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KKR Financial Corp. Q3 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions). We will go first to Faye Elliott with Merrill Lynch.

Faye Elliott - Merrill Lynch

Thanks for taking my call. Can you give us a sense of the level of income we could see including the cash that is being trapped, if it were to actually be the case through the rest of the fourth quarter?

Nino Fanlo

Sure, Faye. As Jeff indicated, our run rate, which is a GAAP figure, reflects what the earnings are. As Dave indicated, the amount of cash flow available is a function of the change in rating agency actions and the price of securities at any point. I think what Dave indicated was we felt very comfortable that regardless of rating agency actions and price deterioration, the firm had adequate resources to meet all its financial liabilities and expenses.

And the amount of actual cash that would be available for distribution and further investment was a function of the price action.

Dave, would you like to expand on that?

Dave Netjes

Yes. Just the last item say is whether or not cash is trapped in a structure for GAAP that has no impact on our GAAP earnings because for GAAP purposes the CLOs are ignored. So the only thing that impacts our GAAP earnings are if assets go on non-accrual status or obviously if we have asset that we charge off. But trapping cash will not have any impact on our GAAP run rate earnings.

Operator

Our next question is from Jim Ballan with JPMorgan.

Jim Ballan - JPMorgan

Great. Thanks a lot. Can you talk a little bit about the pace at which capital is being returned to you, has that continued to slow? And, I mean, I guess for the assets that are in the CLOs that cash has either been reinvested or used to delever. But for the assets that are outside of the CLOs say that are

in Wayzata, what are you using that liquidity for? Are you using it to pay down Wayzata or holding onto that cash?

Nino Fanlo

I think we have to bracket the world into two worlds. Prior to the events of September 30, and the remarkable financial market performance of October, we were actively investing identifying new opportunities. And I would describe the world as it was as the way we had previously described, we were judiciously investing.

In September and October, I think events took more control of themselves, and cash was being diverted for reserves against further price declines. And of course events continue to transpire. NRG just a couple of weeks ago received a takeover bid. And we believe that there will likely be a monetization.

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