail a significant degree of judgment.

#### **Investments, at fair value**

The Company’s investments consist of three time deposits with original maturities ranging from 213 days to 306 days, and are classified as a Level 2 asset in the fair value hierarchy. These time

# KKR CAPITAL MARKETS LLC

## NOTES TO FINANCIAL STATEMENT AS OF DECEMBER 31, 2018

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deposits are held with three financial institutions and are subject to the credit risk of those financial institutions. The Company has not experienced any losses and does not believe there to be any significant credit risk with respect to these balances.

### **Financial instruments not measured at fair value**

Certain of the Company's assets and liabilities are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such financial assets and financial liabilities include: Syndication fees receivable, Prepaid expenses and other assets, Due from clearing broker, Due from affiliate, Income tax payable, Accounts payable and accrued expenses, and Due to affiliates.

### **Due from clearing broker**

Due from clearing broker consists of a cash deposit held with a single clearing broker, and therefore is subject to the credit risk of that financial institution. The Company has not experienced any losses and does not believe there to be any significant credit risk with respect to these balances.

### **Fixed assets**

Fixed assets are recorded at cost less accumulated depreciation and amortization. The Company periodically evaluates the carrying value of fixed assets when events and circumstances suggest that such assets may be impaired.

The balances of Fixed assets, by major class of depreciable and amortizable assets, at December 31, 2018 are as follows:

Furniture and equipment	\$ 336,020
Software	1,954,599
Tenant improvements	<u>1,818,187</u>
Fixed assets	4,108,806
Less: Accumulated depreciation and amortization	<u>(1,973,712)</u>
Fixed assets, net	<u>\$ 2,135,094</u>

### **Income tax**

The Company is a limited liability company organized under the laws of Delaware. Because the Parent is the Company's sole member, the Company is treated as a disregarded entity for federal, state and local income tax purposes. The Parent is treated as a partnership for federal, state and local income tax purposes and is therefore subject to New York City ("NYC") unincorporated business tax ("UBT") at a statutory rate of 4%. As the sole member of the Company, the Parent is entitled to reimbursement from the Company for any UBT liability arising from its allocable share of NYC source income. Based on the Company's current year taxable income, the Company has recorded a UBT tax expense and liability payable to the Parent in the amount of \$1,720,000 plus an additional \$500,000 for other state business taxes.

The Company records deferred tax assets or liabilities based on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their bases for income tax purposes. As of December 31, 2018, these differences were immaterial.

# KKR CAPITAL MARKETS LLC

## NOTES TO FINANCIAL STATEMENT AS OF DECEMBER 31, 2018

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In the normal course of business, the Parent is subject to examination by federal, state and local income tax regulators. As of December 31, 2018 the Parent's federal income tax returns and state and local tax returns are open under the relevant statute of limitations, and therefore subject to examination for the tax years 2015 through 2017.

### **Related party**

Based on its liquidity at any given time, the Company's ability to meet regulatory capital requirements for potential underwritings may be dependent on its access to funding from the Parent.

Pursuant to a services agreement (the "Services Agreement"), the Parent and other KKR affiliates will provide to the Company its employees, office facilities and office equipment as reasonably necessary for the Company to operate its business. See Note 4, "Related party and affiliate transactions" for further discussion on related party transactions.

### **3. Commitments and Contingencies**

#### **Leases**

The Company pays KKR for the Company's pro rata share of square feet utilized under KKR's omnibus lease for office space.

KKR has guaranteed the obligation of the Company in connection with the Company's allocable portion of the lease agreement. The lease has provisions for escalation based upon the assessed valuation of the property and future collective bargaining agreements entered into by the lessor and certain of its employees.

#### **Indemnifications**

The Company's agreement with its clearing broker dealer requires the Company to indemnify the clearing broker against specified potential losses in connection with their acting as an agent of, or providing services to, the Company. As of and during the year ended December 31, 2018, the clearing broker had not provided services to the Company in this capacity. As of December 31, 2018, the Company has not recorded any contingent liability in the financial statement for this indemnification.

#### **Litigation**

From time to time, the Company is involved in legal proceedings, lawsuits and claims incidental to the conduct of the Company's business. The Company's business is also subject to extensive regulation, which may result in regulatory proceedings against it. As of December 31, 2018, the Company believes that these matters will not have a material impact upon the financial statement.

### **4. Related party and affiliate transactions**

#### **Services Agreement**

For the year ended December 31, 2018, the net amount due from the Parent and KKR to the Company is \$86,903 as of December 31, 2018 and is included in Due from affiliates in the accompanying Statement of Financial Condition. The net amount due from the Company to other KKR affiliates is \$300,000 and included within Due to affiliates in the accompanying Statement of Financial Condition.

# KKR CAPITAL MARKETS LLC

## NOTES TO FINANCIAL STATEMENT AS OF DECEMBER 31, 2018

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### **Fee sharing**

During 2018, the Company and lending affiliates (the “SPVs”) collectively entered into financing commitments for certain loans resulting in the Company and the SPVs earning various fees to the extent the financing obligations were syndicated to third parties or were otherwise replaced with securities offerings affected by the Company. The net amount payable to the SPVs is \$11,129,954 as of December 31, 2018 and is included in Due to affiliates in the accompanying Statement of Financial Condition.

### **Employee benefits**

The Parent is a participant in KKR’s self-insured medical insurance plan; accordingly, all eligible employees of the Parent, who provide services to the Company, are covered under the plan.

### **Noncash compensation**

Additionally, KKR and its affiliates allocate certain noncash compensation to the Company which is recorded by the Company as noncash capital contributions. See Note 5, “Profit Sharing Plans” and Note 6, “Equity-Based Compensation” for further discussion on noncash compensation.

## **5. Profit Sharing Plans**

With respect to an affiliate’s interest in KKR’s funds and co-investment vehicles that provide for carried interest, such affiliate may allocate to certain eligible employees of the Parent, who provide services to the Company, 40% or 43% of the carried interest earned in relation to these funds as part of its carry pool. The Company does not reimburse KKR for such carry pool allocations; accordingly all such amounts are deemed to be noncash capital contributions.

## **6. Equity-Based Compensation**

Certain employees of the Parent, who are providing services to the Company, are participants in equity-based compensation plans sponsored by KKR affiliates. Equity awards are granted to individuals by such affiliate, and the Company records allocated compensation costs incurred by such affiliate on behalf of employees providing services to the Company. For each plan described below, the allocated value of the equity-based compensation from KKR or affiliates to the Company is not reimbursable; accordingly, all such amounts are deemed to be noncash capital contributions. The following is a description of the plans in which the Parent’s employees providing services to the Company participate.

### **KKR Holdings Units**

Eligible employees of the Parent, who are providing services to the Company, have been granted units in KKR Holdings L.P. (the “Holdings Units”), a KKR affiliate, which are generally subject to minimum retained ownership requirements and in certain cases, transfer restrictions, and allow for the ability to exchange the Holdings Units into Class A common stock of its publicly traded affiliate, KKR & Co. Inc. (the “Class A common stock”), on a one-for-one basis. Except for any Holdings Units that were deemed fully vested on the date of grant, Holdings Units are subject to service based vesting generally over a three to five year period from the date of grant. Transfer restriction periods, if applicable, generally last for a minimum of (i) one year with respect to one-half of the interests vesting on any vesting date and (ii) two years with respect to the other one-half of the interests

# KKR CAPITAL MARKETS LLC

## NOTES TO FINANCIAL STATEMENT AS OF DECEMBER 31, 2018

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vesting on such vesting date. While providing services to the Company or one of its affiliates, these individuals may also be subject to minimum retained ownership rules requiring them to continuously hold 25% of their vested interests. Upon separation from the Company and KKR affiliates, certain Holdings Unit holders will be subject to the terms of a non-compete agreement that may require the forfeiture of certain vested and unvested Holdings Units should the terms of the non-compete be violated. Holders of Holdings Units are entitled to participate in distributions received by KKR Holdings only to the extent that such Holdings Units are vested.

Compensation expense on Holdings Units is calculated based on the fair value of a Holdings Unit determined using the closing price of the Class A common stock on the grant date discounted for the lack of participation rights in the expected distributions on unvested units. The following table presents information regarding the discount for the lack of participation rights in the expected dividends for shares granted subsequent to December 31, 2015.

<b>Date of Grant</b>	<b>Discount per share <sup>(1)</sup></b>
January 1, 2016 to December 31, 2016	\$ 0.64
January 1, 2017 to December 31, 2017	\$ 0.68
January 1, 2018 to June 30, 2018	\$ 0.68
July 1, 2018 to Present	\$ 0.50

(1) Represents the annual discount for the lack of participation rights on expected dividends. The total discount on any given tranche of unvested shares is calculated as the discount per share multiplied by the number of years in the applicable vesting period.

### Restricted Stock Units

Under the Amended and Restated KKR & Co. Inc. 2010 Equity Incentive Plan, KKR granted awards to employees of the Parent, who provide services to the Company, that relate to Class A common stock, which generally vest over a three to five year period from the date of grant. In certain cases, these awards are subject to transfer restrictions and/or minimum retained ownership requirements. Compensation expense on these awards is calculated based on the fair value of Class A common stock on the grant date discounted for the lack of participation rights in the expected dividends on unvested units. The following table presents information regarding the discount for the lack of participation rights in the expected dividends for shares granted subsequent to December 31, 2015.

<b>Date of Grant</b>	<b>Discount per share <sup>(1)</sup></b>
January 1, 2016 to December 31, 2016	\$ 0.64
January 1, 2017 to December 31, 2017	\$ 0.68
January 1, 2018 to June 30, 2018	\$ 0.68
July 1, 2018 to Present	\$ 0.50

(1) Represents the annual discount for the lack of participation rights on expected dividends. The total discount on any given tranche of unvested shares is calculated as the discount per share multiplied by the number of years in the applicable vesting period.

# KKR CAPITAL MARKETS LLC

## NOTES TO FINANCIAL STATEMENT AS OF DECEMBER 31, 2018

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Expense is recognized on a straight line basis and assumes a forfeiture rate of up to 7% annually based upon expected turnover by employee class.

### **7. Regulatory Requirements**

The Company is subject to the Alternative Standard which requires the maintenance of minimum net capital of the greater of \$250,000 or 2% of aggregate debit items as defined. At December 31, 2018 the Company had net capital of \$174,705,504 which exceeded the required net capital of \$250,000 by \$174,455,504.

The Company is subject to SEC Uniform Net Capital Rule 15c3-1 under the Securities Exchange Act of 1934. The Company is exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934 in that the Company's activities are limited to those set forth in the conditions for exemption appearing in paragraphs (k)(2)(i) and (k)(2)(ii).

### **8. Subsequent Events**

The Company evaluated subsequent events through the date this financial statement was issued. There were no additional subsequent events identified by the Company that should be disclosed in the notes to the financial statement.

\* \* \* \* \*