

Blackstone Group L.P.
Form 10-Q
November 05, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

X **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015**
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)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-8875684
(I.R.S. Employer

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)

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

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

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

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 30, 2015 was 558,440,339. The number of the Registrant's non-voting common units representing limited partner interests outstanding as of October 30, 2015 was 59,083,468.

Table of Contents

TABLE OF CONTENTS

	Page
PART I. <u>FINANCIAL INFORMATION</u>	
ITEM 1. <u>FINANCIAL STATEMENTS</u>	5
Unaudited Condensed Consolidated Financial Statements – September 30, 2015 and 2014:	
<u>Condensed Consolidated Statements of Financial Condition as of September 30, 2015 and December 31, 2014</u>	5
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2015 and 2014</u>	7
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2015 and 2014</u>	8
<u>Condensed Consolidated Statements of Changes in Partners' Capital for the Nine Months Ended September 30, 2015 and 2014</u>	9
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2015 and 2014</u>	11
<u>Notes to Condensed Consolidated Financial Statements</u>	13
ITEM 1A. <u>UNAUDITED SUPPLEMENTAL PRESENTATION OF STATEMENTS OF FINANCIAL CONDITION</u>	60
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	62
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	125
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	128
PART II. <u>OTHER INFORMATION</u>	
ITEM 1. <u>LEGAL PROCEEDINGS</u>	130
ITEM 1A. <u>RISK FACTORS</u>	130
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	131
ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	131
ITEM 4. <u>MINE SAFETY DISCLOSURES</u>	131
ITEM 5. <u>OTHER INFORMATION</u>	131
ITEM 6. <u>EXHIBITS</u>	132
<u>SIGNATURES</u>	133

Table of Contents

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, indicator, believes, expects, potential, continues, will, should, seeks, approximately, predicts, intends, plans, estimates, anticipates or the negative version of these words or other 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, 2014 and in this report, as such factors may be updated from time to time in our periodic filings 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.

Website and Social Media Disclosure

We use our website (www.blackstone.com), Facebook page (www.facebook.com/blackstone), Twitter (www.twitter.com/blackstone), LinkedIn (www.linkedin.com/company/the-blackstone-group), Instagram (instagram.com/Blackstone) and YouTube (www.youtube.com/user/blackstonegroup) accounts as channels of distribution of company information. The information we post through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following our press releases, SEC filings and public conference calls and webcasts. In addition, you may automatically receive e-mail alerts and other information about Blackstone when you enroll your e-mail address by visiting the Contact Us/Email Alerts section of our website at ir.blackstone.com and the Alerts & Subscriptions page under News & Views at www.blackstone.com. The contents of our website, any alerts and social media channels are not, however, a part of this report.

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-focused funds, collateralized loan obligation (CLO) and collateralized debt obligation (CDO) vehicles, real estate investment trusts and registered investment companies that are managed by Blackstone. Our carry funds refers to the private equity funds, real estate funds and certain of the credit-focused 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 corporate private equity funds (including our sector and regional focused funds), which we refer to collectively as our Blackstone Capital Partners (BCP) funds, certain multi-asset class investment funds which we refer to collectively as our Blackstone Tactical Opportunities Accounts (Tactical Opportunities), and Strategic Partners Fund Solutions (Strategic Partners), a secondary private fund of funds business. 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 Blackstone Real Estate Debt Strategies (BREDS) funds. We refer to our core+ real estate funds which invest with a more modest risk profile and lower leverage as Blackstone Property Partners (BPP) funds. We refer to our listed real estate investment trusts as REITs. Our hedge funds refers to our funds of hedge funds, certain of our real estate debt investment funds including a registered investment company and certain other credit-focused funds which are managed by Blackstone.

Table of Contents

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, including capital commitments to funds that have yet to commence their investment periods,
- (b) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (c) the invested capital or fair value of assets we manage pursuant to separately managed accounts,
- (d) the amount of debt and equity outstanding for our CLOs and CDOs during the reinvestment period,
- (e) the aggregate par amount of collateral assets, including principal cash, for our CLOs and CDOs after the reinvestment period,
- (f) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies, and
- (g) the fair value of common stock, preferred stock, convertible debt, or similar instruments issued by our public REIT.

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 (for example, 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 Real Estate segment carry funds including certain real estate debt investment funds and certain of our Hedge Fund Solutions funds, the amount of capital commitments, remaining invested capital, fair value or par value of assets held, depending on the fee terms of the fund,
- (b) for our credit-focused carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,
- (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 and certain registered investment companies,
- (e) the invested capital or fair value of assets we manage pursuant to separately managed accounts,

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

(f) the net proceeds received from equity offerings and accumulated core earnings of our REITs, subject to certain adjustments,

(g) the aggregate par amount of collateral assets, including principal cash, of our CLOs and CDOs, and

(h) the gross amount of assets (including leverage) for certain of our credit-focused 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.

Table of Contents

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, the remaining amount of invested capital at cost depending on whether the investment period has or has not expired or the fee terms of the fund. 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, 2015	December 31, 2014
Assets		
Cash and Cash Equivalents	\$ 1,380,404	\$ 1,412,472
Cash Held by Blackstone Funds and Other	854,417	1,808,092
Investments (including assets pledged of \$65,493 and \$45,764 at September 30, 2015 and December 31, 2014, respectively)	15,298,755	22,765,589
Accounts Receivable	879,262	559,321
Reverse Repurchase Agreements	85,282	
Due from Affiliates	1,210,658	1,128,408
Intangible Assets, Net	380,303	458,833
Goodwill	1,787,392	1,787,392
Other Assets	369,081	324,760
Deferred Tax Assets	1,373,149	1,252,230
Total Assets	\$ 23,618,703	\$ 31,497,097
Liabilities and Partners' Capital		
Loans Payable	\$ 6,158,702	\$ 8,923,841
Due to Affiliates	1,387,170	1,490,088
Accrued Compensation and Benefits	2,364,880	2,439,257
Securities Sold, Not Yet Purchased	173,707	85,878
Repurchase Agreements	42,102	29,907
Accounts Payable, Accrued Expenses and Other Liabilities	821,871	1,194,579
Total Liabilities	10,948,432	14,163,550
Commitments and Contingencies		
Redeemable Non-Controlling Interests in Consolidated Entities	183,161	2,441,854
Partners' Capital		
The Blackstone Group L.P. Partners' Capital		
Partners' Capital (common units: 621,979,987 issued and outstanding as of September 30, 2015; 595,624,855 issued and outstanding as of December 31, 2014)	6,566,990	6,999,830
Appropriated Partners' Capital		81,301
Accumulated Other Comprehensive Loss	(49,890)	(20,864)
Total The Blackstone Group L.P. Partners' Capital	6,517,100	7,060,267
Non-Controlling Interests in Consolidated Entities	2,369,183	3,415,356
Non-Controlling Interests in Blackstone Holdings	3,600,827	4,416,070
Total Partners' Capital	12,487,110	14,891,693

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

Total Liabilities and Partners' Capital	\$ 23,618,703	\$ 31,497,097
--	---------------	---------------

continued

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, 2015	December 31, 2014
Assets		
Cash Held by Blackstone Funds and Other	\$ 481,251	\$ 1,325,094
Investments	4,711,500	7,759,322
Accounts Receivable	186,005	131,996
Due from Affiliates	37,169	65,124
Other Assets	9,646	48,441
Total Assets	\$ 5,425,571	\$ 9,329,977
Liabilities		
Loans Payable	\$ 3,350,923	\$ 6,787,100
Due to Affiliates	78,226	182,107
Accounts Payable, Accrued Expenses and Other	428,401	697,149
Total Liabilities	\$ 3,857,550	\$ 7,666,356

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,	
	2015	2014	2015	2014
Revenues				
Management and Advisory Fees, Net	\$ 703,596	\$ 640,949	\$ 1,894,496	\$ 1,833,632
Performance Fees				
Realized				
Carried Interest	435,189	638,676	2,580,266	1,613,958
Incentive Fees	33,455	35,445	110,775	118,743
Unrealized				
Carried Interest	(1,055,920)	222,105	(1,124,010)	1,213,181
Incentive Fees	(50,832)	(6,163)	36,274	112,709
Total Performance Fees	(638,108)	890,063	1,603,305	3,058,591
Investment Income (Loss)				
Realized				
	99,952	91,142	445,705	459,878
Unrealized				
	(179,298)	38,445	(262,024)	62,754
Total Investment Income (Loss)	(79,346)	129,587	183,681	522,632
Interest and Dividend Revenue				
Other	26,244	18,107	70,129	47,516
	(813)	720	(2,478)	1,583
Total Revenues	11,573	1,679,426	3,749,133	5,463,954
Expenses				