

KPS Capital Partners, LP
485 Lexington Avenue, 31st Floor
New York, New York 10017
Part 2A of Form ADV
The Brochure

www.kpsfund.com

March 2013

This Brochure provides information about the qualifications and business practices of KPS Capital Partners, LP (“KPS” or the “Firm”). If you have any questions about the contents of this brochure, please contact us at (212) 338-5100. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about KPS is also available on the SEC’s website at:
www.adviserinfo.sec.gov.

Material Changes

There have been no material changes to this Brochure since the last filing.

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Advisory Business

KPS is a limited partnership formed under the laws of the state of Delaware in 2006, but has been doing business through its predecessor and subsidiary entities since 1998. KPS is principally owned by Michael G. Psaros, David P. Shapiro, Raquel V. Palmer and Jay Bernstein (collectively, the “KPS Partners”). KPS is headquartered in New York, New York and also has an affiliate office in Frankfurt, Germany, which was opened in January 2011.

KPS, through its affiliated management entities, serves as investment manager to private pooled investment vehicles organized and sponsored by KPS (collectively, the “Funds”) to make private equity investments. As of December 31, 2012, KPS and its affiliates, managed \$2.5 billion on a discretionary basis on behalf of the Funds.

The Funds primarily focus on making controlling equity and equity-related investments in underperforming or distressed mid-sized, middle-market companies that are challenged by the need to effect immediate and significant change (“Special Situations”). Special Situations include turnarounds, restructurings, bankruptcies, and divestitures of troubled businesses and assets primarily domiciled in, or that derive a substantial portion of their revenues from operations or activities conducted in, North America and Western Europe, though KPS may pursue attractive investments outside of these regions on an opportunistic basis. KPS exercises oversight of its investments through representation on the board of directors of its portfolio companies by one or more members of senior management.

The managers and general partners of each of the Funds listed below are owned and controlled by KPS or the KPS Partners. The Funds for which KPS, through its affiliates (as described below), provides management services are as follows:

- ***KPS Special Situations Fund II, L.P. (“Fund II”)***
Delaware limited partnership
- ***KPS Special Situations Fund II (A), L.P. (“Fund II (A)” and, together with Fund II, “KPS II”)***
Delaware limited partnership
- ***KPS Special Situations Fund III, LP (“Fund III”)***
Delaware limited partnership
- ***KPS Special Situations Fund III (A), L.P. (“Fund III (A)”)***
Cayman Islands exempted limited partnership
- ***KPS Special Situations Fund III, Ltd. (“Fund III Feeder”)***
Cayman Islands exempted company
- ***KPS Special Situations Fund III (AIV), LP (“Fund III AIV”)***
Alberta limited partnership
- ***KPS Special Situations Fund III (AIV II), LP (“Fund III AIV II” and, together with Fund III, Fund III (A), Fund III Feeder and Fund III AIV, “KPS III”)***
Delaware limited partnership
- ***KPS Special Situations Fund III (Supplemental), LP (“Fund III Supplemental”)***
Alberta limited partnership
- ***KPS Special Situations Fund III (Supplemental – Feeder), Ltd. (“Fund III Supplemental Feeder”)***
Cayman Islands exempted company
- ***KPS Special Situations Fund III (Supplemental – AIV), LP (“Fund III Supplemental AIV”)***
Delaware limited partnership
- ***KPS Special Situations Fund III (Supplemental – AIV II), LP (“Fund III Supplemental AIV II” and, together with Fund III Supplemental, Fund III Supplemental Feeder and Fund III Supplemental AIV, “KPS III Supplemental”)***
Delaware limited partnership

KPS II, KPS III and KPS III Supplemental are closed to new capital commitments.

Information about the Funds is included in this Brochure and is qualified in its entirety by information contained in the Funds' confidential offering documents, including any private placement memoranda, limited partnership agreements or similar governing documents (the "Governing Documents"). The Funds' Governing Documents contain complete information on the investment objectives and investment restrictions applicable to each Fund.

KPS Management II, L.P. is a wholly-owned subsidiary of KPS. It was formed in 2002 and provides investment advisory services to KPS II. KPS Management III, LP is, directly and indirectly, a wholly-owned subsidiary of KPS. It was formed in 2007 and provides investment advisory services to KPS III and KPS III Supplemental. KPS Cayman Management III, Ltd. was formed in 2009 and provides investment advisory services to certain KPS III and KPS III Supplemental entities with respect to certain non-U.S. investments. KPS Cayman Management III, Ltd. is owned, directly and indirectly, by KPS Partners and employees. KPS Capital Germany GmbH is wholly-owned by KPS Cayman Management III, Ltd., was formed in 2010 and provides investment advisory services to KPS III and KPS III Supplemental with respect to investments in Western Europe pursuant to a sub-advisory agreement with KPS Cayman Management III, Ltd. KPS Management IV, LLC is a wholly-owned subsidiary of KPS. It was formed in 2013 to provide investment advisory services to certain private pooled investment vehicles which KPS intends to sponsor in the future.

In providing services to the Funds, KPS formulates each Fund's investment objective, directs and manages the investment and reinvestment of each Fund's assets, and provides periodic reports to the investors of each Fund. Investment advice is provided directly to the Funds and not individually to the limited partners or shareholders of the Funds (the "Investors"). KPS manages the assets of each Fund in accordance with the terms and conditions of each Fund's Governing Documents, each of which contains certain restrictions on the types of assets in which the applicable Fund may invest. Investors and prospective investors in a Fund should refer to the applicable Governing Documents for complete information on the specific terms, including investment objectives and investment restrictions, applicable to the Fund. There can be no assurance that any of the Funds' objectives will be achieved.

Fees and Compensation

KPS or an affiliated entity is entitled to a carried interest and also receives a management fee for providing managerial and administrative services to the Funds. Management fees are generally payable by the Funds quarterly in advance and are pro-rated for any period that is less than a full calendar quarter.

The Funds pay their respective management companies (as described in the *Advisory Business* section above), each of which is wholly-owned by KPS, aggregate management fees ranging from 1.5% to 2% per annum of committed capital or actively invested capital of each Fund during the life of such Fund. The Funds are also subject to a carried interest of 20%-25% of profits on distributions derived from the disposition of investments or securities (following a preferred return of 8% to the Investors), which is paid to affiliates of the Firm.

In connection with the investments of the Funds, various “Transaction Fees” may be paid to KPS-affiliated parties by a portfolio company. Such fees are retained in full by the KPS-affiliated parties to whom they are paid; however, an amount equal to 50%-100% of all net monitoring fees and 50% of all other net Transaction Fees reduce the management fees otherwise payable by the applicable Fund. “Transaction Fees” generally include all advisory fees, break-up fees, commitment fees, director’s fees, investment banking fees, and similar fees, payments or compensation received by KPS and certain of its affiliates in connection with an investment or potential investment. These “Transaction Fees” are not based on the exit or sale price of a Fund investment. Accordingly, KPS and its affiliated parties may receive “transaction fees” when a Fund does not ultimately profit from an investment.

Detailed information regarding the fees charged to each Fund is provided in the Fund’s Governing Documents. In addition to management fees and the carried interest, the Funds will pay, or reimburse KPS or its affiliated parties for, certain fees and expenses. Those fees and expenses typically include fees associated with making or selling portfolio investments, including, without limitation, private placement fees, sales commissions, appraisal fees, taxes, brokerage fees, underwriting commissions and discounts, accounting, legal, investment banking, consulting, information services, professional fees, custodial, trustee, record keeping, partnership reporting, insurance, travel (which may include the use of non-commercial planes, in which case generally the equivalent of no more than a first class ticket will be charged so long as a viable commercial flight is available and deemed practicable under the circumstances) and other expenses that may be paid or reimbursed to KPS by the Funds. In addition, the Funds may pay or reimburse KPS for legal and accounting fees, taxes, commissions and brokerage fees, registration expenses, fees to government regulatory agencies, the cost of directors’ and officers’ liability insurance and other expenses such as litigation or broken deal expenses, investment banking fees, investment related consultants and other service providers expenses and expenses incurred with respect to the preparation, duplication and distribution of offering documents, annual reports and other financial information, other offering expenses, expenses incurred during annual Investor meetings. All fees paid to any placement agent employed in connection with the offering and sale of interests of a Fund (“Placement Fees”) will be charged to such Fund; however, 100% of all Placement Fees will reduce the management fee otherwise payable by a Fund, on an aggregate basis. The general partner of each Fund, in its sole discretion, may call capital for expenses (including management fees) or may fund such amounts out of disposition proceeds.

A more detailed list of expenses paid by the Funds is set forth in the applicable Governing Documents of the Funds. The fees and expenses borne by a Fund are negotiated with the Investors during such Fund’s fundraising period. Investors should review all fees charged by KPS, its related parties, and others to fully understand the total amount of fees to be paid by the Funds and, indirectly, their respective Investors. Expenses paid by the Funds are allocated among the parallel funds and alternative investment vehicles that shared in the activities generating such expenses.

Performance Based Fees and Side-by-Side Management

As discussed in the Fees and Compensation section of this Brochure, the Funds are subject to a carried interest of 20-25%, which is paid to general partners that are affiliated with KPS. Although the carried interest is generally used to align KPS’s interests with those of its Funds’

Investors, it may also create an incentive for KPS to make more speculative investments. In addition, the carried interest may incentivize KPS to make different decisions regarding the timing and manner of the realization of its Funds' portfolio investments than would be the case if the carried interest did not exist. KPS seeks to address these conflicts through careful vetting of investment opportunities by its investment professionals and disclosure of investments to Investors by way of capital call notices and quarterly reports. In addition, the Governing Documents of the Funds contain "claw back" provisions applicable in the event of overpayment of the carried interest.

The possibility exists that multiple Funds that do not, by their terms, invest together, may have capital available for investment at the same time. KPS addresses such conflicts by bringing them to the applicable Funds' advisory boards which are comprised of representatives of the Investors of such Funds ("Advisory Boards"). In such case, KPS will allocate the opportunity (including, any related co-investment opportunities) through a methodology approved by the applicable Funds' Advisory Boards.

Types of Clients

KPS provides advisory services to the Funds, each of which is a private pooled investment vehicle, through its affiliated parties as described in the *Advisory Business* section above. Investors in the Funds may include a variety of institutional investors (e.g., trusts, public and private employee benefit plans, endowments, foundations, corporations and other types of entities including private funds) and high net worth individuals. The Funds are operated such that they qualify as "private equity funds" for purposes of Form PF.

Investment in the Funds is limited to Investors that meet certain financial sophistication requirements. Investors in the Funds must be (i) "accredited investors" within the meaning of Regulation D under the Securities Act of 1933, as amended, and (ii) "qualified purchasers" within the meaning of the Investment Company Act of 1940, as amended (the "1940 Act"). Certain KPS employees who qualify as "knowledgeable employees" under Rule 3c-5 of the 1940 Act are also permitted to invest (directly or indirectly) in the Funds. Investors considering an investment in the Funds should consult with their own investment, tax and/or legal consultants prior to investing.

Additional details concerning applicable Investor suitability criteria are set forth in the Governing Documents of each Fund. The minimum investment in the Funds is generally \$10 million, although the general partners of the Funds may waive or modify the minimum investment in their sole discretion.

Methods of Analysis, Investment Strategies and Risk of Loss

In formulating investment strategies and investment advice for the Funds, KPS conducts comprehensive due diligence. KPS's analysis typically focuses on the target company's business, business model and competitive environment, financial structure and performance, opportunities for value creation, favorable regulation or regulatory events, current and future cash flow projections, as well as synergies with KPS's investment process.

KPS generally seeks to invest in, and to acquire control of, fundamentally attractive companies or assets (of businesses being divested by corporate sellers), confronting strategic, operating or management problems that result, individually or collectively, in the underperformance, distress, or bankruptcy of the target. KPS focuses on investing capital concurrent with a plan to return the target's operations to profitability. KPS's turnaround plans are premised on cost reduction, productivity improvements, capital investment, capital availability, and, in most situations, the introduction of a new management team and business strategy focused on modernization and growth. More detailed information regarding KPS's investment strategy and activities is contained in the Governing Documents of each Fund.

Acquiring interests in any Fund involves a number of risks. An investment in a Fund may be deemed a speculative investment and is not intended as a complete investment program. It is designed for sophisticated investors who fully understand and are capable of bearing the risk of an investment in a Fund, and are capable of bearing illiquidity for substantial periods of time. No guarantee or representation can be made that a Fund will meet its investment objectives or that Investors will receive a return of their capital. All investing involves a risk of loss and the investment strategy offered by KPS could lose money over short or even long periods. Prospective and existing Investors are advised to review the Governing Documents of the applicable Fund for additional detail regarding investment, operational and other actual and potential risks applicable to a particular Fund.

Certain material risks presented by KPS's investment strategy are set forth below. This Brochure does not purport to contain a complete disclosure of all risks that may be relevant to a prospective Investor in a Fund. Investing in the Funds involves a risk of loss that an Investor should be prepared to bear. Investments recommended by KPS involve significant risks. There can be no assurance that KPS will meet the investment objectives of a Fund or otherwise be able to carry out its investment strategy successfully.

General Business and Management Risk

Investments in portfolio companies subject the Funds to the general risks associated with the underlying businesses, including market conditions, changes in regulatory requirements, reliance on management at the portfolio company level, interest rate and currency fluctuations, general economic downturns, domestic and foreign political situations and other factors.

Broad Investment Charter; Competition

Each Fund has a broad investment charter, and there are only a few formal constraints on the type of investments in which a Fund may invest. There can be no guarantee that KPS will be able to identify a sufficient number of investment opportunities for each Fund to enable it to invest fully its capital in opportunities that satisfy such Fund's investment objectives, or that such investment opportunities will lead to successful investments.

Distressed Companies

The Funds will invest in companies that are experiencing significant financial or business distress, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Investments may be undertaken prior to, during or after a restructuring or bankruptcy. Although investments in distressed companies may result in significant returns to the Funds, they involve a substantial degree of risk and may not show any return for a considerable period of time, if at all.

Non-U.S. Investments

Investing outside the U.S. may involve greater risks than investing in the U.S. There is generally less publicly available information about non-U.S. companies, and there may be less government regulation and supervision of non-U.S. companies and investments. There may also be difficulty in enforcing legal rights outside of the United States. Moreover, non-U.S. companies generally are not subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies.

Lack of Diversification

Although the Governing Documents of the Funds include certain minimum diversification limits, diversification is not an objective of the Funds. A Fund's portfolio may include a small number of large positions. If a Fund's investments are concentrated in a few portfolio companies or industries, any adverse change in one or more of such portfolio companies or industries could have a material adverse effect on such Fund's portfolio of investments. Therefore, while this portfolio concentration may enhance total returns to Investors, if any large position has a material loss, then returns to the Investors may be lower than if they had invested in a well diversified portfolio.

Illiquidity of Investments

An investment in a Fund requires a long-term commitment with no certainty of return. It is unlikely there will be near-term cash flow available to the Investors. Many of the Funds' investments will be highly illiquid, and there can be no assurance that the Funds will be able to realize such investments at attractive prices or otherwise be able to effect a successful realization or exit strategy. Consequently, dispositions of such investments may require a lengthy time period or may result in distributions in-kind to the Investors. Additionally, a Fund may acquire securities that cannot be sold except pursuant to a registration statement filed under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or in accordance with Rule 144 promulgated under the Securities Act. There can be no assurance that private purchasers can be found for a Fund's investments. Finally, in some cases a Fund may be prohibited by contract from selling securities for a period of time.

Controlling Positions

The Funds may invest in a company with the intent to subsequently acquire a controlling position in such company. Until a Fund obtains a controlling position, the ability to implement change in the company or otherwise protect the Fund's position will be very limited. Even if a Fund obtains a controlling position, KPS will be limited by applicable regulations governing such positions, and may face other limitations pursuant to the company's governing documents.

Litigation

While it is generally KPS's policy not to engage in hostile takeovers, KPS's investment activities subject it to the risk of becoming involved in litigation with third parties. This risk is somewhat greater in connection with reorganizations, which can be contentious and adversarial. It is not unusual for participants to use the threat of, as well as actual, litigation as a negotiating technique. KPS anticipates that during the term of a Fund, KPS and the Funds may be named as defendants in civil proceedings. In addition, KPS and the Funds may pursue litigation against third parties, including other financial institutions. Pursuing these legal proceedings may not prove successful and could negatively impact broader relationships with these institutions. The expense of

defending or pursuing these claims and paying any amounts pursuant to settlements or judgments would generally be borne by the Funds. KPS, its employees and others are entitled to be indemnified by the related Fund in connection with such litigation, subject to certain conditions.

Valuation of Assets

A majority of the Funds' investments are fair valued by KPS or an affiliated party. When estimating fair value, KPS will apply a methodology based on its good faith judgment of the nature, facts, and circumstances of the investment. Assigned values may not be realized.

Dependence on Key Personnel

The success of the Funds will be highly dependent on the financial and managerial expertise of the KPS Partners. The loss of one or more of the KPS Partners could have a material adverse effect on the performance of the Funds. The interests of these professionals in the general partners of the Funds should tend to discourage them from withdrawing from participation in the Funds' investment activities. However, there can be no assurance that such KPS Partners will continue to be associated with the general partners of the Funds or its affiliates throughout the life of the Funds, as the KPS Partners are under no contractual obligation to remain with the general partners of the Funds for all or any portion of the term of the Funds. In addition, in the event that the KPS Partners cannot agree on decisions affecting the Funds, the investment results of the Funds may be adversely affected.

Difficulty of Locating Suitable Investments

There can be no assurance that there will be a sufficient number of suitable investment opportunities to enable the Funds to invest all of their committed capital in opportunities that satisfy the Funds' investment objectives, or that such investment opportunities will lead to completed investments by the Funds. The activity of identifying, completing and realizing an attractive investment opportunity is highly competitive and involves a high degree of uncertainty. The Funds will compete for the acquisition of investments with other investors, some of which may have greater resources than the Funds. Such competitors may include other private investment funds as well as individuals, financial institutions and other institutional investors. Further, over the past several years, an ever-increasing number of private investment funds have been formed (and many existing funds have grown in size). In addition, the availability of investment opportunities generally will be subject to market conditions as well as, in some cases, the prevailing regulatory or political climate. Therefore, identification of attractive investment opportunities is difficult and involves a high degree of uncertainty, and competition for such opportunities may become more intense. There can be no assurance that KPS will be able to identify a sufficient number of investment opportunities for the Funds to enable it to invest fully the commitments in opportunities that satisfy the Funds' investment objectives, or that such investment opportunities will lead to completed investments by the Funds.

Disciplinary Information

KPS and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to an Investor's evaluation of KPS or its personnel.

Other Financial Industry Activities and Affiliations

Related persons of KPS may serve as directors and officers of, and provide advice to, publicly traded companies and private companies. Investors should be aware that receipt of material non-public information by KPS's related persons regarding these companies could preclude KPS from effecting transactions in the securities of such companies. Compensation for directorships with portfolio companies of the Funds are Transaction Fees and a portion of such amounts are transferred for the benefit of the relevant Fund(s) as described above.

Certain of the related persons of KPS may have personal investments in companies, limited partnerships or limited liability companies. To the extent that conflicts arise, they are reviewed by KPS's Chief Compliance Officer.

Expenses borne by the Funds are allocated among any parallel funds, alternative investment vehicles, co-investment vehicles, and other entities that comprise the Funds that shared in the activities generating such expenses.

It is possible that KPS may occasionally utilize the services of entities that have, directly or indirectly, or whose affiliates have, investments in the Funds. Such services will only be used on an arm's length basis and when they are in the best interest of the Funds.

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

KPS employees must put the interests of the Funds before their own personal interests and must act honestly and fairly in all respects in dealings with the Funds and Investors. KPS has adopted a Code of Ethics and related internal compliance policies and procedures which govern, among other things, the personal trading activities of its employees. Among other requirements, all employees must obtain pre-approval from the Chief Compliance Officer or his designee for certain personal trades and must also periodically report personal securities accounts in which they hold a beneficial interest, including certain related holdings and transactions. Should potential conflicts of interest arise, KPS employees have an ongoing responsibility to report such conflicts to the Chief Compliance Officer or his designee, who will address such conflicts on a case-by-case basis. KPS has also adopted compliance policies and procedures regarding gifts and entertainment as well as charitable and political contributions. The Chief Compliance Officer or his designee will regularly review all employee personal trading. Investors or prospective Investors may obtain a copy of the Code of Ethics by contacting Mr. Stephen Hoey at (212) 338-5100.

KPS and its affiliates may from time to time incur expenses on behalf of one or more existing or subsequent Funds. In such cases, KPS and its affiliates will attempt to allocate such expenses on a basis that it considers equitable under the circumstances.

From time to time, KPS employees may be offered and utilize discounts or complimentary services not otherwise available to the public from a KPS portfolio company or other business relationship. Such discounts and services may be subject to pre-clearance and/or reporting pursuant to KPS's gifts and entertainment policy.

KPS and its related persons make decisions separately with respect to each Fund. From time to time, a decision that is in the best interest of one Fund may not be in the best interest of, or may be detrimental to, another Fund. With respect to any conflicts of any nature relating to one or more of the Funds, KPS will consult with the Advisory Boards of the applicable Funds. Any decisions of an Advisory Board authorized by the Governing Documents are binding on the Investors of the applicable Fund.

KPS and its related persons may, from time to time, come into possession of material, nonpublic and other confidential information which, if disclosed, might affect an investor's decision to buy, sell or hold a security. Under applicable law, KPS and its related persons are prohibited from improperly disclosing or using such information for their own benefit or for the benefit of any other person, regardless of whether such person is a Fund. By reason of its responsibilities to the Funds and notwithstanding procedural safeguards including restricted securities lists, KPS may acquire material nonpublic or other confidential information that would limit its ability to direct the purchase or sale of certain investments. Moreover, KPS may be restricted from initiating transactions in certain instruments or selling certain investments, due to its possession of material nonpublic or other confidential information, at a time when it would otherwise take such action.

KPS and certain of its affiliated parties and employees are Investors in the Funds. As such, KPS and certain of its affiliated parties and employees have a direct financial interest in the transactions of each of the Funds. While investments by such related parties are intended to align the interests of KPS and the related parties with those of the Funds, such investments may create conflicts of interest. To address such conflicts, the investment arrangements are described and agreed upon in the Governing Documents of each Fund. Generally, investments and dispositions are made on the same economic terms for all Investors, including KPS and its related parties and each investment is made pro rata among the Investors of each Fund, including KPS's related parties who are Investors, so that KPS and its related parties may not receive more favorable terms or greater exposure to certain investments.

Brokerage Practices

KPS's business is to focus on making investments in private securities. Accordingly, it does not typically trade in public securities. In the limited circumstances where KPS purchases or sells public securities as part of a private equity transaction or has such securities as a result of a portfolio company going public, it intends to follow applicable SEC guidelines and to seek to obtain best execution of such transactions. KPS does not have any formal soft dollar arrangements or other arrangements that would commit the Funds to any specific or implied level of trading. As an institutional money manager, KPS may receive access to research made available through brokerage counterparties or investment banks. KPS believes this research is available to all institutional money managers of similar size.

KPS strives to select broker-dealers, investment banks or financial intermediaries that provide the Funds with favorable execution capabilities and qualities. Certain entities are utilized for the Funds due to their presence in specific markets and their ability to trade certain securities or complete specialized types of transactions. Research or additional ancillary services not associated with the transaction provided by such service providers are not determining factors for engaging a particular service provider.

Review of Accounts

As noted above, KPS focuses on investments in private equity. Prior to being made, all investments are carefully reviewed and approved by KPS's Investment Committee, which is comprised of Messrs. Psaros and Shapiro and Ms. Palmer. The progress of all portfolio companies is monitored on a regular basis, including monthly review calls conducted by KPS's portfolio operations staff with company management, and is subject to supervision and review by KPS's senior management. KPS's Valuation Committee reviews the valuation of the Funds' investments quarterly in accordance with its valuation policy.

KPS also exercises oversight of its investments through representation on the board of directors of its portfolio companies. KPS generally requires that its portfolio companies report their financial condition on a monthly basis and schedules quarterly board meetings. In addition, KPS generally conducts monthly meetings with its full investment staff to discuss the financial condition of each investment.

KPS provides quarterly and annual reports (including annual audited financial statements) to each of the Funds' Investors in accordance with the terms of the Governing Documents of the Funds. In addition, each Investor receives annual tax information with respect to the Funds as necessary for the completion of any applicable Federal tax returns.

Client Referrals and Other Compensation

In certain circumstances, KPS may, pursuant to a written agreement, pay cash consideration for solicitation activities to third parties. KPS intends to pay such consideration in compliance with applicable SEC rules and other laws and regulations that may be in effect from time to time.

In connection with the offer and sale of interests in KPS II, KPS engaged Probitas Funds Group, LLC ("Probitas") and MC Financial Services, Ltd. ("MC Financial") as placement agents. Both Probitas and MC Financial were compensated based on a percentage of capital commitments received from certain investors in KPS II and also received reimbursement of certain out-of-pocket expenses. In addition, Probitas received non-cash compensation in the form of a right to receive a fixed percentage of the carried interest received by the general partner of KPS II.

In connection with the offer and sale of interests in certain of the KPS III entities, KPS also engaged Probitas and MC Financial as placement agents. Probitas received a fixed cash fee as well as non-cash compensation in the form of a right to invest in one of the general partners of KPS III. MC Financial was compensated based on a percentage of capital commitments received from certain investors in KPS III. Both Probitas and MC Financial also received reimbursement of certain out-of-pocket expenses.

Custody

To the extent possible, the assets of the Funds are held in custody by unaffiliated broker/dealers, banks or other qualified custodians. KPS is deemed to have access to Investor accounts since its affiliates serve as the general partners of the Funds. Investors will not receive statements from the

custodian. Instead, the Funds are subject to an annual audit by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and the audited financial statements are distributed to each Fund's Investors. The audited financial statements are prepared in accordance with generally accepted accounting principles and distributed within 120 days of each Fund's fiscal year end.

Investment Discretion

The Governing Documents of each Fund grant KPS's affiliated management entities and affiliated general partners discretionary authority to implement investment decisions on behalf of the Funds and to utilize a broad range of investment vehicles. KPS's investment decisions and advice with respect to each Fund is subject to the limitations set forth in such Fund's Governing Documents and any side letters that it executes with Investors.

Voting Client Securities

The Funds are primarily invested in private companies which typically do not issue proxies. In the event that a Fund acquires equity positions or other positions in entities that may solicit proxies, KPS will develop and implement policies and procedures to vote such proxies.

As is typical in private equity investing, KPS generally approves one or more of its employees to act as representatives on the board of directors of portfolio companies on behalf of the Funds. As noted herein, a number of KPS's investment professionals serve as board members of the Funds' portfolio companies in such representative capacity. In situations where KPS votes the proxy for a company in which an employee or employees of KPS serve on the board of directors, KPS has determined that this does not inherently present a conflict of interest as (a) the employee is on the board of directors as a representative of the Funds and (b) the sole purpose of this representation is to maximize the return on the Funds' investment in such company and to ensure that the Funds' interests are protected. Given these facts, the Funds and the representative's role are aligned with respect to proxy voting and otherwise.

Financial Information

KPS has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.