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KKR Financial Holdings LLC Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you. (Operator instructions) We will take our first question from John Hecht with JMP Securities.

John Hecht – JMP Securities

Good morning and thanks for taking my questions. Can you guys hear me?

Bill Sonneborn

Yes we can. Good morning.

John Hecht – JMP Securities

Good morning. I wonder if you guys could just looking at page nine in your top 50 holdings, may be take us through what might perceive as a watch list for some of the investments where you kind of trying to watch for incremental risk in high degrees of risk.

Bill Sonneborn

Sure. We can spend a little bit of time talking about we think is watch list. There are a number of names on the list on page 9, which we do hold in our watch list and a number of these names that we also reflect in both our specific and general reserve from a probability of loss perspective. Going through the list, if you kind of look in the top 10, obviously Realogy is one that has been on our watch list for a considerable period of time which is listed as number 10 on the list. In addition number 14, Las Vegas Sands is on that list, Lyondell number 22 is on the list, Marsico number 26 is on the list, Michaels Stores number 28 is on that list, Harrah's number 37 is on that list, and NXP number 33 is on that list, Nuveen Investments number 39, Freescale number 40. I think that Neiman Marcus number 50 is on that list.

John Hecht – JMP Securities

Will you guys put together a general provision this quarter, I guess in the context of that type of watch list? What kind of frequency and recovery rates would you be assuming given the credit markets right now?

Bill Sonneborn

We look at each credit on its own, depending upon the circumstances of the credit and forecast both the probability as well as the severity of loss based upon the underlying position we hold in the capital structure, the fundamentals of how that business is performing, our own expectations of what the asset value of that business, what would happen to the extent that business went into restructuring, and what we think the ultimate realized losses would be. So it is hard to say as a general rule what that number is because it is case-by-case, company specific.

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