

Blackstone Group L.P.
Form 10-Q
November 02, 2012
Table of Contents

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, 2012
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: 001-33551

The Blackstone Group L.P.

(Exact name of Registrant as specified in its charter)

Edgar Filing: Blackstone Group L.P. - Form 10-Q

Delaware
(State or other jurisdiction of

20-8875684
(I.R.S. Employer

incorporation or organization)

Identification No.)

345 Park Avenue

New York, New York 10154

(Address of principal executive offices)(Zip Code)

(212) 583-5000

(Registrant's telephone number, including area code)

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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 voting common units representing limited partner interests outstanding as of October 26, 2012 was 423,776,109. The number of the Registrant's non-voting common units representing limited partner interests outstanding as of October 26, 2012 was 101,334,234.

Table of Contents**TABLE OF CONTENTS**

	Page
PART I. FINANCIAL INFORMATION	
ITEM 1. <u>FINANCIAL STATEMENTS</u>	4
Unaudited Condensed Consolidated Financial Statements – September 30, 2012 and 2011:	
<u>Condensed Consolidated Statements of Financial Condition as of September 30, 2012 and December 31, 2011</u>	4
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2012 and 2011</u>	6
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2012 and 2011</u>	7
<u>Condensed Consolidated Statements of Partners – Capital for the Nine Months Ended September 30, 2012 and 2011</u>	8
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2012 and 2011</u>	10
<u>Notes to Condensed Consolidated Financial Statements</u>	12
ITEM 1A. <u>UNAUDITED SUPPLEMENTAL PRESENTATION OF STATEMENTS OF FINANCIAL CONDITION</u>	56
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	59
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	115
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	118
PART II. OTHER INFORMATION	
ITEM 1. <u>LEGAL PROCEEDINGS</u>	119
ITEM 1A. <u>RISK FACTORS</u>	120
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	120
ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	121
ITEM 4. <u>MINE SAFETY DISCLOSURES</u>	121
ITEM 5. <u>OTHER INFORMATION</u>	121
ITEM 6. <u>EXHIBITS</u>	121
<u>SIGNATURES</u>	123
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, believes, expects, potential, continues, may, will, should, seeks, approximately, predicts, intends, plans, estimates, anticipates or the negative version of these words or other comparative 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 the section entitled "Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2011 and in this report, as such factors may be updated from time to time in our periodic filings.

Table of Contents

with the United States Securities and Exchange Commission (SEC), which are accessible on the SEC 's website at 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. The forward-looking statements speak only as of the date of this report, and we undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

In this report, references to Blackstone, the Partnership , we, us or our refer to The Blackstone Group L.P. and its consolidated subsidiaries. Unless the context otherwise requires, references in this report to the ownership of Mr. Stephen A. Schwarzman, our founder, and other Blackstone personnel include the ownership of personal planning vehicles and family members of these individuals.

Blackstone Funds, our funds and our investment funds refer to the private equity funds, real estate funds, funds of hedge funds, credit-oriented funds, collateralized loan obligation (CLO) vehicles, and closed-end mutual funds and management investment companies that are managed by Blackstone. Our carry funds refer to the private equity funds, real estate funds and certain of the credit-oriented funds (with multi-year drawdown, commitment-based structures that only pay carry on the realization of an investment) that are managed by Blackstone. Blackstone 's Private Equity segment comprises its management of private equity funds (including our sector and regional focused funds), which we refer to collectively as our Blackstone Capital Partners (BCP) funds, and certain multi-asset class investment funds which we collectively refer to as our Blackstone Tactical Opportunities Accounts (Tactical Opportunities). We refer to our real estate opportunistic funds as our Blackstone Real Estate Partners (BREP) funds and our real estate debt investment funds as our BREDS funds. Our hedge funds refer to our funds of hedge funds, certain of our real estate debt investment funds and certain other credit-oriented funds (including four publicly registered investment companies), which are managed by Blackstone.

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

- (a) the fair value of the investments held by our carry funds and our side-by-side and co-investment entities managed by us, plus the capital that we are entitled to call from investors in those funds and entities pursuant to the terms of their respective capital commitments,
- (b) the net asset value of our funds of hedge funds, hedge funds, closed-end mutual funds and registered investment companies,
- (c) the fair value of assets we manage pursuant to separately managed accounts, and
- (d) the amount of capital raised for our CLOs.

Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election. Our funds of hedge funds and hedge funds generally have structures that afford an investor the right to withdraw or redeem their interests on a periodic basis (e.g., annually or quarterly), in most cases upon advance written notice, with the majority of our funds requiring from 60 days up to 95 days notice, depending on the fund and the liquidity profile of the underlying assets. Investment advisory agreements related to separately managed accounts may generally be terminated by an investor on 30 to 90 days notice.

Fee-earning assets under management refers to the assets we manage on which we derive management and / or performance fees. Our fee-earning assets under management equals the sum of:

- (a) for our Private Equity segment funds and carry funds in our Real Estate segment, which include certain real estate debt investment funds, the amount of capital commitments, remaining invested capital or par value of assets held, depending on the fee terms of the fund,

Edgar Filing: Blackstone Group L.P. - Form 10-Q

- (b) for our credit-oriented carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,

Table of Contents

- (c) the remaining invested capital of co-investments managed by us on which we receive fees,
- (d) the net asset value of our funds of hedge funds, hedge funds, certain credit-oriented closed-end registered investment companies, and our closed-end mutual funds,
- (e) the fair value of assets we manage pursuant to separately managed accounts,
- (f) the gross amount of underlying assets of our CLOs at cost, and

(g) the gross amount of assets (including leverage) for certain of our credit-oriented closed-end registered investment companies. Our calculations of assets under management and fee-earning assets under management may differ from the calculations of other asset managers, and as a result this measure may not be comparable to similar measures presented by other asset managers. In addition, our calculation of assets under management includes commitments to, and the fair value of, invested capital in our funds from Blackstone and our personnel, regardless of whether such commitments or invested capital are subject to fees. Our definitions of assets under management or fee-earning assets under management are not based on any definition of assets under management or fee-earning assets under management that is set forth in the agreements governing the investment funds that we manage.

For our carry funds, total assets under management includes the fair value of the investments held, whereas fee-earning assets under management includes the amount of capital commitments or the remaining amount of invested capital at cost depending on whether the investment period has or has not expired. As such, fee-earning assets under management may be greater than total assets under management when the aggregate fair value of the remaining investments is less than the cost of those investments.

This report does not constitute an offer of any Blackstone Fund.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****THE BLACKSTONE GROUP L.P.****Condensed Consolidated Statements of Financial Condition (Unaudited)****(Dollars in Thousands, Except Unit Data)**

	September 30, 2012	December 31, 2011
Assets		
Cash and Cash Equivalents	\$ 833,515	\$ 754,744
Cash Held by Blackstone Funds and Other	802,415	724,762
Investments (including assets pledged of \$69,158 and \$101,298 at September 30, 2012 and December 31, 2011, respectively)	20,766,700	15,128,299
Accounts Receivable	498,543	406,140
Reverse Repurchase Agreements	105,581	139,485
Due from Affiliates	877,131	860,514
Intangible Assets, Net	622,280	595,488
Goodwill	1,703,602	1,703,602
Other Assets	375,418	337,396
Deferred Tax Assets	1,215,254	1,258,699
Total Assets	\$ 27,800,439	\$ 21,909,129
Liabilities and Partners Capital		
Loans Payable	\$ 12,875,686	\$ 8,867,568
Due to Affiliates	1,787,656	1,811,468
Accrued Compensation and Benefits	1,295,598	903,260
Securities Sold, Not Yet Purchased	105,164	143,825
Repurchase Agreements	69,452	101,849
Accounts Payable, Accrued Expenses and Other Liabilities	825,153	828,873
Total Liabilities	16,958,709	12,656,843
Commitments and Contingencies		
Redeemable Non-Controlling Interests in Consolidated Entities	1,450,970	1,091,833
Partners Capital		
Partners Capital (common units: 525,030,937 issued and outstanding as of September 30, 2012; 489,430,907 issued and outstanding as of December 31, 2011)	4,628,105	4,281,841
Appropriated Partners Capital	737,079	386,864
Accumulated Other Comprehensive Income	1,403	1,958
Non-Controlling Interests in Consolidated Entities	1,321,964	1,029,270
Non-Controlling Interests in Blackstone Holdings	2,702,209	2,460,520
Total Partners Capital	9,390,760	8,160,453
Total Liabilities and Partners Capital	\$ 27,800,439	\$ 21,909,129

See notes to condensed consolidated financial statements.

Table of Contents**THE BLACKSTONE GROUP L.P.****Condensed Consolidated Statements of Financial Condition (Unaudited)****(Dollars in Thousands)**

The following presents the portion of the consolidated balances presented above attributable to consolidated Blackstone Funds which are variable interest entities. The following assets may only be used to settle obligations of these consolidated Blackstone Funds and these liabilities are only the obligations of these consolidated Blackstone Funds and they do not have recourse to the general credit of Blackstone.

	September 30, 2012	December 31, 2011
Assets		
Cash Held by Blackstone Funds and Other	\$ 697,086	\$ 598,441
Investments	12,639,441	8,961,960
Accounts Receivable	67,060	33,405
Due from Affiliates	30,827	36,502
Other Assets	39,640	12,031
Total Assets	\$ 13,474,054	\$ 9,642,339
Liabilities		
Loans Payable	\$ 11,196,721	\$ 7,801,136
Due to Affiliates	258,901	311,909
Accounts Payable, Accrued Expenses and Other	308,476	244,488
Total Liabilities	\$ 11,764,098	\$ 8,357,533

See notes to condensed consolidated financial statements.

Table of Contents**THE BLACKSTONE GROUP L.P.****Condensed Consolidated Statements of Operations (Unaudited)****(Dollars in Thousands, Except Unit and Per Unit Data)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues				
Management and Advisory Fees, Net	\$ 469,109	\$ 425,193	\$ 1,428,833	\$ 1,335,971
Performance Fees				
Realized				
Carried Interest	83,765	(9,633)	153,254	126,520
Incentive Fees	11,588	16,238	28,497	38,051
Unrealized				
Carried Interest	403,465	(382,949)	786,551	660,356
Incentive Fees	104,312	(79,953)	155,011	(369)
Total Performance Fees	603,130	(456,297)	1,123,313	824,558
Investment Income (Loss)				
Realized	18,559	45,596	40,652	77,682
Unrealized	119,599	(145,990)	181,906	70,116
Total Investment Income (Loss)	138,158	(100,394)	222,558	147,798
Interest and Dividend Revenue				
Other	10,278	9,085	27,181	27,423
	2,415	(1,666)	443	1,721
Total Revenues	1,223,090	(124,079)	2,802,328	2,337,471
Expenses				
Compensation and Benefits				
Compensation	503,295	494,478	1,531,917	1,853,393
Performance Fee Compensation				
Realized				
Carried Interest	22,023	(1,836)	37,860	30,409
Incentive Fees	4,457	12,378	14,284	22,388
Unrealized				
Carried Interest	128,863	(74,123)	250,221	175,546
Incentive Fees	44,254	(37,312)	47,437	(6,358)
Total Compensation and Benefits	702,892	393,585	1,881,719	2,075,378
General, Administrative and Other	139,172	124,929	417,675	380,433
Interest Expense	19,074	13,785	47,365	41,773
Fund Expenses	(9,747)	8,635	28,243	19,045
Total Expenses	851,391	540,934	2,375,002	2,516,629
Other Income (Loss)				
Net Gains (Losses) from Fund Investment Activities	(135,960)	(329,399)	400,412	(449,244)
Income (Loss) Before Provision (Benefit) for Taxes	235,739	(994,412)	827,738	(628,402)
Provision (Benefit) for Taxes	39,237	(7,637)	119,327	95,412

Edgar Filing: Blackstone Group L.P. - Form 10-Q

Net Income (Loss)	196,502	(986,775)	708,411	(723,814)
Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	41,854	(47,922)	78,447	(24,980)
Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities	(157,607)	(262,207)	279,970	(448,753)
Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings	183,431	(402,079)	237,809	(104,455)
Net Income (Loss) Attributable to The Blackstone Group L.P.	\$ 128,824	\$ (274,567)	\$ 112,185	\$ (145,626)
Net Income (Loss) Per Common Unit Basic and Diluted	\$ 0.24	\$ (0.56)	\$ 0.21	\$ (0.31)
Weighted-Average Common Units Outstanding Basic	544,716,399	487,189,657	526,892,258	470,551,727
Weighted-Average Common Units Outstanding Diluted	546,923,603	487,189,657	532,702,872	470,551,727
Revenues Earned from Affiliates				
Management and Advisory Fees	\$ 48,972	\$ 56,900	\$ 153,089	\$ 245,854

See notes to condensed consolidated financial statements.

Table of Contents**THE BLACKSTONE GROUP L.P.****Condensed Consolidated Statements of Comprehensive Income (Unaudited)****(Dollars in Thousands)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net Income (Loss)	\$ 196,502	\$ (986,775)	\$ 708,411	\$ (723,814)
Other Comprehensive Income (Loss), Net of Tax Adjustment	14,637	(6,322)	(8,792)	15,266
Comprehensive Income (Loss)	211,139	(993,097)	699,619	(708,548)
Less:				
Comprehensive Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	41,854	(47,922)	78,447	(24,980)
Comprehensive Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities	(142,440)	(267,744)	271,733	(431,030)
Comprehensive Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings	183,431	(402,079)	237,809	(104,455)
Comprehensive Income (Loss) Attributable to The Blackstone Group L.P.	\$ 128,294	\$ (275,352)	\$ 111,630	\$ (148,083)

See notes to condensed consolidated financial statements.

Table of Contents**THE BLACKSTONE GROUP L.P.****Condensed Consolidated Statements of Changes in Partners Capital (Unaudited)**

(Dollars in Thousands, Except Unit Data)

	The Blackstone Group L.P.							Redeemable Non- Controlling Interests in Consolidated Entities
	Common Units	Partners Capital	Appro- priated Partners Capital	Accumulated Other Compre- hensive Income	Non- Controlling Interests in Consolidated Entities	Non- Controlling Interests in Blackstone Holdings	Total Partners Capital	
Balance at December 31, 2011	489,430,907	\$ 4,281,841	\$ 386,864	\$ 1,958	\$ 1,029,270	\$ 2,460,520	\$ 8,160,453	\$ 1,091,833
Transition and Acquisition Adjustments Relating to Consolidation of CLO Entities			233,386		155		233,541	
Net Income		112,185			279,970	237,809	629,964	78,447
Allocation of Income of Consolidated CLO Entities			125,066		(125,066)			
Currency Translation Adjustment				(555)	(8,237)		(8,792)	
Allocation of Currency Translation Adjustment of Consolidated CLOs			(8,237)		8,237			
Capital Contributions					222,314	22	222,336	374,820
Capital Distributions		(217,603)			(80,235)	(284,796)	(582,634)	(94,041)
Transfer of Non-Controlling Interests in Consolidated Entities					(4,444)	3,553	(891)	
Purchase of Interests from Certain Non-Controlling Interest Holders		(48)					(48)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		16,413					16,413	
Equity-Based Compensation		344,039				397,141	741,180	
Relinquished in Deconsolidation and Liquidation of Partnership								(89)
Net Delivery of Vested Common Units	8,477,448	(19,973)				(789)	(20,762)	
Change in The Blackstone Group L.P.'s Ownership Interest		(1,475)				1,475		
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	27,122,582	112,726				(112,726)		
Balance at September 30, 2012	525,030,937	\$ 4,628,105	\$ 737,079	\$ 1,403	\$ 1,321,964	\$ 2,702,209	\$ 9,390,760	\$ 1,450,970

continued

See notes to condensed consolidated financial statements.

Table of Contents

THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Changes in Partners' Capital (Unaudited)

(Dollars in Thousands, Except Unit Data)

The Blackstone Group L.P.								
	Common Units	Partners Capital	Appro- priated Partners Capital	Accumulated Other Compre- hensive Income	Non- Controlling Interests in Consolidated Entities	Non- Controlling Interests in Blackstone Holdings	Total Partners Capital	Redeemable Non- Controlling Interests in Consolidated Entities
Balance at December 31, 2010	416,092,022	\$ 3,888,211	\$ 470,583	\$ 4,302	\$ 812,354	\$ 2,418,517	\$ 7,593,967	\$