

Carlyle Group L.P.
Form 10-Q
May 14, 2013
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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 MARCH 31, 2013

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: 001-35538

The Carlyle Group L.P.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

45-2832612
(I.R.S. Employer
Identification No.)

1001 Pennsylvania Avenue, NW
Washington, D.C., 20004-2505
(Address of principal executive offices) (Zip Code)

(202) 729-5626
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

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 (Do not check if a smaller reporting company) 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 common units representing limited partner interests outstanding as of May 10, 2013 was 46,109,886.

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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, believe, expect, potential, continue, may, will, seek, approximately, predict, intend, plan, estimate, anticipate or the negative version of these words or other comparable 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 Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012, as such factors may be updated from time to time in our periodic filings with the United States Securities and Exchange Commission (the 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. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

Website and Social Media Disclosure

We use our website (www.carlyle.com), our corporate Facebook page (<http://www.facebook.com/pages/The-Carlyle-Group/103519702981?rf=110614118958798>) and our corporate Twitter account (@OneCarlyle) 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 email alerts and other information about Carlyle when you enroll your email address by visiting the Email Alert Subscription section at <http://ir.carlyle.com/alerts.cfm>. The contents of our website and social media channels are not, however, a part of this report.

Prior to the reorganization in May 2012 in connection with our initial public offering, our business was owned by four holding entities: TC Group, L.L.C., TC Group Cayman, L.P., TC Group Investment Holdings, L.P. and TC Group Cayman Investment Holdings, L.P. We refer to these four holding entities collectively as the Parent Entities. The Parent Entities were under the common ownership and control of our senior Carlyle professionals and two strategic investors that owned minority interests in our business entities affiliated with Mubadala Development Company, an Abu-Dhabi based strategic development and investment company (Mubadala), and California Public Employees Retirement System (CalPERS). Unless the context suggests otherwise, references in this report to Carlyle, the Company, we, us and our refer (1) prior to consummation of our reorganization into a holding partnership structure to Carlyle Group, which was comprised of the Parent Entities and their consolidated subsidiaries and (2) after our reorganization into a holding partnership structure, to The Carlyle Group L.P. and its consolidated subsidiaries. In addition, certain individuals engaged in our businesses own interests in the general partners of our existing carry funds. Certain of these individuals contributed a portion of these interests to us as part of the reorganization. We refer to these individuals, together with the owners of the Parent Entities prior to the reorganization and our initial public offering, collectively as our pre-IPO owners.

When we refer to the partners of The Carlyle Group L.P., we are referring specifically to the common unitholders and our general partner and any others who may from time to time be partners of that specific Delaware limited partnership. When we refer to our senior Carlyle professionals, we are referring to the partner-level personnel of our firm. Senior Carlyle professionals, together with CalPERS and Mubadala, were the owners of our Parent Entities prior to the reorganization. References in this report to the ownership of the senior Carlyle professionals include the ownership of personal planning vehicles of these individuals.

Carlyle funds, our funds and our investment funds refer to the investment funds and vehicles advised by Carlyle. Our carry funds refer to those investment funds that we advise, including the buyout funds, growth capital funds, real estate funds, infrastructure funds, certain energy funds and distressed debt and mezzanine funds (but excluding our structured credit funds, hedge funds, fund of funds vehicles and the NGP management fee funds), where we receive a special residual allocation of income, which we refer to as a carried interest, in the event that specified investment returns are achieved by the fund. The NGP management fee funds refer to those funds advised by NGP Energy Capital Management (together with its affiliates and subsidiaries, NGP). Our fund of funds vehicles refers to those funds, accounts and vehicles advised by AlpInvest Partners B.V., formerly known as AlpInvest Partners N.V. (AlpInvest).

Fee-earning assets under management or Fee-earning AUM refer to the assets we manage from which we derive recurring fund management fees. Our Fee-earning AUM generally equals the sum of:

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(a) for carry funds and certain co-investment vehicles where the original investment period has not expired, the amount of limited partner capital commitments, for fund of funds vehicles, the amount of external investor capital commitments during the commitment fee period, and for the NGP management fee funds, the amount of investor capital commitments before the first investment realization;

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(b) for substantially all carry funds and certain co-investment vehicles where the original investment period has expired, the remaining amount of limited partner invested capital, and for the NGP management fee funds where the first investment has been realized, the amount of partner commitments less realized and written-off investments;

(c) the amount of aggregate Fee-earning collateral balance at par of our collateralized loan obligations (CLOs), as defined in the fund indentures (typically exclusive of equities and defaulted positions) as of the quarterly cut-off date for each CLO, and the reference portfolio notional amount of our synthetic collateralized loan obligations (synthetic CLOs);

(d) the external investor portion of the net asset value (pre-redemptions and subscriptions) of our long/short credit, emerging markets, multi-product macroeconomic and other hedge funds and certain structured credit funds; and

(e) for fund of funds vehicles where the commitment fee period has expired, and certain carry funds where the investment period has expired, the lower of cost or fair value of invested capital.

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

(a) the fair value of the capital invested in our carry funds, co-investment vehicles, fund of funds vehicles and the NGP management fee funds plus the capital that we are entitled to call from investors in those funds and vehicles (including our commitments to those funds and vehicles and those of senior Carlyle professionals and employees) pursuant to the terms of their capital commitments to those funds and vehicles;

(b) the amount of aggregate collateral balance and principal cash at par of our CLOs (inclusive of all positions) and the reference portfolio notional amount of our synthetic CLOs; and

(c) the net asset value (pre-redemptions and subscriptions) of our long/short credit, emerging markets, multi-product macroeconomic and other hedge funds and certain structured credit funds.

We include in our calculation of AUM and Fee-earning AUM certain energy and renewable resources funds that we jointly advise with Riverstone Investment Group L.L.C. (Riverstone) and certain NGP management fee funds.

For our carry funds, co-investment vehicles, fund of funds vehicles and the NGP management fee funds, total AUM includes the fair value of the capital invested, whereas Fee-earning AUM includes the amount of capital commitments or the remaining amount of invested capital, depending on whether the investment period for the fund has expired. As such, Fee-earning AUM may be greater than total AUM when the aggregate fair value of the remaining investments is less than the cost of those investments.

Our calculations of AUM and Fee-earning AUM may differ from the calculations of other alternative asset managers. As a result, these measures may not be comparable to similar measures presented by other alternative asset managers. In addition, our calculation of AUM (but not Fee-earning AUM) includes uncalled commitments to, and the fair value of invested capital in, our investment funds from Carlyle and our personnel, regardless of whether such commitments or invested capital are subject to management or performance fees. Our calculations of AUM or Fee-earning AUM are not based on any definition of AUM or Fee-earning AUM that is set forth in the agreements governing the investment funds that we manage.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****The Carlyle Group L.P.****Condensed Consolidated Balance Sheets****(Dollars in millions)**

| | March 31, 2013 (Unaudited) | December 31, 2012 |
|---|----------------------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 570.4 | \$ 567.1 |
| Cash and cash equivalents held at Consolidated Funds | 2,173.2 | 1,646.6 |
| Restricted cash | 43.4 | 34.5 |
| Restricted cash and securities of Consolidated Funds | 17.8 | 36.3 |
| Accrued performance fees | 2,598.2 | 2,192.5 |
| Investments | 856.2 | 881.2 |
| Investments of Consolidated Funds | 25,093.6 | 24,815.7 |
| Due from affiliates and other receivables, net | 146.6 | 190.7 |
| Due from affiliates and other receivables of Consolidated Funds, net | 320.7 | 331.8 |
| Fixed assets, net | 62.2 | 63.6 |
| Deposits and other | 54.4 | 48.4 |
| Intangible assets, net | 650.1 | 691.1 |
| Deferred tax assets | 64.7 | 67.1 |
| Total assets | \$ 32,651.5 | \$ 31,566.6 |
| Liabilities and partners' capital | | |
| Loans payable | \$ 25.0 | \$ 886.3 |
| 3.875% senior notes due 2023 | 499.8 | |
| 5.625% senior notes due 2043 | 398.4 | |
| Loans payable of Consolidated Funds | 14,312.7 | 13,656.7 |
| Accounts payable, accrued expenses and other liabilities | 204.9 | 215.0 |
| Accrued compensation and benefits | 1,449.3 | 1,318.2 |
| Due to affiliates | 332.8 | 332.1 |
| Deferred revenue | 186.1 | 59.4 |
| Deferred tax liabilities | 70.0 | 61.1 |
| Other liabilities of Consolidated Funds | 1,763.7 | 1,385.8 |
| Accrued giveback obligations | 46.3 | 69.2 |
| Total liabilities | 19,289.0 | 17,983.8 |
| Commitments and contingencies | | |
| Redeemable non-controlling interests in consolidated entities | 3,303.9 | 2,887.4 |
| Partners' capital (common units, 43,244,180 issued and outstanding as of March 31, 2013 and December 31, 2012) | | |
| Accumulated other comprehensive loss | (5.3) | (4.8) |
| Partners' capital appropriated for Consolidated Funds | 565.8 | 838.6 |
| Non-controlling interests in consolidated entities | 7,851.3 | 8,264.8 |

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| | | |
|---|--------------------|-------------|
| Non-controlling interests in Carlyle Holdings | 1,407.0 | 1,361.7 |
| Total partners' capital | 10,058.6 | 10,695.4 |
| Total liabilities and partners' capital | \$ 32,651.5 | \$ 31,566.6 |

See accompanying notes.

Table of Contents**The Carlyle Group L.P.****Condensed Consolidated Statements of Operations****(Unaudited)****(Dollars in millions, except unit and per unit data)**

| | Three Months Ended March 31, | |
|---|---|-------------|
| | 2013 | 2012 |
| Revenues | | |
| Fund management fees | \$ 231.4 | \$ 234.4 |
| Performance fees | | |
| Realized | 252.8 | 280.6 |
| Unrealized | 389.6 | 360.2 |
| Total performance fees | 642.4 | 640.8 |
| Investment income (loss) | | |
| Realized | (4.2) | (0.8) |
| Unrealized | 4.6 | 22.3 |
| Total investment income (loss) | 0.4 | 21.5 |
| Interest and other income | 2.4 | 2.7 |
| Interest and other income of Consolidated Funds | 268.4 | 211.5 |
| Total revenues | 1,145.0 | 1,110.9 |
| Expenses | | |
| Compensation and benefits | | |
| Base compensation | 178.5 | 106.1 |
| Equity-based compensation | 52.3 | |
| Performance fee related | | |
| Realized | 108.7 | 34.3 |
| Unrealized | 195.0 | 54.8 |
| Total compensation and benefits | 534.5 | 195.2 |
| General, administrative and other expenses | 111.4 | 91.2 |
| Interest | 10.5 | 10.4 |
| Interest and other expenses of Consolidated Funds | 250.1 | 184.5 |
| Other non-operating income | (2.4) | (4.1) |
| Total expenses | 904.1 | 477.2 |
| Other income | | |
| Net investment gains of Consolidated Funds | 211.5 | 872.1 |
| Income before provision for income taxes | 452.4 | 1,505.8 |
| Provision for income taxes | 24.9 | 11.7 |
| Net income | 427.5 | 1,494.1 |
| Net income attributable to non-controlling interests in consolidated entities | 168.0 | 864.9 |

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| | | |
|--|-------------------|----------|
| Net income attributable to Carlyle Holdings | 259.5 | \$ 629.2 |
| Net income attributable to non-controlling interests in Carlyle Holdings | 225.7 | |
| Net income attributable to The Carlyle Group L.P. | \$ 33.8 | |
| Net income attributable to The Carlyle Group L.P. per common unit | | |
| Basic | \$ 0.78 | |
| Diluted | \$ 0.66 | |
| Weighted-average common units | | |
| Basic | 43,343,268 | |
| Diluted | 51,109,008 | |
| Distributions declared per common unit | \$ 0.85 | |

Substantially all revenue is earned from affiliates of the Partnership. See accompanying notes.

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The Carlyle Group L.P.

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(Dollars in millions)

| | Three Months Ended March 31, | |
|---|---|-------------------|
| | 2013 | 2012 |
| Net income | \$ 427.5 | \$ 1,494.1 |
| Other comprehensive income (loss) | | |
| Foreign currency translation adjustments | 59.8 | (258.6) |
| Cash flow hedges | | |
| Unrealized gains (losses) for the period | 0.2 | (1.6) |
| Less: reclassification adjustment for losses included in net income | | |