

BlackRock Inc.  
Form 10-Q  
November 08, 2010  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 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, 2010

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 001-33099

**BlackRock, Inc.**

(Exact name of registrant as specified in its charter)

# Edgar Filing: BlackRock Inc. - Form 10-Q

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**32-0174431**  
(I.R.S. Employer  
Identification No.)

**55 East 52nd Street, New York, NY 10055**  
(Address of principal executive offices)

**(Zip Code)**  
**(212) 810-5300**  
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, 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 ☒

As of October 31, 2010, there were 63,645,496 shares of the registrant's common stock outstanding.

---

**Table of Contents**

**BlackRock, Inc.**

**Index to Form 10-Q**

**PART I**

**FINANCIAL INFORMATION**

|                                                                                                      | <b>Page</b> |
|------------------------------------------------------------------------------------------------------|-------------|
| Item 1. Financial Statements (unaudited)                                                             |             |
| <u>Condensed Consolidated Statements of Financial Condition</u>                                      | 1           |
| <u>Condensed Consolidated Statements of Income</u>                                                   | 3           |
| <u>Condensed Consolidated Statements of Comprehensive Income</u>                                     | 4           |
| <u>Condensed Consolidated Statements of Changes in Equity</u>                                        | 5           |
| <u>Condensed Consolidated Statements of Cash Flows</u>                                               | 7           |
| <u>Notes to Condensed Consolidated Financial Statements</u>                                          | 9           |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 53          |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | 118         |
| Item 4. <u>Controls and Procedures</u>                                                               | 120         |

**PART II**

**OTHER INFORMATION**

|                                                                            |     |
|----------------------------------------------------------------------------|-----|
| Item 1. <u>Legal Proceedings</u>                                           | 121 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 121 |
| Item 6. <u>Exhibits</u>                                                    | 122 |

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****BlackRock, Inc.****Condensed Consolidated Statements of Financial Condition****(Dollar amounts in millions, except per share data)****(unaudited)**

|                                                                                                                                       | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|---------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|------------------------------|
| <b>Assets</b>                                                                                                                         |                               |                              |
| Cash and cash equivalents                                                                                                             | \$ 2,636                      | \$ 4,708                     |
| Accounts receivable                                                                                                                   | 2,052                         | 1,718                        |
| Due from related parties                                                                                                              | 168                           | 189                          |
| Investments                                                                                                                           | 1,512                         | 1,049                        |
| Separate account assets                                                                                                               | 116,667                       | 119,629                      |
| Assets of consolidated variable interest entities                                                                                     |                               |                              |
| Cash and cash equivalents                                                                                                             | 91                            |                              |
| Bank loans and other investments                                                                                                      | 1,293                         |                              |
| Collateral held under securities lending agreements                                                                                   | 18,981                        | 19,335                       |
| Deferred sales commissions, net                                                                                                       | 75                            | 103                          |
| Property and equipment (net of accumulated depreciation of \$393 and \$303 at September 30, 2010 and December 31, 2009, respectively) | 429                           | 443                          |
| Intangible assets (net of accumulated amortization of \$575 and \$466 at September 30, 2010 and December 31, 2009, respectively)      | 17,546                        | 17,666                       |
| Goodwill                                                                                                                              | 12,641                        | 12,638                       |
| Other assets                                                                                                                          | 413                           | 588                          |
| <b>Total assets</b>                                                                                                                   | <b>\$ 174,504</b>             | <b>\$ 178,066</b>            |
| <b>Liabilities</b>                                                                                                                    |                               |                              |
| Accrued compensation and benefits                                                                                                     | \$ 1,146                      | \$ 1,482                     |
| Accounts payable and accrued liabilities                                                                                              | 1,234                         | 850                          |
| Due to related parties                                                                                                                | 151                           | 490                          |
| Short-term borrowings                                                                                                                 | 100                           | 2,234                        |
| Liabilities of consolidated variable interest entities                                                                                |                               |                              |
| Borrowings                                                                                                                            | 1,237                         |                              |
| Other liabilities                                                                                                                     | 7                             |                              |
| Convertible debentures                                                                                                                | 67                            | 243                          |
| Long-term borrowings                                                                                                                  | 3,191                         | 3,191                        |
| Separate account liabilities                                                                                                          | 116,667                       | 119,629                      |
| Collateral liability under securities lending agreements                                                                              | 18,981                        | 19,335                       |
| Deferred tax liabilities                                                                                                              | 5,548                         | 5,518                        |
| Other liabilities                                                                                                                     | 495                           | 492                          |
| <b>Total liabilities</b>                                                                                                              | <b>148,824</b>                | <b>153,464</b>               |

**Commitments and contingencies (Note 12)**

**Temporary equity**

|                                      |    |    |
|--------------------------------------|----|----|
| Redeemable non-controlling interests | 54 | 49 |
|--------------------------------------|----|----|

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Condensed Consolidated Statements of Financial Condition (continued)**

(Dollar amounts in millions, except per share data)

(unaudited)

|                                                                                                                            | September 30,<br>2010 | December 31,<br>2009 |
|----------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| <b>Permanent Equity</b>                                                                                                    |                       |                      |
| BlackRock, Inc. stockholders' equity                                                                                       |                       |                      |
| Common stock, \$0.01 par value;                                                                                            | 1                     | 1                    |
| Shares authorized: 500,000,000 at September 30, 2010 and December 31, 2009;                                                |                       |                      |
| Shares issued: 64,411,584 and 62,776,777 at September 30, 2010 and December 31, 2009, respectively;                        |                       |                      |
| Shares outstanding: 62,759,519 and 61,896,236 at September 30, 2010 and December 31, 2009, respectively                    |                       |                      |
| Preferred stock (Note 16)                                                                                                  | 1                     | 1                    |
| Additional paid-in capital                                                                                                 | 22,400                | 22,127               |
| Retained earnings                                                                                                          | 3,260                 | 2,436                |
| Appropriated retained earnings                                                                                             | 94                    |                      |
| Accumulated other comprehensive loss                                                                                       | (95)                  | (96)                 |
| Escrow shares, common, at cost (868,940 shares held at September 30, 2010 and December 31, 2009)                           | (137)                 | (137)                |
| Treasury stock, common, at cost (783,125 and 11,601 shares held at September 30, 2010 and December 31, 2009, respectively) | (124)                 | (3)                  |
| Total BlackRock, Inc. stockholders' equity                                                                                 | 25,400                | 24,329               |
| Nonredeemable non-controlling interests                                                                                    | 180                   | 224                  |
| Nonredeemable non-controlling interests of consolidated variable interest entities                                         | 46                    |                      |
| Total permanent equity                                                                                                     | 25,626                | 24,553               |
| Total liabilities, temporary equity and permanent equity                                                                   | \$ 174,504            | \$ 178,066           |

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Condensed Consolidated Statements of Income****(Dollar amounts in millions, except per share data)****(unaudited)**

|                                                                            | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|----------------------------------------------------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
|                                                                            | <b>2010</b>                                 | <b>2009</b> | <b>2010</b>                                | <b>2009</b> |
| <b>Revenue</b>                                                             |                                             |             |                                            |             |
| Investment advisory, administration fees and securities<br>lending revenue |                                             |             |                                            |             |
| Related parties                                                            | \$ 1,217                                    | \$ 625      | \$ 3,529                                   | \$ 1,763    |
| Other third parties                                                        | 577                                         | 290         | 1,810                                      | 809         |
| Investment advisory, administration fees and securities<br>lending revenue | 1,794                                       | 915         | 5,339                                      | 2,572       |
| Investment advisory performance fees                                       | 114                                         | 49          | 214                                        | 77          |
| <i>BlackRock Solutions</i> and advisory                                    | 101                                         | 122         | 328                                        | 369         |
| Distribution fees                                                          | 29                                          | 25          | 89                                         | 73          |
| Other revenue                                                              | 54                                          | 29          | 149                                        | 65          |
| Total revenue                                                              | 2,092                                       | 1,140       | 6,119                                      | 3,156       |
| <b>Expenses</b>                                                            |                                             |             |                                            |             |
| Employee compensation and benefits                                         | 774                                         | 444         | 2,256                                      | 1,185       |
| Distribution and servicing costs                                           |                                             |             |                                            |             |
| Related parties                                                            | 67                                          | 92          | 194                                        | 291         |
| Other third parties                                                        | 38                                          | 27          | 108                                        | 80          |
| Amortization of deferred sales commissions                                 | 26                                          | 23          | 79                                         | 76          |
| Direct fund expenses                                                       | 124                                         | 15          | 359                                        | 43          |
| General and administration                                                 | 316                                         | 146         | 945                                        | 462         |
| Restructuring charges                                                      |                                             |             |                                            | 22          |
| Amortization of intangible assets                                          | 40                                          | 36          | 120                                        | 108         |
| Total expenses                                                             | 1,385                                       | 783         | 4,061                                      | 2,267       |
| Operating income                                                           | 707                                         | 357         | 2,058                                      | 889         |
| <b>Non-operating income (expense)</b>                                      |                                             |             |                                            |             |
| Net gain (loss) on investments                                             | 93                                          | 89          | 117                                        | 5           |
| Net gain (loss) on consolidated variable interest entities                 | 12                                          |             | (16)                                       |             |
| Interest and dividend income                                               | 10                                          | 4           | 19                                         | 16          |

Edgar Filing: BlackRock Inc. - Form 10-Q

|                                                                           |        |        |          |        |
|---------------------------------------------------------------------------|--------|--------|----------|--------|
| Interest expense                                                          | (37)   | (15)   | (115)    | (45)   |
| Total non-operating income (expense)                                      | 78     | 78     | 5        | (24)   |
| Income before income taxes                                                | 785    | 435    | 2,063    | 865    |
| Income tax expense                                                        | 201    | 101    | 662      | 225    |
| Net income                                                                | 584    | 334    | 1,401    | 640    |
| Less:                                                                     |        |        |          |        |
| Net income (loss) attributable to redeemable non-controlling interests    |        | 1      | 2        | 2      |
| Net income (loss) attributable to nonredeemable non-controlling interests | 33     | 16     | (7)      | 19     |
| Net income attributable to BlackRock, Inc.                                | \$ 551 | \$ 317 | \$ 1,406 | \$ 619 |

**Earnings per share attributable to BlackRock, Inc. common stockholders:**

|                                                   |                |                |                |                |
|---------------------------------------------------|----------------|----------------|----------------|----------------|
| Basic                                             | \$ 2.85        | \$ 2.31        | \$ 7.28        | \$ 4.58        |
| Diluted                                           | \$ 2.83        | \$ 2.27        | \$ 7.21        | \$ 4.50        |
| <b>Cash dividends declared and paid per share</b> | <b>\$ 1.00</b> | <b>\$ 0.78</b> | <b>\$ 3.00</b> | <b>\$ 2.34</b> |

**Weighted-average common shares outstanding:**

|         |             |             |             |             |
|---------|-------------|-------------|-------------|-------------|
| Basic   | 190,494,905 | 133,266,379 | 190,385,046 | 131,481,677 |
| Diluted | 192,326,841 | 135,902,241 | 192,280,679 | 134,001,799 |

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Condensed Consolidated Statements of Comprehensive Income****(Dollar amounts in millions)****(unaudited)**

|                                                                                         | <b>Three Months Ended<br/>September 30,</b> |               | <b>Nine Months Ended<br/>September 30,</b> |               |
|-----------------------------------------------------------------------------------------|---------------------------------------------|---------------|--------------------------------------------|---------------|
|                                                                                         | <b>2010</b>                                 | <b>2009</b>   | <b>2010</b>                                | <b>2009</b>   |
| <b>Net income</b>                                                                       | <b>\$ 584</b>                               | <b>\$ 334</b> | <b>\$ 1,401</b>                            | <b>\$ 640</b> |
| Other comprehensive income:                                                             |                                             |               |                                            |               |
| Change in net unrealized gains (losses) from available-for-sale investments, net of tax |                                             |               |                                            |               |
| Unrealized holding gains (losses), net of tax                                           | 1                                           | 3             | 4                                          | 4             |
| Less: reclassification adjustment included in net income                                |                                             | 2             | 2                                          | (12)          |
| Net change from available-for-sale investments, net of tax <sup>(1)</sup>               | 1                                           | 1             | 2                                          | 16            |
| Minimum pension liability adjustment                                                    | 1                                           |               |                                            | 1             |
| Foreign currency translation adjustments                                                | 89                                          | (8)           | (1)                                        | 81            |
| Comprehensive income                                                                    | 675                                         | 327           | 1,402                                      | 738           |
| Less: Comprehensive income attributable to non-controlling interests                    | 33                                          | 17            | (5)                                        | 21            |
| Comprehensive income attributable to BlackRock, Inc.                                    | \$ 642                                      | \$ 310        | \$ 1,407                                   | \$ 717        |

<sup>(1)</sup> The tax benefit (expense) on unrealized holding gains (losses) was (\$1) million and (\$2) million during the three months ended September 30, 2010 and 2009, respectively, and (\$2) million and (\$7) million during the nine months ended September 30, 2010 and 2009, respectively.

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Condensed Consolidated Statements of Changes in Equity**

(Dollar amounts in millions)

(unaudited)

|                                                                                         | Additional<br>Paid-in<br>Capital <sup>(1)</sup> | Retained<br>Earnings | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Common<br>Shares<br>Held<br>in<br>Escrow | Treasury<br>Stock<br>Common | Total<br>Stockholders'<br>Equity | Nonredeemable<br>Non-controlling<br>Interests | Nonredeemable<br>of<br>Consolidated<br>VIEs | Total<br>Permanent<br>Equity | Redeemable<br>Non-controlling<br>Interests<br>/<br>Temporary<br>Equity |
|-----------------------------------------------------------------------------------------|-------------------------------------------------|----------------------|----------------------|-----------------------------------------------------------|------------------------------------------|-----------------------------|----------------------------------|-----------------------------------------------|---------------------------------------------|------------------------------|------------------------------------------------------------------------|
| December 31, 2009                                                                       | \$ 22,129                                       | \$ 2,436             | \$                   | (\$ 96)                                                   | (\$ 137)                                 | (\$ 3)                      | \$ 24,329                        | \$ 224                                        | \$                                          | \$ 24,553                    | \$ 49                                                                  |
| January 1, 2010 initial recognition of ASU 2009-17                                      |                                                 |                      | 114                  |                                                           |                                          |                             | 114                              | (49)                                          | 49                                          | 114                          |                                                                        |
| Net income                                                                              |                                                 | 1,406                |                      |                                                           |                                          |                             | 1,406                            | 11                                            | (18)                                        | 1,399                        | 2                                                                      |
| Allocation of losses of consolidated collateralized loan obligations                    |                                                 |                      | (20)                 |                                                           |                                          |                             | (20)                             |                                               | 20                                          |                              |                                                                        |
| Dividends paid, net of dividend expense for unvested RSUs                               |                                                 | (582)                |                      |                                                           |                                          |                             | (582)                            |                                               |                                             | (582)                        |                                                                        |
| Stock-based compensation                                                                | 334                                             |                      |                      |                                                           |                                          | 1                           | 335                              |                                               |                                             | 335                          |                                                                        |
| PNC LTIP capital contribution                                                           | 5                                               |                      |                      |                                                           |                                          |                             | 5                                |                                               |                                             | 5                            |                                                                        |
| Merrill Lynch capital contribution                                                      | 10                                              |                      |                      |                                                           |                                          |                             | 10                               |                                               |                                             | 10                           |                                                                        |
| Exchange of common stock for preferred shares series B                                  | 128                                             |                      |                      |                                                           |                                          | (128)                       |                                  |                                               |                                             |                              |                                                                        |
| Net issuance of common shares related to employee stock transactions                    | (194)                                           |                      |                      |                                                           |                                          | (60)                        | (254)                            |                                               |                                             | (254)                        |                                                                        |
| Convertible debt conversions, net of tax                                                | (53)                                            |                      |                      |                                                           |                                          | 66                          | 13                               |                                               |                                             | 13                           |                                                                        |
| Net tax benefit (shortfall) from stock-based compensation                               | 43                                              |                      |                      |                                                           |                                          |                             | 43                               |                                               |                                             | 43                           |                                                                        |
| Subscriptions/(redemptions/distributions) - non-controlling interest holders            |                                                 |                      |                      |                                                           |                                          |                             |                                  | (4)                                           | (5)                                         | (9)                          | 97                                                                     |
| Net consolidations (deconsolidations) of sponsored investment funds                     |                                                 |                      |                      |                                                           |                                          |                             |                                  |                                               |                                             |                              | (94)                                                                   |
| Other changes in non-controlling interests                                              |                                                 |                      |                      |                                                           |                                          |                             |                                  | (2)                                           |                                             | (2)                          |                                                                        |
| Foreign currency translation adjustments                                                |                                                 |                      |                      | (1)                                                       |                                          |                             | (1)                              |                                               |                                             | (1)                          |                                                                        |
| Change in net unrealized gains (losses) from available-for-sale investments, net of tax |                                                 |                      |                      | 2                                                         |                                          |                             | 2                                |                                               |                                             | 2                            |                                                                        |
| September 30, 2010                                                                      | \$ 22,402                                       | \$ 3,260             | \$ 94                | (\$ 95)                                                   | (\$ 137)                                 | (\$ 124)                    | \$ 25,400                        | \$ 180                                        | \$ 46                                       | \$ 25,626                    | \$ 54                                                                  |

(1) Includes \$1 million of common stock and \$1 million of preferred stock at September 30, 2010 and December 31, 2009, respectively.  
See accompanying notes to condensed consolidated financial statements.



**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Condensed Consolidated Statements of Changes in Equity**

(Dollar amounts in millions)

(unaudited)

|                                                                                         | Additional<br>Paid-in<br>Capital <sup>(1)</sup> | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Common<br>Shares<br>Held<br>in<br>Escrow | Treasury<br>Stock<br>Common | Total<br>Nonredeemable<br>Stockholder<br>Equity | Non-controlling<br>Interests | Total<br>Permanent<br>Equity | Redeemable<br>Non-controlling<br>Interests/<br>Temporary<br>Equity |
|-----------------------------------------------------------------------------------------|-------------------------------------------------|----------------------|-----------------------------------------------------------|------------------------------------------|-----------------------------|-------------------------------------------------|------------------------------|------------------------------|--------------------------------------------------------------------|
| December 31, 2008                                                                       | \$ 10,474                                       | \$ 1,982             | (\$ 186)                                                  | (\$ 143)                                 | (\$ 58)                     | \$ 12,069                                       | \$ 225                       | \$ 12,294                    | \$ 266                                                             |
| Reclass to temporary equity - convertible debt                                          | (1)                                             |                      |                                                           |                                          |                             | (1)                                             |                              | (1)                          | 1                                                                  |
| Net income                                                                              |                                                 | 619                  |                                                           |                                          |                             | 619                                             | 19                           | 638                          | 2                                                                  |
| Dividends paid, net of dividend expense for<br>unvested RSUs                            |                                                 | (315)                |                                                           |                                          |                             | (315)                                           |                              | (315)                        |                                                                    |
| Stock-based compensation                                                                | 231                                             |                      |                                                           |                                          | 1                           | 232                                             |                              | 232                          |                                                                    |
| Issuance of shares to institutional investor                                            | 300                                             |                      |                                                           |                                          |                             | 300                                             |                              | 300                          |                                                                    |
| Issuance of common shares for contingent<br>consideration                               | 43                                              |                      |                                                           |                                          |                             | 43                                              |                              | 43                           |                                                                    |
| PNC LTIP capital contribution                                                           | 6                                               |                      |                                                           |                                          |                             | 6                                               |                              | 6                            |                                                                    |
| Merrill Lynch capital contribution                                                      | 25                                              |                      |                                                           |                                          |                             | 25                                              |                              | 25                           |                                                                    |
| Net issuance of common shares related to<br>employee stock transactions                 | (79)                                            |                      |                                                           |                                          | 57                          | (22)                                            |                              | (22)                         |                                                                    |
| Net tax benefit (shortfall) from stock-based<br>compensation                            | 6                                               |                      |                                                           |                                          |                             | 6                                               |                              | 6                            |                                                                    |
| Minimum pension liability adjustment                                                    |                                                 |                      | 1                                                         |                                          |                             | 1                                               |                              | 1                            |                                                                    |
| Subscriptions/(redemptions/distributions) -<br>non-controlling interest holders         |                                                 |                      |                                                           |                                          |                             |                                                 | (1)                          | (1)                          | (251)                                                              |
| Net consolidations (deconsolidations) of<br>sponsored investment funds                  |                                                 |                      |                                                           |                                          |                             |                                                 | (9)                          | (9)                          | (8)                                                                |
| Other change in non-controlling interests                                               |                                                 |                      |                                                           |                                          |                             |                                                 | (3)                          | (3)                          |                                                                    |
| Foreign currency translation adjustments                                                |                                                 |                      | 81                                                        |                                          |                             | 81                                              |                              | 81                           |                                                                    |
| Change in net unrealized gain (loss) from<br>available-for-sale investments, net of tax |                                                 |                      | 16                                                        |                                          |                             | 16                                              |                              | 16                           |                                                                    |
| September 30, 2009                                                                      | \$ 11,005                                       | \$ 2,286             | (\$ 88)                                                   | (\$ 143)                                 | \$                          | \$ 13,060                                       | \$ 231                       | \$ 13,291                    | \$ 10                                                              |

<sup>(1)</sup> Includes \$1 million of preferred stock at September 30, 2009 and \$1 million of common stock at September 30, 2009 and December 31, 2008, respectively.

See accompanying notes to condensed consolidated financial statements.



**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Condensed Consolidated Statements of Cash Flows****(Dollar amounts in millions)****(unaudited)**

|                                                                             | <b>Nine Months Ended<br/>September 30,</b> |             |
|-----------------------------------------------------------------------------|--------------------------------------------|-------------|
|                                                                             | <b>2010</b>                                | <b>2009</b> |
| <b>Cash flows from operating activities</b>                                 |                                            |             |
| Net income                                                                  | \$ 1,401                                   | \$ 640      |
| Adjustments to reconcile net income to cash from operating activities:      |                                            |             |
| Depreciation and amortization                                               | 231                                        | 175         |
| Amortization of deferred sales commissions                                  | 79                                         | 76          |
| Stock-based compensation                                                    | 335                                        | 232         |
| Deferred income tax expense (benefit)                                       | 42                                         | (99)        |
| Net (gains) losses on non-trading investments                               | (34)                                       | 18          |
| Purchases of investments within consolidated funds                          | (13)                                       | (35)        |
| Proceeds from sales and maturities of investments within consolidated funds | 23                                         | 265         |
| Assets and liabilities of consolidated VIEs:                                |                                            |             |
| Change in cash and cash equivalents                                         | (43)                                       |             |
| Net (gains) losses and net (purchases)/proceeds within consolidated VIEs    | 57                                         |             |
| (Earnings) losses from equity method investees                              | (104)                                      | (32)        |
| Distributions of earnings from equity method investees                      | 11                                         | 11          |
| Other adjustments                                                           |                                            | 2           |
| Changes in operating assets and liabilities:                                |                                            |             |
| Accounts receivable                                                         | (334)                                      | (307)       |
| Due from related parties                                                    | 13                                         | 178         |
| Deferred sales commissions                                                  | (51)                                       | (47)        |
| Investments, trading                                                        | (139)                                      | (119)       |
| Other assets                                                                | 162                                        | (67)        |
| Accrued compensation and benefits                                           | (329)                                      | (233)       |
| Accounts payable and accrued liabilities                                    | 391                                        | 163         |
| Due to related parties                                                      | (339)                                      | 4           |
| Other liabilities                                                           | 56                                         | 6           |
| <b>Cash flows from operating activities</b>                                 | <b>1,415</b>                               | <b>831</b>  |
| <b>Cash flows from investing activities</b>                                 |                                            |             |
| Purchases of investments                                                    | (522)                                      | (60)        |
| Proceeds from sales and maturities of investments                           | 131                                        | 229         |
| (Purchases)/proceeds of assets held for sale                                | 1                                          | (2)         |
| Distributions of capital from equity method investees                       | 39                                         | 50          |

## Edgar Filing: BlackRock Inc. - Form 10-Q

|                                                                     |       |       |
|---------------------------------------------------------------------|-------|-------|
| Net consolidations (deconsolidations) of sponsored investment funds | (17)  | 4     |
| Contingent/other acquisition payments                               | (16)  | (158) |
| Purchases of property and equipment                                 | (96)  | (52)  |
| Cash flows from investing activities                                | (480) | 11    |

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Condensed Consolidated Statements of Cash Flows (continued)****(Dollar amounts in millions)****(unaudited)**

|                                                                                                    | <b>Nine Months Ended<br/>September 30,</b> |                 |
|----------------------------------------------------------------------------------------------------|--------------------------------------------|-----------------|
|                                                                                                    | <b>2010</b>                                | <b>2009</b>     |
| <b>Cash flows from financing activities</b>                                                        |                                            |                 |
| Repayments of short-term borrowings                                                                | (2,134)                                    |                 |
| Repayments of convertible debt                                                                     | (176)                                      | (1)             |
| Repayments of other borrowings                                                                     |                                            | (1)             |
| Cash dividends paid                                                                                | (582)                                      | (316)           |
| Proceeds from stock options exercised                                                              | 7                                          | 15              |
| Merrill Lynch capital contribution                                                                 | 10                                         | 25              |
| Proceeds from issuance of common stock                                                             | 4                                          | 304             |
| Repurchases of common stock                                                                        | (264)                                      | (41)            |
| Net (redemptions/distributions paid)/subscriptions received from non-controlling interests holders | 88                                         | (252)           |
| Excess tax benefit from stock-based compensation                                                   | 43                                         | 26              |
| Net borrowings/(repayments of borrowings) by consolidated sponsored investment funds               |                                            | 70              |
| <b>Cash flows from financing activities</b>                                                        | <b>(3,004)</b>                             | <b>(171)</b>    |
| Effect of exchange rate changes on cash and cash equivalents                                       | (3)                                        | 60              |
| <b>Net (decrease) increase in cash and cash equivalents</b>                                        | <b>(2,072)</b>                             | <b>731</b>      |
| Cash and cash equivalents, beginning of period                                                     | 4,708                                      | 2,032           |
| <b>Cash and cash equivalents, end of period</b>                                                    | <b>\$ 2,636</b>                            | <b>\$ 2,763</b> |
| <b>Supplemental disclosure of cash flow information is as follows:</b>                             |                                            |                 |
| Cash paid for:                                                                                     |                                            |                 |
| Interest                                                                                           | \$ 98                                      | \$ 52           |
| Interest on borrowings of consolidated VIEs                                                        | \$ 38                                      | \$              |
| Income taxes                                                                                       | \$ 355                                     | \$ 405          |
| <b>Supplemental schedule of non-cash investing and financing transactions is as follows:</b>       |                                            |                 |
| Issuance of common stock                                                                           | \$ 257                                     | \$ 77           |
| Contingent common stock payment related to Quellos transaction                                     | \$                                         | \$ 43           |
| Increase (decrease) in borrowings due to consolidation of VIEs                                     | \$ 1,157                                   | \$              |

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited)****1. Business Overview**

BlackRock, Inc. (together, with its subsidiaries, unless the context otherwise indicates, BlackRock or the Company) provides diversified investment management and securities lending services to institutional clients, intermediary and individual investors through various investment vehicles. Investment management services primarily consist of the management of equity, fixed income, multi-asset class, alternative investment and cash management products. BlackRock offers its investment products in a variety of vehicles, including open-end and closed-end mutual funds, *iShares*® exchange traded funds (ETFs), collective investment trusts and separate accounts. In addition, BlackRock provides market risk management, financial markets advisory and enterprise investment system services to a broad base of clients. Financial markets advisory services include valuation services relating to illiquid securities, dispositions and workout assignments (including long-term portfolio liquidation assignments), risk management and strategic planning and execution.

On December 1, 2009, BlackRock completed its acquisition of Barclays Global Investors (BGI) from Barclays Bank PLC (Barclays) (the BGI Transaction). In exchange for BGI, BlackRock paid approximately \$6.65 billion in cash and issued capital stock valued at \$8.53 billion comprised of 3,031,516 shares of BlackRock common stock and 34,535,255 shares of BlackRock Series B and D non-voting participating preferred stock. See Note 3, Mergers and Acquisitions, for more details on this transaction.

On September 30, 2010, equity ownership of BlackRock was as follows:

|                                              | <b>Voting<br/>Common Stock</b> | <b>Capital<br/>Stock<sup>(1)</sup></b> |
|----------------------------------------------|--------------------------------|----------------------------------------|
| Bank of America/Merrill Lynch & Co., Inc.    | 3.7%                           | 33.9%                                  |
| The PNC Financial Services Group, Inc. (PNC) | 34.7%                          | 24.3%                                  |
| Barclays                                     | 4.8%                           | 19.7%                                  |
| Other                                        | 56.8%                          | 22.1%                                  |
|                                              | 100.0%                         | 100.0%                                 |

<sup>(1)</sup> Includes outstanding common and non-voting preferred stock only.

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 1. Financial Statements (continued)**

**BlackRock, Inc.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(unaudited)**

**2. Significant Accounting Policies**

***Basis of Presentation***

These condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ( GAAP ) and include the accounts of the Company and its controlled subsidiaries. Non-controlling interests on the condensed consolidated statements of financial condition include the portion of consolidated sponsored investment funds in which the Company does not have direct equity ownership. Significant accounts and transactions between consolidated entities have been eliminated.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Certain financial information that normally is included in annual financial statements, including certain financial statement footnotes, is not required for interim reporting purposes and has been condensed or omitted herein. These financial statements should be read in conjunction with the Company's consolidated financial statements and notes related thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, which was filed with the Securities and Exchange Commission ( SEC ) on March 10, 2010.

The interim financial information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited. However, in the opinion of management, the interim information includes all normal recurring adjustments necessary for the fair presentation of the Company's results for the periods presented. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year.

***Business Combinations***

In accordance with the requirements of Accounting Standards Codification ( ASC ) 805, *Business Combinations* ( ASC 805 ), certain line items on the condensed consolidated statement of financial condition, including goodwill, intangible assets, and deferred tax liabilities, have been retrospectively adjusted as of December 31, 2009 to reflect new information obtained about facts that existed as of December 1, 2009, the BGI acquisition date. See Note 3, Mergers and Acquisitions, for a summary of the changes in 2010 to the BGI purchase price allocation.

***Fair Value Measurements***

ASC 820-10, *Fair Value Measurements and Disclosures* ( ASC 820-10 ), requires among other things, disclosures about assets and liabilities that are measured and reported at fair value. The provisions of ASC 820-10 establish a hierarchy that prioritizes inputs to valuation techniques used to measure fair value and requires companies to disclose the fair value of their financial instruments according to the fair value hierarchy (i.e., Level 1, 2 and 3 inputs, as defined). The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. Additionally, companies are required to provide additional disclosure regarding instruments in the Level 3 category (which have inputs to the valuation techniques that are unobservable and require significant management judgment), including a reconciliation of the beginning and ending balances separately for each major category of assets and

liabilities.

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 1. Financial Statements (continued)**

**BlackRock, Inc.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(unaudited)**

**2. Significant Accounting Policies (continued)**

***Basis of Presentation (continued)***

***Fair Value Measurements (continued)***

Financial instruments measured and reported at fair value are classified and disclosed in one of the following categories:

***Level 1 Inputs:***

Quoted prices (unadjusted) in active markets for identical assets or liabilities at the reporting date. Level 1 assets include listed mutual funds and ETFs, equities and certain derivatives.

***Level 2 Inputs:***

Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and inputs other than quoted prices that are observable, such as models or other valuation methodologies. Assets that generally are included in this category may include debt securities, bank loans, short-term floating rate notes and asset-backed securities, certain equity method limited partnership interests in hedge funds and mutual funds in which the valuations for substantially all of the investments within the fund are based upon Level 1 or Level 2 inputs, restricted public securities valued at a discount, as well as over the counter derivatives, including interest and inflation rate swaps and foreign currency exchange contracts that have inputs to the valuations that can be generally corroborated by observable market data. These prices are generally determined by a third party valuation source.

***Level 3 Inputs:***

Unobservable inputs for the valuation of the asset or liability, which may include non-binding broker quotes. Level 3 assets include investments for which there is little, if any, market activity. These inputs require significant management judgment or estimation. Assets included in this category generally include general and limited partnership interests in private equity funds, funds of private equity funds, real estate funds, hedge funds, and funds of hedge funds, direct private equity investments held within consolidated funds and certain held for sale real estate disposal assets. Liabilities included in this category include borrowings of consolidated collateralized loan obligations.

## Edgar Filing: BlackRock Inc. - Form 10-Q

Level 3 inputs include BlackRock capital accounts for its partnership interests in various alternative investments, including distressed credit hedge funds, real estate and private equity funds, which may be adjusted by using the returns of certain market indices. The various partnerships are investment companies, which record their underlying investments at fair value based on fair value policies established by management of the underlying fund. Fair value policies at the underlying fund generally require the fund to utilize pricing/valuation information, including independent appraisals, from third party sources. However, in some instances current valuation information for illiquid securities or securities in markets that are not active, may not be available from any third party source or fund management may conclude that the valuations that are available from third party sources are not reliable. In these instances, fund management may perform model-based analytical valuations that may be used to value these investments.

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

### *Fair Value Option*

ASC 825-10, *Financial Instruments* ( ASC 825-10 ), provides a fair value option election that allows companies to irrevocably elect fair value as the initial and subsequent accounting measurement attribute for certain financial assets and liabilities. ASC 825-10 permits entities to elect to measure eligible financial assets and liabilities at fair value on an ongoing basis. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The decision to elect the fair value option is determined on an instrument by instrument basis, must be applied to an entire instrument and is irrevocable once elected. Assets and liabilities measured at fair value pursuant to ASC 825-10 are required to be reported separately from those instruments measured using another accounting method.

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 1. Financial Statements (continued)**

**BlackRock, Inc.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(unaudited)**

**2. Significant Accounting Policies (continued)**

***Basis of Presentation (continued)***

***Acquired Management Contracts with Indefinite Useful Lives***

The value of contracts to manage assets in proprietary open-end funds, closed-end funds and collective trusts without a specified termination date are generally classified as indefinite-lived intangible assets. The assignment of indefinite lives to such contracts is primarily based upon the following: a) the assumption that there is no foreseeable limit on the contract period to manage these funds; b) the Company expects to, and has the ability to continue to operate these products indefinitely; c) the products have multiple investors and are not reliant on a single investor or small group of investors for their continued operation; d) current competitive factors and economic conditions do not indicate a finite life; and e) there is a high likelihood of continued renewal based on historical experience.

***Collateral Assets Held and Liabilities Under Securities Lending Agreements***

The Company facilitates securities lending arrangements whereby securities held by separate account assets are lent to third parties. In exchange, the Company receives collateral, principally cash and securities, with minimums generally ranging from approximately 102% to 112% of the value of the securities lent in order to reduce counterparty risk. Under the Company's securities lending arrangements, the Company can resell or re-pledge the collateral and the borrower can re-sell or re-pledge the loaned securities. The securities lending transactions entered into by the Company are accompanied by an agreement that entitles the Company to request the borrower to return the securities at any time. These transactions are not reported as sales under ASC 860, *Transfers and Servicing*, because of the obligation of the Company to repurchase the securities.

As a result, the Company records the collateral received under these arrangements (both cash and non-cash), as its own asset in addition to a corresponding liability for the obligation to return the collateral. As with the securities lending collateral discussed above, the fair value of the asset received and related obligation to return the collateral are recorded by the Company. At September 30, 2010, the fair value of loaned securities held by separate account assets was approximately \$17.5 billion and the collateral held under these securities lending agreements was approximately \$19.0 billion. During the nine months ended September 30, 2010 and for the full year ended December 31, 2009, the Company had not sold or repurchased any of the collateral received under these arrangements. The fair value of the collateral liability approximates the fair value of the collateral assets and is recorded in collateral liability under securities lending agreements on the Company's condensed consolidated statements of financial condition.

***Classification and Measurement of Redeemable Securities***

## Edgar Filing: BlackRock Inc. - Form 10-Q

The provisions of ASC 480-10, *Distinguishing Liabilities from Equity*, require temporary equity classification for instruments that are currently redeemable or convertible for cash or other assets at the option of the holder. At September 30, 2010 and December 31, 2009, the Company determined that \$54 million and \$49 million, respectively, of non-controlling interests related to certain consolidated sponsored investment funds were redeemable for cash or other assets at the option of the holder, resulting in temporary equity classification on the Company's condensed consolidated statements of financial condition.

---

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 1. Financial Statements (continued)**

**BlackRock, Inc.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(unaudited)**

**2. Significant Accounting Policies (continued)**

***Basis of Presentation (continued)***

***Assets and Liabilities to be Disposed of by Sale***

In the course of the business of establishing real estate and other alternative investment funds, the Company may purchase land, properties and other assets while incurring liabilities directly associated with the assets, together a disposal group, with the intention to sell the disposal group to sponsored investment funds upon their launch. In accordance with the provisions of ASC 360-10, *Property, Plant, and Equipment*, the Company treats these assets and liabilities as a disposal group, measured at the lower of the carrying amount or fair value. Losses are recognized for any initial or subsequent write-down to fair value and gains are recognized for any subsequent increase in fair value, but not in excess of the cumulative loss previously recognized.

At September 30, 2010, the Company held disposal group assets of \$26 million and related liabilities of \$26 million in other assets and other liabilities, respectively, on its condensed consolidated statement of financial condition. Disposal group liabilities include approximately \$23 million of borrowings directly associated with the disposal group assets. During the nine months ended September 30, 2009, the Company recorded a net loss of \$1 million, within non-operating income (expense) on its condensed consolidated statement of income related to the disposal group and did not record any adjustments in 2010.

***Convertible Debt Instruments***

In accordance with the provisions within ASC 470-20, *Debt* (ASC 470-20), issuers of convertible debt instruments that may be settled in cash upon conversion should separately account for the liability and equity components in the statement of financial condition. The excess of the initial proceeds of the convertible debt instrument over the amount allocated to the liability component creates a debt discount, which should be amortized as interest expense over the expected life of the liability. At September 30, 2010, the Company had \$67 million of principal convertible debentures outstanding, which were issued in February 2005, bear interest at a rate of 2.625%, and are due in 2035. The Company retrospectively adopted the requirements of ASC 470-20 on January 1, 2009 resulting in a total cumulative impact of a \$9 million reduction to retained earnings at December 31, 2008. The effective borrowing rate for nonconvertible debt at the time of issuance was estimated to be 4.3%, which resulted in \$18 million of the \$250 million initial aggregate principal amount of the debentures issued, or \$12 million after tax, being attributable to equity. As of March 31, 2010, the initial \$18 million debt discount was fully amortized.

***Comprehensive Income Attributable to BlackRock***

## Edgar Filing: BlackRock Inc. - Form 10-Q

Subsequent to the issuance of BlackRock's second quarter 2010 Form 10-Q, the Company determined that pursuant to ASC 810, *Consolidation*, it should have presented the amount of comprehensive income attributable to non-controlling interests and comprehensive income attributable to BlackRock in its Consolidated Statements of Comprehensive Income and it mislabeled total comprehensive income as being attributable to BlackRock. The affected periods include each of the three years in the period ended December 31, 2009 and each of the interim periods in 2009 and 2010. The accompanying Consolidated Statements of Comprehensive Income for the interim period ended September 30, 2009 has been corrected to include the required information.

For the years ended December 31, 2009, 2008 and 2007, the corrected presentation of comprehensive income is \$987 million, \$372 million, and \$1,383 million, respectively, and comprehensive income attributable to BlackRock is \$965 million, \$527 million, and \$1,019 million, respectively. For the years ended December 31, 2009, 2008 and 2007, net income (loss) attributable to non-controlling interests was \$22 million, (\$155) million, and \$364 million. The Company believes this correction is not material to the consolidated financial statements taken as a whole, therefore, the 2008 and 2009 presentation will be corrected prospectively in the 2010 Form 10-K.

---

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 1. Financial Statements (continued)**

**BlackRock, Inc.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(unaudited)**

**2. Significant Accounting Policies (continued)**

***Accounting Policies Adopted in the Nine Months Ended September 30, 2010***

***New Consolidation Guidance for Variable Interest Entities***

In June 2009, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* ( ASU 2009-17 ), which amended the consolidation guidance for variable interest entities. The amendments include: (1) the elimination of the exemption from consolidation for qualifying special purpose entities, (2) a new approach for determining the primary beneficiary of a variable interest entity ( VIE ), which requires that the primary beneficiary have both (i) the power to control the most significant activities of the VIE and (ii) either the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE, and (3) the requirement to continually reassess the primary beneficiary of a VIE.

In February 2010, the FASB issued ASU 2010-10, *Amendments to Statement 167 for Certain Investment Funds* ( ASU 2010-10 ). This ASU defers the application of Statement of Financial Accounting Standards ( SFAS ) No. 167, *Amendments to FASB Interpretation No. 46(R)*, for a reporting enterprise's interest in an entity if all of the following conditions are met:

(1) the entity either has all of the attributes of an investment company, as specified in ASC 946-10, *Financial Services-Investment Companies* ( ASC 946-10 ) or it is industry practice to apply measurement principles for financial reporting that are consistent with those in ASC 946-10; (2) the entity is not a securitization entity, an asset-backed financing entity, or an entity formerly considered a qualifying special-purpose entity, and (3) the reporting enterprise does not have an explicit or implicit obligation to fund losses of the entity that could potentially be significant to the entity.

In addition, the deferral applies to a reporting enterprise's interest in an entity that is required to comply or operate in accordance with the requirement of Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds.

The amendments in ASU 2010-10 clarify that for entities that do not qualify for the deferral, related parties should be considered when evaluating each of the criteria for determining whether a decision maker or service provider fee represents a variable interest.

An entity that qualifies for the deferral will continue to be assessed for consolidation under the overall guidance on variable interest entities in ASC 810, *Consolidation* ( ASC 810 ) (before its amendment by SFAS No. 167) or other applicable consolidation guidance, including guidance for the consolidation of partnerships in ASC 810. The amendment does not defer the disclosure requirements of ASU 2009-17.

## Edgar Filing: BlackRock Inc. - Form 10-Q

On January 1, 2010, upon adoption of ASU 2009-17, the Company determined it was the primary beneficiary of three collateralized loan obligations ( CLOs ), which resulted in consolidation of these CLOs on the Company's condensed consolidated financial statements. Upon consolidation, the Company elected the fair value option for eligible financial assets and liabilities, to mitigate accounting mismatches between the carrying value of the assets and liabilities and to achieve operational simplifications. Upon adoption of the provisions of ASU 2009-17, the Company recorded a cumulative effect adjustment to appropriated retained earnings of \$114 million.

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 1. Financial Statements (continued)**

**BlackRock, Inc.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(unaudited)**

**2. Significant Accounting Policies (continued)**

*Accounting Policies Adopted in the Nine Months Ended September 30, 2010 (continued)*

*Appropriated Retained Earnings*

Upon adoption of ASU 2009-17, BlackRock consolidated three CLOs and recorded a cumulative effect adjustment to appropriated retained earnings on the condensed consolidated statement of financial condition equal to the difference between the fair value of the CLOs' assets and the fair value of their liabilities. Such amounts are recorded as appropriated retained earnings as the CLO noteholders, not BlackRock, ultimately will receive the benefits or absorb the losses associated with the CLOs' assets and liabilities. Subsequent to adoption of ASU 2009-17, the net change in the fair value of the CLOs' assets and liabilities will be recorded as net income (loss) attributable to nonredeemable non-controlling interests and as an adjustment to appropriated retained earnings.

*Improving Disclosures about Fair Value Measurements*

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures* (ASU 2010-06). ASU 2010-06 amends ASC 820-10 to require new disclosures with regards to significant transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and other settlements within the Level 3 fair value rollforward. ASU 2010-06 also clarifies existing fair value disclosures about the appropriate level of disaggregation and about inputs and valuation techniques for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales and settlements in the rollforward of activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption on January 1, 2010 of the additional disclosure requirements of ASU 2010-06 did not materially impact BlackRock's condensed consolidated financial statements. The adoption of the additional Level 3 rollforward disclosure requirements, which will be effective in 2011, are not expected to materially impact BlackRock's financial statement disclosures.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****3. Mergers and Acquisitions*****Barclays Global Investors***

On December 1, 2009, BlackRock acquired from Barclays all of the outstanding equity interests of subsidiaries of Barclays conducting the investment management business of BGI in exchange for an aggregate of 37,566,771 shares of BlackRock common stock and participating preferred stock and \$6.65 billion in cash. The fair value of the 37,566,771 shares at closing, on December 1, 2009, was \$8.53 billion, at a price of \$227.08 per share, the closing price of BlackRock's common stock on November 30, 2009.

A summary of the initial and revised fair values of the assets acquired and liabilities and non-controlling interests assumed on December 1, 2009 in this acquisition is as follows:

| <b>(Dollar amounts in millions)</b>                                  | <b>Initial<br/>Estimate of<br/>Fair Value</b> | <b>Purchase<br/>Price<br/>Adjustments</b> | <b>Revised<br/>Estimate of<br/>Fair Value</b> |
|----------------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|-----------------------------------------------|
| Accounts receivable                                                  | \$ 593                                        | (\$ 12)                                   | \$ 581                                        |
| Investments                                                          | 125                                           |                                           | 125                                           |
| Separate account assets                                              | 116,301                                       |                                           | 116,301                                       |
| Collateral held under securities lending agreements                  | 23,498                                        |                                           | 23,498                                        |
| Property and equipment                                               | 205                                           | (2)                                       | 203                                           |
| Finite-lived intangible management contracts (intangible assets)     | 163                                           | (7)                                       | 156                                           |
| Indefinite-lived intangible management contracts (intangible assets) | 9,785                                         | 25                                        | 9,810                                         |
| Trade names / trademarks (indefinite-lived intangible assets)        | 1,403                                         |                                           | 1,403                                         |
| Goodwill                                                             | 6,842                                         | 68                                        | 6,910                                         |
| Other assets                                                         | 366                                           |                                           | 366                                           |
| Separate account liabilities                                         | (116,301)                                     |                                           | (116,301)                                     |
| Collateral liability under securities lending agreements             | (23,498)                                      |                                           | (23,498)                                      |
| Deferred tax liabilities                                             | (3,799)                                       | 8                                         | (3,791)                                       |
| Accrued compensation and benefits                                    | (885)                                         |                                           | (885)                                         |
| Other liabilities assumed                                            | (660)                                         | (80)                                      | (740)                                         |
| Non-controlling interests assumed                                    | (12)                                          |                                           | (12)                                          |
| <b>Total consideration, net of cash acquired</b>                     | <b>\$ 14,126</b>                              | <b>\$</b>                                 | <b>\$ 14,126</b>                              |

## Edgar Filing: BlackRock Inc. - Form 10-Q

Summary of consideration, net of cash acquired:

|                                    |           |    |           |
|------------------------------------|-----------|----|-----------|
| Cash paid                          | \$ 6,650  | \$ | \$ 6,650  |
| Cash acquired                      | (1,055)   |    | (1,055)   |
| Capital stock at fair value        | 8,531     |    | 8,531     |
|                                    |           |    |           |
| Total cash and stock consideration | \$ 14,126 | \$ | \$ 14,126 |

At this time, except for the items noted below, the Company does not expect additional material changes to the value of the assets acquired or liabilities assumed in conjunction with the transaction.

As management receives additional tax related information the following items are subject to change: deferred income tax assets and liabilities, goodwill, other assets, due from and to related parties and other liabilities.

### ***Helix Financial Group LLC***

In January 2010, the Company completed the acquisition of substantially all of the net assets of Helix Financial Group LLC, which provides advisory, valuation and analytics solutions to commercial real estate lenders and investors (the Helix Transaction). The assets acquired and liabilities assumed, as well as the total consideration paid for the acquisition, were not material to the Company's condensed consolidated financial statements.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****4. Investments**

A summary of the carrying value of total investments is as follows:

| (Dollar amounts in millions)                                    | Carrying Value        |                      |
|-----------------------------------------------------------------|-----------------------|----------------------|
|                                                                 | September 30,<br>2010 | December 31,<br>2009 |
| Available-for-sale investments                                  | \$ 58                 | \$ 73                |
| Held-to-maturity investments                                    | 48                    | 29                   |
| Trading investments                                             | 201                   | 167                  |
| Other investments:                                              |                       |                      |
| Consolidated sponsored investment funds                         | 334                   | 360                  |
| Equity method investments                                       | 515                   | 376                  |
| Deferred compensation plan hedge fund equity method investments | 25                    | 29                   |
| Cost method investments                                         | 331                   | 15                   |
| Total other investments                                         | 1,205                 | 780                  |
| Total investments                                               | \$ 1,512              | \$ 1,049             |

At September 30, 2010, the Company had \$470 million of total investments held by consolidated sponsored investment funds (non-VIEs) of which \$334 million and \$136 million were classified as other investments and trading investments, respectively.

At December 31, 2009, the Company had \$463 million of total investments held by consolidated sponsored investment funds of which \$103 million and \$360 million were classified as trading investments and other investments, respectively. Other investments at December 31, 2009 included \$40 million related to a consolidated VIE, which has been reclassified as of January 1, 2010 to bank loans and other investments of consolidated VIEs on the condensed consolidated statement of financial condition.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****4. Investments (continued)*****Available-for-Sale Investments***

A summary of the cost and carrying value of investments classified as available-for-sale is as follows:

**(Dollar amounts in millions)**

|                                          | <b>Cost</b> | <b>Gross Unrealized<br/>Gains</b> | <b>Unrealized<br/>Losses</b> | <b>Carrying<br/>Value</b> |
|------------------------------------------|-------------|-----------------------------------|------------------------------|---------------------------|
| <b>September 30, 2010</b>                |             |                                   |                              |                           |
| Available-for-sale investments:          |             |                                   |                              |                           |
| <u>Equity securities:</u>                |             |                                   |                              |                           |
| Sponsored investment funds               | \$ 45       | \$ 6                              | (\$ 2)                       | \$ 49                     |
| Collateralized debt obligations ( CDOs ) | 2           |                                   |                              | 2                         |
| <u>Debt securities:</u>                  |             |                                   |                              |                           |
| Mortgage debt                            | 4           | 2                                 |                              | 6                         |
| Asset-backed debt                        | 1           |                                   |                              | 1                         |
| Total available-for-sale investments     | \$ 52       | \$ 8                              | (\$ 2)                       | \$ 58                     |
| <b>December 31, 2009</b>                 |             |                                   |                              |                           |
| Available-for-sale investments:          |             |                                   |                              |                           |
| <u>Equity securities:</u>                |             |                                   |                              |                           |
| Sponsored investment funds               | \$ 53       | \$ 2                              | (\$ 1)                       | \$ 54                     |
| Collateralized debt obligations          | 2           |                                   |                              | 2                         |
| <u>Debt securities:</u>                  |             |                                   |                              |                           |
| Mortgage debt                            | 6           | 1                                 |                              | 7                         |
| Asset-backed debt                        | 10          |                                   |                              | 10                        |
| Total available-for-sale investments     | \$ 71       | \$ 3                              | (\$ 1)                       | \$ 73                     |

Available-for-sale investments include seed investments in BlackRock sponsored investment funds and debt securities received upon closure of an enhanced cash fund in lieu of the Company's remaining investment in the fund and securities purchased from another enhanced cash fund.

## Edgar Filing: BlackRock Inc. - Form 10-Q

During the nine months ended September 30, 2010 and 2009, the Company recorded other-than-temporary impairments of less than \$1 million and \$4 million, respectively, which were recorded in non-operating (expense) on the condensed consolidated statements of income. The \$4 million of impairments during the nine months ended September 30, 2009 included \$2 million of credit loss impairments on debt securities, which was determined by comparing the estimated discounted cash flows versus the amortized cost for each individual debt security.

The Company reviewed the gross unrealized losses of \$2 million as of September 30, 2010 related to available-for-sale equity securities, of which approximately \$1 million had been in a loss position for greater than twelve months, and determined that these unrealized losses were not other-than-temporary primarily because the Company has the ability and intent to hold the securities for a period of time sufficient to allow for recovery of such unrealized losses. As a result, the Company did not record impairments on such equity securities.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****4. Investments (continued)*****Held-to-Maturity Investments***

A summary of the carrying value of held-to-maturity investments is as follows:

| (Dollar amounts in millions)        | Carrying Value        |                      |
|-------------------------------------|-----------------------|----------------------|
|                                     | September 30,<br>2010 | December 31,<br>2009 |
| Held-to-maturity investments:       |                       |                      |
| Foreign government debt             | \$ 47                 | \$ 28                |
| U.S. government debt                | 1                     | 1                    |
| Total held-to-maturity investments: | \$ 48                 | \$ 29                |

Held-to-maturity investments include debt instruments held for regulatory purposes and the carrying value of these investments approximates fair value.

***Trading and Other Investments***

A summary of the cost and carrying value of trading and other investments is as follows:

| (Dollar amounts in millions)                       | September 30, 2010 |                | December 31, 2009 |                |
|----------------------------------------------------|--------------------|----------------|-------------------|----------------|
|                                                    | Cost               | Carrying Value | Cost              | Carrying Value |
| Trading investments:                               |                    |                |                   |                |
| Deferred compensation plan mutual fund investments | \$ 42              | \$ 46          | \$ 49             | \$ 42          |
| Equity securities                                  | 47                 | 53             | 112               | 97             |
| Debt securities:                                   |                    |                |                   |                |
| Municipal debt                                     | 10                 | 11             | 10                | 11             |
| Foreign government debt                            |                    |                | 15                | 15             |

# Edgar Filing: BlackRock Inc. - Form 10-Q

|                                                                 |                 |                 |               |               |
|-----------------------------------------------------------------|-----------------|-----------------|---------------|---------------|
| Corporate debt                                                  | 90              | 91              | 1             | 1             |
| U.S. government/government agency debt                          |                 |                 | 1             | 1             |
| <b>Total trading investments</b>                                | <b>\$ 189</b>   | <b>\$ 201</b>   | <b>\$ 188</b> | <b>\$ 167</b> |
| Other investments:                                              |                 |                 |               |               |
| Consolidated sponsored investment funds                         | \$ 331          | \$ 334          | \$ 380        | \$ 360        |
| Equity method investments                                       | 564             | 515             | 499           | 376           |
| Deferred compensation plan hedge fund equity method investments | 22              | 25              | 28            | 29            |
| <u>Cost method investments:</u>                                 |                 |                 |               |               |
| Federal Reserve Bank stock                                      | 325             | 325             | 10            | 10            |
| Other                                                           | 6               | 6               | 5             | 5             |
| <b>Total cost method investments</b>                            | <b>331</b>      | <b>331</b>      | <b>15</b>     | <b>15</b>     |
| <b>Total other investments</b>                                  | <b>\$ 1,248</b> | <b>\$ 1,205</b> | <b>\$ 922</b> | <b>\$ 780</b> |

## *Trading Investments*

Trading investments include \$136 million of equity and debt securities within certain consolidated sponsored investment funds, \$46 million of certain deferred compensation plan mutual fund investments and \$19 million of equity and debt securities held in separate investment accounts for the purpose of establishing an investment history in various investment strategies before being marketed to investors.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****4. Investments (continued)***Cost Method Investments*

Cost method investments include non-marketable securities, including \$325 million of Federal Reserve Bank stock at September 30, 2010, which is held for regulatory purposes and is restricted from sale.

As of September 30, 2010, there were no indicators of impairments on these investments.

*Contractual Maturity of Debt Securities*

The cost or amortized cost and fair value of debt securities classified as available-for-sale and held-to-maturity by maturity at September 30, 2010 is as follows:

| (Dollar amounts in millions)           | 1 Year<br>or<br>less | After 1<br>Year<br>through 5<br>Years | After 5<br>Years<br>through 10<br>Years | After 10<br>Years | Total |
|----------------------------------------|----------------------|---------------------------------------|-----------------------------------------|-------------------|-------|
| <b>Available-for-sale investments:</b> |                      |                                       |                                         |                   |       |
| Mortgage debt                          | \$                   | \$                                    | \$ 1                                    | \$ 3              | \$ 4  |
| Asset-backed debt                      |                      |                                       |                                         | 1                 | 1     |
| Cost                                   | \$                   | \$                                    | \$ 1                                    | \$ 4              | \$ 5  |
| Fair value                             | \$                   | \$                                    | \$ 1                                    | \$ 6              | \$ 7  |
| <b>Held-to-maturity investments:</b>   |                      |                                       |                                         |                   |       |
| Foreign government debt                | \$ 18                | \$ 24                                 | \$                                      | \$ 5              | \$ 47 |
| U.S. government debt                   | 1                    |                                       |                                         |                   | 1     |
| Amortized cost                         | \$ 19                | \$ 24                                 | \$                                      | \$ 5              | \$ 48 |
| Fair value                             | \$ 19                | \$ 24                                 | \$                                      | \$ 5              | \$ 48 |



**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****5. Consolidated Sponsored Investment Funds**

The Company consolidates certain sponsored investment funds primarily because it is deemed to control such funds in accordance with GAAP. The investments that are owned by these consolidated sponsored investment funds are classified as other or trading investments. At September 30, 2010 and December 31, 2009, the following balances related to these funds were consolidated on the condensed consolidated statements of financial condition:

| <b>(Dollar amounts in millions)</b>                         | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|-------------------------------------------------------------|-------------------------------|------------------------------|
| Cash and cash equivalents                                   | \$ 92                         | \$ 75                        |
| Investments                                                 | 470                           | 463                          |
| Other net assets (liabilities)                              | (11)                          | (7)                          |
| Non-controlling interests                                   | (234)                         | (273)                        |
| <b>Total net interests in consolidated investment funds</b> | <b>\$ 317</b>                 | <b>\$ 258</b>                |

At December 31, 2009, the above balances included a consolidated sponsored investment fund that was also deemed a VIE. This VIE, as well as three consolidated CLOs, which are also VIEs, were excluded from the September 30, 2010 balances above. See Note 7, Variable Interest Entities, for further discussion on these consolidated products.

BlackRock's total exposure to consolidated sponsored investment funds of \$317 million and \$258 million at September 30, 2010 and December 31, 2009, respectively, represents the value of the Company's economic ownership interest in these sponsored investment funds. Valuation changes associated with these consolidated investment funds are reflected in non-operating income (expense) and partially offset in net income (loss) attributable to non-controlling interests for the portion not attributable to BlackRock.

The Company may not be readily able to access cash and cash equivalents held by consolidated sponsored investment funds to use in its operating activities. In addition, the Company may not be readily able to sell investments held by consolidated sponsored investment funds in order to obtain cash for use in its operations.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****6. Fair Value Disclosures*****Fair Value Hierarchy***

Assets measured at fair value on a recurring basis at September 30, 2010 were as follows:

| <b>(Dollar amounts in millions)</b>                | <b>Quoted Prices<br/>in Active<br/>Markets for<br/>Identical<br/>Assets<br/>(Level 1)</b> | <b>Significant Other<br/>Observable Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> | <b>Other Assets<br/>Not Held<br/>at Fair<br/>Value<sup>(1)</sup></b> | <b>September 30,<br/>2010</b> |
|----------------------------------------------------|-------------------------------------------------------------------------------------------|--------------------------------------------------------------|--------------------------------------------------------------|----------------------------------------------------------------------|-------------------------------|
| <b>Assets:</b>                                     |                                                                                           |                                                              |                                                              |                                                                      |                               |
| Investments                                        |                                                                                           |                                                              |                                                              |                                                                      |                               |
| Available-for-sale:                                |                                                                                           |                                                              |                                                              |                                                                      |                               |
| Equity securities (funds and CDOs)                 | \$ 49                                                                                     | \$ 2                                                         | \$                                                           | \$                                                                   | \$ 51                         |
| Debt securities                                    |                                                                                           | 7                                                            |                                                              |                                                                      | 7                             |
| Total available-for-sale                           | 49                                                                                        | 9                                                            |                                                              |                                                                      | 58                            |
| Held-to-maturity:                                  |                                                                                           |                                                              |                                                              |                                                                      |                               |
| Debt securities                                    |                                                                                           |                                                              |                                                              | 48                                                                   | 48                            |
| Total held-to-maturity                             |                                                                                           |                                                              |                                                              | 48                                                                   | 48                            |
| Trading:                                           |                                                                                           |                                                              |                                                              |                                                                      |                               |
| Equity securities                                  | 39                                                                                        | 14                                                           |                                                              |                                                                      | 53                            |
| Debt securities                                    |                                                                                           | 102                                                          |                                                              |                                                                      | 102                           |
| Deferred compensation plan mutual fund investments | 46                                                                                        |                                                              |                                                              |                                                                      | 46                            |
| Total trading                                      | 85                                                                                        | 116                                                          |                                                              |                                                                      | 201                           |
| Other investments:                                 |                                                                                           |                                                              |                                                              |                                                                      |                               |
| Consolidated sponsored investment funds:           |                                                                                           |                                                              |                                                              |                                                                      |                               |
| Hedge funds / Funds of funds                       |                                                                                           |                                                              | 27                                                           |                                                                      | 27                            |
| Private equity                                     | 17                                                                                        |                                                              | 290                                                          |                                                                      | 307                           |
| Total consolidated sponsored investment funds      | 17                                                                                        |                                                              | 317                                                          |                                                                      | 334                           |

Edgar Filing: BlackRock Inc. - Form 10-Q

Equity method:

|                                         |    |     |    |     |
|-----------------------------------------|----|-----|----|-----|
| Hedge funds / Funds of hedge funds      |    | 270 | 34 | 304 |
| Private equity investments              |    | 64  | 20 | 84  |
| Real estate funds                       |    | 59  | 11 | 70  |
| Fixed income mutual fund                | 54 |     |    | 54  |
| Equity / Multi-asset class mutual funds | 3  |     |    | 3   |

|                                                                 |    |     |     |     |
|-----------------------------------------------------------------|----|-----|-----|-----|
| Total equity method                                             | 57 | 393 | 65  | 515 |
| Deferred compensation plan hedge fund equity method investments | 8  | 17  |     | 25  |
| Cost method investments                                         |    |     | 331 | 331 |

|                          |        |        |       |     |        |
|--------------------------|--------|--------|-------|-----|--------|
| Total investments        | 151    | 190    | 727   | 444 | 1,512  |
| Separate account assets: |        |        |       |     |        |
| Equity                   | 74,375 | 189    | 80    |     | 74,644 |
| Debt securities          |        | 36,602 | 1,423 |     | 38,025 |
| Derivatives              |        | 1,709  |       |     | 1,709  |
| Money market funds       | 1,515  |        |       |     | 1,515  |
| Other                    |        |        |       | 774 | 774    |

|                                                     |        |        |       |     |         |
|-----------------------------------------------------|--------|--------|-------|-----|---------|
| Total separate account assets                       | 75,890 | 38,500 | 1,503 | 774 | 116,667 |
| Collateral held under securities lending agreements |        |        |       |     |         |
| Equity                                              | 13,824 |        |       |     | 13,824  |
| Debt securities                                     |        | 5,157  |       |     | 5,157   |

|                                                           |        |       |  |  |        |
|-----------------------------------------------------------|--------|-------|--|--|--------|
| Total collateral held under securities lending agreements | 13,824 | 5,157 |  |  | 18,981 |
|-----------------------------------------------------------|--------|-------|--|--|--------|

|                              |   |       |    |  |       |
|------------------------------|---|-------|----|--|-------|
| Other assets <sup>(2)</sup>  |   | 11    | 26 |  | 37    |
| Assets of consolidated VIEs: |   |       |    |  |       |
| Bank loans                   |   | 1,154 |    |  | 1,154 |
| Bonds                        |   | 100   |    |  | 100   |
| Private equity               | 3 |       | 35 |  | 38    |
| Other                        |   | 1     |    |  | 1     |

|                                        |   |       |    |  |       |
|----------------------------------------|---|-------|----|--|-------|
| Total investments of consolidated VIEs | 3 | 1,255 | 35 |  | 1,293 |
|----------------------------------------|---|-------|----|--|-------|

|                                            |                  |                  |                 |                 |                   |
|--------------------------------------------|------------------|------------------|-----------------|-----------------|-------------------|
| <b>Total assets measured at fair value</b> | <b>\$ 89,868</b> | <b>\$ 45,113</b> | <b>\$ 2,291</b> | <b>\$ 1,218</b> | <b>\$ 138,490</b> |
|--------------------------------------------|------------------|------------------|-----------------|-----------------|-------------------|

- (1) Comprised of cost method investments, equity method investments (including investment companies and other investments), as well as other assets which in accordance with GAAP are not accounted for under a fair value measure. In accordance with GAAP, certain equity method investees do not account for both their financial assets and financial liabilities under fair value measures; therefore, the Company's investment in such equity method investees may not represent fair value.
- (2) Includes disposal group assets and company-owned and split-dollar life insurance policies.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****6. Fair Value Disclosures (continued)*****Fair Value Hierarchy (continued)***

Liabilities measured at fair value on a recurring basis at September 30, 2010 were as follows:

| <b>(Dollar amounts in millions)</b>                      | <b>Quoted<br/>Prices in<br/>Active<br/>Markets<br/>for<br/>Identical<br/>Assets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> | <b>September 30,<br/>2010</b> |
|----------------------------------------------------------|---------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|--------------------------------------------------------------|-------------------------------|
| <b>Liabilities:</b>                                      |                                                                                                   |                                                                      |                                                              |                               |
| Borrowings of consolidated VIEs                          | \$                                                                                                | \$                                                                   | \$ 1,237                                                     | \$ 1,237                      |
| Collateral liability under securities lending agreements | 13,824                                                                                            | 5,157                                                                |                                                              | 18,981                        |
| Other liabilities <sup>(1)</sup>                         |                                                                                                   | 6                                                                    |                                                              | 6                             |
| <b>Total liabilities measured at fair value</b>          | <b>\$ 13,824</b>                                                                                  | <b>\$ 5,163</b>                                                      | <b>\$ 1,237</b>                                              | <b>\$ 20,224</b>              |

<sup>(1)</sup> Includes credit default swap (Pillars) and foreign currency exchange contracts.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****6. Fair Value Disclosures (continued)**

Assets and liabilities measured at fair value on a recurring basis at December 31, 2009 were as follows:

| (Dollar amounts in millions)                                    | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Other Assets<br>Not Held at<br>Fair Value <sup>(1)</sup> | December 31,<br>2009 |
|-----------------------------------------------------------------|----------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|----------------------------------------------------------|----------------------|
| <b>Assets:</b>                                                  |                                                                                  |                                                           |                                                    |                                                          |                      |
| <b>Investments:</b>                                             |                                                                                  |                                                           |                                                    |                                                          |                      |
| Available-for-sale                                              | \$ 53                                                                            | \$ 20                                                     | \$                                                 | \$                                                       | \$ 73                |
| Held-to-maturity                                                |                                                                                  |                                                           |                                                    | 29                                                       | 29                   |
| Trading                                                         | 118                                                                              | 49                                                        |                                                    |                                                          | 167                  |
| Other investments:                                              |                                                                                  |                                                           |                                                    |                                                          |                      |
| Consolidated sponsored investment funds                         | 22                                                                               |                                                           | 338                                                |                                                          | 360                  |
| Equity method                                                   |                                                                                  | 1                                                         | 334                                                | 41                                                       | 376                  |
| Deferred compensation plan hedge fund equity method investments |                                                                                  | 14                                                        | 15                                                 |                                                          | 29                   |
| Cost method investments                                         |                                                                                  |                                                           |                                                    | 15                                                       | 15                   |
| Total investments                                               | 193                                                                              | 84                                                        | 687                                                | 85                                                       | 1,049                |
| Separate account assets                                         | 99,983                                                                           | 17,599                                                    | 1,292                                              | 755                                                      | 119,629              |
| Collateral held under securities lending agreements             | 11,580                                                                           | 7,755                                                     |                                                    |                                                          | 19,335               |
| Other assets <sup>(2)</sup>                                     |                                                                                  | 11                                                        | 46                                                 |                                                          | 57                   |
| Total assets measured at fair value                             | \$ 111,756                                                                       | \$ 25,449                                                 | \$ 2,025                                           | \$ 840                                                   | \$ 140,070           |
| <b>Liabilities:</b>                                             |                                                                                  |                                                           |                                                    |                                                          |                      |
| Collateral liability under securities lending agreements        | \$ 11,580                                                                        | \$ 7,755                                                  | \$                                                 | \$                                                       | \$ 19,335            |

## Edgar Filing: BlackRock Inc. - Form 10-Q

- (1) Comprised of cost method investments, equity method investments (including investment companies and other investments), as well as other assets which in accordance with GAAP are not accounted for under a fair value measure. In accordance with GAAP, certain equity method investees do not account for both their financial assets and financial liabilities under fair value measures; therefore, the Company's investment in such equity method investees may not represent fair value.
- (2) Includes disposal group assets and company-owned and split-dollar life insurance policies.

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 1. Financial Statements (continued)**

**BlackRock, Inc.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(unaudited)**

**6. Fair Value Disclosures (continued)**

*Separate Account Assets*

BlackRock Pensions Limited and BlackRock Asset Management Pensions Limited, both wholly-owned subsidiaries of the Company, are registered life insurance companies that maintain separate account assets, representing segregated funds held for purposes of funding individual and group pension contracts, and equal and offsetting separate account non-financial liabilities. The changes in Level 3 assets in the three and nine months ended September 30, 2009, primarily related to purchases, sales and gains/(losses). The net investment income and net gains and losses attributable to separate account assets accrue directly to the contract owners and are not reported on the Company's condensed consolidated statements of income.

*Money Market Funds within Cash and Cash Equivalents*

At September 30, 2010 and December 31, 2009, approximately \$125 million and \$1.4 billion, respectively, of money market funds were recorded within cash and cash equivalents on the Company's condensed consolidated statements of financial condition. Money market funds are valued through the use of quoted market prices (a Level 1 input), or \$1.00, which is generally the net asset value of the fund.

*Level 3 Assets*

Level 3 assets recorded within investments, which include equity method investments and consolidated investments of real estate funds, private equity funds and funds of private equity funds, are valued based upon valuations, including capital accounts, received from internal as well as third party fund managers. Fair valuations of the underlying funds are based on a combination of methods, which may include third-party independent appraisals and discounted cash flow techniques. Direct investments in private equity companies held by funds of private equity funds are valued based on an assessment of each underlying investment, incorporating evaluation of additional significant third party financing, changes in valuations of comparable peer companies, the business environment of the companies and market indices, among other factors.

Level 3 assets recorded within separate account assets may include single broker non-binding quotes for fixed income securities and equity securities, which have unobservable inputs due to certain corporate actions.

Level 3 investments of consolidated VIEs include direct private equity investments and private equity funds valued based upon valuations received from internal as well as third party fund managers.

*Level 3 Liabilities*

Level 3 liabilities recorded as borrowings of consolidated VIEs, include CLO borrowings valued based upon non-binding broker quotes.



**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****6. Fair Value Disclosures (continued)*****Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended September 30, 2010***

| <b>(Dollar amounts in millions)</b>        | <b>June 30,<br/>2010</b> | <b>Realized<br/>and<br/>unrealized<br/>gains /<br/>(losses),<br/>net</b> | <b>Purchases,<br/>sales,<br/>other<br/>settlements<br/>and<br/>issuances,<br/>net</b> | <b>Net<br/>transfers in<br/>and/or<br/>out<br/>of Level<br/>3</b> | <b>September 30,<br/>2010</b> | <b>Total net<br/>gains<br/>(losses)<br/>included in<br/>earnings<sup>(1)</sup></b> |
|--------------------------------------------|--------------------------|--------------------------------------------------------------------------|---------------------------------------------------------------------------------------|-------------------------------------------------------------------|-------------------------------|------------------------------------------------------------------------------------|
| <b>Assets:</b>                             |                          |                                                                          |                                                                                       |                                                                   |                               |                                                                                    |
| <b><u>Investments:</u></b>                 |                          |                                                                          |                                                                                       |                                                                   |                               |                                                                                    |
| Consolidated sponsored investment funds:   |                          |                                                                          |                                                                                       |                                                                   |                               |                                                                                    |
| Hedge funds / Funds of funds               | \$ 28                    | \$                                                                       | (\$ 1)                                                                                | \$                                                                | \$ 27                         | \$                                                                                 |
| Private equity                             | 259                      | 38                                                                       | (5)                                                                                   | (2)                                                               | 290                           | 38                                                                                 |
| Equity method:                             |                          |                                                                          |                                                                                       |                                                                   |                               |                                                                                    |
| Hedge funds / Funds of hedge funds         | 261                      | 16                                                                       | (7)                                                                                   |                                                                   | 270                           | 18                                                                                 |
| Private equity investments                 | 60                       | 1                                                                        | 3                                                                                     |                                                                   | 64                            | 1                                                                                  |
| Real estate funds                          | 48                       | 10                                                                       | 1                                                                                     |                                                                   | 59                            | 10                                                                                 |
| Deferred compensation plan hedge funds     | 18                       | (1)                                                                      |                                                                                       |                                                                   | 17                            |                                                                                    |
| <b>Total investments</b>                   | <b>674</b>               | <b>64</b>                                                                | <b>(9)</b>                                                                            | <b>(2)</b>                                                        | <b>727</b>                    | <b>67</b>                                                                          |
| <b><u>Separate account assets:</u></b>     |                          |                                                                          |                                                                                       |                                                                   |                               |                                                                                    |
| Equity                                     | 7                        | 37                                                                       | 34                                                                                    | 2                                                                 | 80                            |                                                                                    |
| Debt securities                            | 1,448                    | (4)                                                                      | (21)                                                                                  |                                                                   | 1,423                         |                                                                                    |
| <b>Total separate account assets</b>       | <b>1,455</b>             | <b>33</b>                                                                | <b>13</b>                                                                             | <b>2</b>                                                          | <b>1,503</b>                  | <b>n/a<sup>(2)</sup></b>                                                           |
| Other assets                               | 24                       | 2                                                                        |                                                                                       |                                                                   | 26                            | 2                                                                                  |
| <b><u>Consolidated VIE:</u></b>            |                          |                                                                          |                                                                                       |                                                                   |                               |                                                                                    |
| Private equity investments                 | 30                       | 5                                                                        |                                                                                       |                                                                   | 35                            | n/a <sup>(3)</sup>                                                                 |
| <b>Total assets measured at fair value</b> | <b>\$ 2,183</b>          | <b>\$ 104</b>                                                            | <b>\$ 4</b>                                                                           | <b>\$</b>                                                         | <b>\$ 2,291</b>               |                                                                                    |

**Liabilities:**

|                                 |          |         |    |    |          |                    |
|---------------------------------|----------|---------|----|----|----------|--------------------|
| Borrowings of consolidated VIEs | \$ 1,215 | (\$ 22) | \$ | \$ | \$ 1,237 | n/a <sup>(3)</sup> |
|---------------------------------|----------|---------|----|----|----------|--------------------|

n/a not applicable

- (1) Earnings attributable to the change in unrealized gains or (losses) relating to assets still held at the reporting date.
- (2) The net investment income and net gains and losses attributable to separate account assets accrue directly to the contract owners and are not reported on the Company's condensed consolidated statements of income.
- (3) The net investment income (expense) attributable to assets and borrowings of consolidated VIEs are allocated to non-controlling interests on the Company's condensed consolidated statements of income.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****6. Fair Value Disclosures (continued)*****Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Nine Months Ended September 30, 2010***

|                                                 | December 31,<br>2009 | Realized<br>and<br>unrealized<br>gains /<br>(losses), net | Purchases,<br>sales, other<br>settlements<br>and<br>issuances,<br>net | Net<br>transfers<br>in and/<br>or out of<br>Level 3 | September 30,<br>2010 | Total net<br>gains<br>(losses)<br>included in<br>earnings <sup>(1)</sup> |
|-------------------------------------------------|----------------------|-----------------------------------------------------------|-----------------------------------------------------------------------|-----------------------------------------------------|-----------------------|--------------------------------------------------------------------------|
| <b>(Dollar amounts in millions)</b>             |                      |                                                           |                                                                       |                                                     |                       |                                                                          |
| <b>Assets:</b>                                  |                      |                                                           |                                                                       |                                                     |                       |                                                                          |
| <b><u>Investments:</u></b>                      |                      |                                                           |                                                                       |                                                     |                       |                                                                          |
| <b>Consolidated sponsored investment funds:</b> |                      |                                                           |                                                                       |                                                     |                       |                                                                          |
| Hedge funds / Funds of funds                    | \$ 26                | (\$ 1)                                                    | \$ 2                                                                  | \$                                                  | \$ 27                 | (\$ 1)                                                                   |
| Private equity                                  | 312                  | 20                                                        | (39)                                                                  | (3)                                                 | 290                   | 21                                                                       |
| <b>Equity method:</b>                           |                      |                                                           |                                                                       |                                                     |                       |                                                                          |
| Hedge funds / Funds of hedge funds              | 247                  | 30                                                        | (7)                                                                   |                                                     | 270                   | 31                                                                       |
| Private equity investments                      | 51                   | 3                                                         | 10                                                                    |                                                     | 64                    | 3                                                                        |
| Real estate funds                               | 36                   | 12                                                        | 11                                                                    |                                                     | 59                    | 12                                                                       |
| Deferred compensation plan hedge funds          | 15                   | 2                                                         |                                                                       |                                                     | 17                    | 2                                                                        |
| <b>Total investments</b>                        | <b>687</b>           | <b>66</b>                                                 | <b>(23)</b>                                                           | <b>(3)</b>                                          | <b>727</b>            | <b>68</b>                                                                |
| <b><u>Separate account assets:</u></b>          |                      |                                                           |                                                                       |                                                     |                       |                                                                          |
| Equity                                          | 5                    | 32                                                        | (20)                                                                  | 63                                                  | 80                    |                                                                          |
| Debt securities                                 | 1,287                | 36                                                        | 324                                                                   | (224)                                               | 1,423                 |                                                                          |
| <b>Total separate account assets</b>            | <b>1,292</b>         | <b>68</b>                                                 | <b>304</b>                                                            | <b>(161)</b>                                        | <b>1,503</b>          | <b>n/a<sup>(2)</sup></b>                                                 |
| Other assets                                    | 46                   | (8)                                                       | (12)                                                                  |                                                     | 26                    | (8)                                                                      |
| <b><u>Consolidated VIE:</u></b>                 |                      |                                                           |                                                                       |                                                     |                       |                                                                          |
| Private equity investments                      |                      | 1                                                         | 34                                                                    |                                                     | 35                    | n/a <sup>(3)</sup>                                                       |
| <b>Total assets measured at fair value</b>      | <b>\$ 2,025</b>      | <b>\$ 127</b>                                             | <b>\$ 303</b>                                                         | <b>(\$ 164)</b>                                     | <b>\$ 2,291</b>       |                                                                          |

**Liabilities:**

## Edgar Filing: BlackRock Inc. - Form 10-Q

|                                 |    |         |          |    |          |                    |
|---------------------------------|----|---------|----------|----|----------|--------------------|
| Borrowings of consolidated VIEs | \$ | (\$ 80) | \$ 1,157 | \$ | \$ 1,237 | n/a <sup>(3)</sup> |
|---------------------------------|----|---------|----------|----|----------|--------------------|

n/a not applicable

- <sup>(1)</sup> Earnings attributable to the change in unrealized gains or (losses) relating to assets still held at the reporting date.
- <sup>(2)</sup> The net investment income and net gains and losses attributable to separate account assets accrue directly to the contract owners and are not reported on the Company's condensed consolidated statements of income.
- <sup>(3)</sup> The net investment income (expense) attributable to assets and borrowings of consolidated VIEs are allocated to non-controlling interests on the Company's condensed consolidated statements of income.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****6. Fair Value Disclosures (continued)*****Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended September 30, 2009***

| (Dollar amounts in millions)                              | June 30,<br>2009 | Realized<br>and<br>unrealized<br>gains /<br>(losses),<br>net | Purchases,<br>sales, other<br>settlements<br>and<br>issuances,<br>net | Net<br>transfers<br>in and/or<br>out of<br>Level<br>3 | September 30,<br>2009 | Total net<br>gains (losses)<br>included in<br>earnings <sup>(1)</sup> |
|-----------------------------------------------------------|------------------|--------------------------------------------------------------|-----------------------------------------------------------------------|-------------------------------------------------------|-----------------------|-----------------------------------------------------------------------|
| Investments                                               | \$ 696           | \$ 53                                                        | (\$ 27)                                                               | \$                                                    | \$ 722                | \$ 53                                                                 |
| Other assets                                              | 50               | (1)                                                          | 1                                                                     |                                                       | 50                    | (1)                                                                   |
| Total investments and other assets measured at fair value | \$ 746           | \$ 52                                                        | (\$ 26)                                                               | \$                                                    | \$ 772                | \$ 52                                                                 |

<sup>(1)</sup> Earnings attributable to the change in unrealized gains or (losses) relating to assets still held at the reporting date.***Changes in Level 3 Investments and Other Assets Measured at Fair Value on a Recurring Basis for the Nine Months Ended September 30, 2009***

| (Dollar amounts in millions) | December 31,<br>2008 | Realized<br>and<br>unrealized<br>gains /<br>(losses),<br>net | Purchases,<br>sales, other<br>settlements<br>and<br>issuances,<br>net | Net<br>transfers in<br>and/or out<br>of Level<br>3 | September 30,<br>2009 | Total net<br>gains (losses)<br>included in<br>earnings <sup>(1)</sup> |
|------------------------------|----------------------|--------------------------------------------------------------|-----------------------------------------------------------------------|----------------------------------------------------|-----------------------|-----------------------------------------------------------------------|
| Investments                  | \$ 813               | \$ 12                                                        | (\$ 85)                                                               | (\$ 18)                                            | \$ 722                | \$ 62                                                                 |
| Other assets                 | 64                   | (16)                                                         | 2                                                                     |                                                    | 50                    | (16)                                                                  |
|                              | \$ 877               | (\$ 4)                                                       | (\$ 83)                                                               | (\$ 18)                                            | \$ 772                | \$ 46                                                                 |

Total investments and other assets measured at fair value

<sup>(1)</sup> Earnings attributable to the change in unrealized gains or (losses) relating to assets still held at the reporting date.

***Realized and Unrealized Gains / (Losses) for Level 3 Assets and Liabilities***

Realized and unrealized gains / (losses) recorded for Level 3 assets and liabilities are reported in non-operating income (expense) on the Company's condensed consolidated statements of income. A portion of net income (loss) for consolidated investments and all of the net income (loss) for consolidated VIEs is allocated to non-controlling interests to reflect net income (loss) not attributable to the Company.

***Significant Transfers in and/or out of Levels***

Transfers in and/or out of Levels are reflected as of the beginning of the period when significant inputs, including market inputs or performance attributes, used for the fair value measurement become observable or when the book value of certain equity method investments no longer represents fair value as determined under fair value methodologies.

***Separate Account Assets***

In the nine months ended September 30, 2010 there were net transfers out of Level 3 to Level 2 related to debt securities held within separate account assets. The net transfers in Levels were primarily due to availability of additional observable market inputs, including additional broker quotes.

In the nine months ended September 30, 2010 there were \$63 million of net transfers into Level 3 from Level 1 and Level 2 of equity securities held within separate account assets. The net transfers into Level 3 were primarily due to market inputs no longer being considered observable.

***Significant Other Settlements in 2010***

As of January 1, 2010, upon the adoption of ASU 2009-17 there was a \$35 million reclassification of assets from Level 3 private equity investments to Level 3 private equity assets of consolidated VIEs as well as the consolidation of \$1,157 million of borrowings within the consolidated CLOs.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****6. Fair Value Disclosures (continued)*****Investments in Certain Entities that Calculate Net Asset Value Per Share***

As a practical expedient to value certain investments, the Company relies on net asset values as the fair value for certain investments. The following table lists information regarding all investments that use a fair value measurement to account for both their financial assets and financial liabilities in their calculation of a net asset value per share (or its equivalent) at September 30, 2010:

| (Dollar amounts in millions)                           | Ref | Fair Value | Total<br>Unfunded<br>Commitments | Redemption<br>Frequency | Redemption<br>Notice Period |
|--------------------------------------------------------|-----|------------|----------------------------------|-------------------------|-----------------------------|
| <b><u>Trading:</u></b>                                 |     |            |                                  |                         |                             |
| Equity                                                 | (a) | \$ 14      | \$                               | Daily (100%)            | n/a                         |
| <b><u>Consolidated sponsored investment funds:</u></b> |     |            |                                  |                         |                             |
| Private equity fund of funds                           | (b) | 248        | 65                               | n/a                     | n/a                         |
| Other fund of hedge funds                              |     |            |                                  | Monthly (39%),          |                             |
|                                                        | (c) | 8          |                                  | Quarterly (61%)         | 30 120 days                 |
| <b><u>Equity method:<sup>(1)</sup></u></b>             |     |            |                                  |                         |                             |
| Hedge funds/funds of hedge funds                       |     |            |                                  | Monthly (8%),           |                             |
|                                                        |     |            |                                  | Quarterly (16%),        |                             |
|                                                        | (d) | 270        | 50                               | n/a (76%)               | 15 90 days                  |
| Private equity funds                                   | (e) | 64         | 62                               | n/a                     | n/a                         |
| Real estate funds                                      | (f) | 59         | 61                               | n/a                     | n/a                         |
| Deferred compensation plan hedge fund investments      |     |            |                                  | Monthly (12%),          |                             |
|                                                        | (g) | 25         |                                  | Quarterly (88%)         | 30 60 days                  |
| <b><u>Consolidated VIE:</u></b>                        |     |            |                                  |                         |                             |
| Private equity funds                                   | (h) | 32         | 2                                | n/a                     | n/a                         |

|       |    |     |    |     |
|-------|----|-----|----|-----|
| Total | \$ | 720 | \$ | 240 |
|-------|----|-----|----|-----|

n/a not applicable

- (1) Comprised of equity method investments, which include investment companies, which in accordance with GAAP account for both their financial assets and financial liabilities under fair value measures; therefore, the Company's investment in such equity method investees approximates fair value.
- (a) This category includes several consolidated offshore feeder funds that invest in master funds with multiple equity strategies to diversify risks. The fair values of the investments in this category have been estimated using the net asset value of master offshore funds held by the feeder funds. Investments in this category can generally be redeemed at any time, as long as there are no restrictions in place by the underlying master funds.

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 1. Financial Statements (continued)**

**BlackRock, Inc.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(unaudited)**

**6. Fair Value Disclosures (continued)**

***Investments in Certain Entities that Calculate Net Asset Value Per Share (continued)***

- (b) This category includes the underlying third party private equity funds within consolidated BlackRock sponsored private equity funds of funds. The fair values of the investments in the third party funds have been estimated using the net asset value of the Company's ownership interest in partners' capital in each fund in the portfolio as well as other performance inputs. These investments are not subject to redemption, however, for certain funds the Company may sell or transfer its interest, which may need approval by the general partner of the underlying funds. Due to the nature of the investments in this category, the Company reduces its investment by distributions that are received through the realization of the underlying assets of the funds. It is estimated that the underlying assets of these funds will be liquidated over a weighted-average period of approximately 9 years. Total remaining unfunded commitments to other third party funds is \$65 million. The Company is contractually obligated to fund only \$47 million to the consolidated funds, while the remaining unfunded balance in the table above would be funded by capital contributions from non-controlling interest holders.
- (c) This category includes several consolidated funds of hedge funds that invest in multiple strategies to diversify risks. The fair values of the investments in this category have been estimated using the net asset value of the fund's ownership interest in partners' capital of each fund in the portfolio. Investments in this category can generally be redeemed, as long as there are no restrictions in place by the underlying funds.
- (d) This category includes hedge funds and funds of hedge funds that invest primarily in equities, fixed income securities, distressed credit and mortgage instruments and other third party hedge funds. The fair values of the investments in this category have been estimated using the net asset value of the Company's ownership interest in partners' capital. It is estimated that the investments in the funds that are not subject to redemptions will be liquidated over a weighted-average period of less than 7 years.
- (e) This category includes several private equity funds that initially invest in non-marketable securities of private companies, which ultimately may become public in the future. The fair values of these investments have been estimated using the net asset value of the Company's ownership interest in partners' capital as well as other performance inputs. The Company's investment in each fund is not subject to redemption and is normally returned through distributions as a result of the liquidation of the underlying assets of the private equity funds. It is estimated that the investment in these funds will be liquidated over a weighted-average period of approximately 7 years.
- (f) This category includes several real estate funds that invest primarily to acquire, expand, renovate, finance, hold for investment, and ultimately sell income-producing apartment properties or to capitalize on the distress in the residential real estate market. The fair values of the investments in this category have been estimated using the net asset value of the Company's ownership interest in partners' capital. The Company's investment in each fund is not subject to redemption and is normally returned through distributions as a result of the liquidation of the underlying assets of the real estate funds. It is estimated that the investments in these funds will be liquidated over a weighted-average period of approximately 4 years.
- (g) This category includes investments in certain hedge funds that invest in energy and health science related equity securities. The fair values of the investments in this category have been estimated using the net asset value of the Company's ownership interest in partners' capital as well as performance inputs.

## Edgar Filing: BlackRock Inc. - Form 10-Q

- (h) This category includes the underlying third party private equity funds within one consolidated BlackRock sponsored private equity fund of funds. The fair values of the investments in the third party funds have been estimated using the net asset value of the Company's ownership interest in partners' capital in each fund in the portfolio as well as other performance inputs. These investments are not subject to redemption, however for certain funds the Company may sell or transfer its interest, which may need approval by the general partner of the underlying funds. Due to the nature of the investments in this category, the Company reduces its investment by distributions that are received through the realization of the underlying assets of the funds. It is estimated that the underlying assets of these funds will be liquidated over a weighted-average period of approximately 5 years. Total remaining unfunded commitments to other third party funds is \$2 million, which will be funded by capital contributions from non-controlling interest holders.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****6. Fair Value Disclosures (continued)*****Fair Value Option***

Upon consolidation of three CLOs on January 1, 2010, the Company elected to adopt the fair value accounting provisions for eligible assets, including bank loans and borrowings of the CLOs. To the extent there is a difference between the change in fair value of the assets and liabilities, the difference will be reflected as net income (loss) attributable to nonredeemable non-controlling interests on the condensed consolidated statements of income and offset by a change in appropriated retained earnings on the condensed consolidated statements of financial condition.

The following table presents, as of September 30, 2010, the fair value of those assets and liabilities selected for fair value accounting:

| <b>(Dollar amounts in millions)</b>                                                             | <b>September 30,<br/>2010</b> |
|-------------------------------------------------------------------------------------------------|-------------------------------|
| <b><u>CLO Bank Loans:</u></b>                                                                   |                               |
| Aggregate principal amounts outstanding                                                         | \$ 1,268                      |
| Fair value                                                                                      | \$ 1,154                      |
| Aggregate unpaid principal balance in excess of fair value                                      | \$ 114                        |
| Unpaid principal balance of loans more than 90 days past due                                    | \$ 7                          |
| Aggregate fair value of loans more than 90 days past due                                        | \$ 1                          |
| Aggregate unpaid principal balance in excess of fair value for loans more than 90 days past due | \$ 6                          |
| <b><u>CLO Borrowings:</u></b>                                                                   |                               |
| Aggregate principal amounts outstanding                                                         | \$ 1,434                      |
| Fair value                                                                                      | \$ 1,237                      |

The principal amounts outstanding of the borrowings issued by the CLOs mature between 2016 and 2019.

During the nine months ended September 30, 2010, the change in fair value of the bank loans, along with the bonds held at fair value, resulted in a \$108 million gain, which was offset by a \$119 million loss in the fair value of the CLO borrowings. The net loss was recorded in non-operating income (expense) on the condensed consolidated statement of income. The change in fair value of the assets and liabilities includes interest income and expense, respectively.



**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 1. Financial Statements (continued)**

**BlackRock, Inc.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(unaudited)**

**7. Variable Interest Entities**

In the normal course of business, the Company is the manager of various types of sponsored investment vehicles, including collateralized debt/loan obligations ( CDO or CLO ) and sponsored investment funds, which may be considered VIEs. The Company receives advisory fees and/or other incentive related fees for its services and may from time to time own equity or debt securities or enter into derivatives with the vehicles, each of which are considered variable interests. The Company enters into these variable interests principally to address client needs through the launch of such investment vehicles. The VIEs are primarily financed via capital contributed by equity and debt holders. The Company's involvement in financing the operations of the VIEs is limited to its equity interests.

The primary beneficiary of a VIE that is an investment fund that meets the conditions of ASU 2010-10 is the enterprise that has a variable interest (or combination of variable interests, including those of related parties) that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns or both. Effective January 1, 2010, the primary beneficiary of a CDO/CLO that is a VIE that does not meet the conditions of ASU 2010-10 is the enterprise that has the power to direct activities of the entity that most significantly impact the entity's economic performance and has the obligation to absorb losses or the right to receive benefits that potentially could be significant to the CDO/CLO.

In order to determine whether the Company is the primary beneficiary of a VIE, management must make significant estimates and assumptions of probable future cash flows of the VIEs. Assumptions made in such analyses may include, but are not limited to, market prices of securities, market interest rates, potential credit defaults on individual securities or default rates on a portfolio of securities, pre-payments, realization of gains, liquidity or marketability of certain securities, discount rates and the probability of certain other outcomes.

***VIEs in which BlackRock is the Primary Beneficiary***

*At September 30, 2010*

At September 30, 2010, BlackRock was the primary beneficiary of four VIEs, which included three CLOs in which it did not have an investment, however, BlackRock, as the collateral manager, was deemed to have both the power to control the activities of the CLOs and the right to receive benefits that could potentially be significant to the VIE. In addition, BlackRock was the primary beneficiary of one sponsored private equity investment fund, in which it had a non-substantive investment, which absorbed the majority of the variability due to its de-facto third party relationships with other partners in the fund. The assets of these VIEs are not available to creditors of the Company. In addition, the investors in these VIEs have no recourse to the credit of the Company. At September 30, 2010, the following balances related to these four VIEs, which were consolidated on the Company's condensed consolidated statement of financial condition:

(Dollar amounts in millions)

**September 30,  
2010**

## Edgar Filing: BlackRock Inc. - Form 10-Q

|                                                |         |
|------------------------------------------------|---------|
| Assets of consolidated VIEs:                   |         |
| Cash and cash equivalents                      | \$ 91   |
| Bank loans, bonds and other investments        | 1,293   |
| Liabilities of consolidated VIEs:              |         |
| Borrowings                                     | (1,237) |
| Other liabilities                              | (7)     |
| Appropriated retained earnings                 | (94)    |
| Non-controlling interests of consolidated VIEs | (46)    |
| <br>Total net interests in consolidated VIEs   | <br>\$  |

For the nine months ended September 30, 2010, the Company recorded non-operating expense of \$16 million offset by a \$16 million net loss attributable to nonredeemable non-controlling interests on the Company's condensed consolidated statements of income. For the nine months ended September 30, 2009, the Company recorded a non-operating expense of \$2 million offset by a \$2 million net loss attributable to nonredeemable non-controlling interests on its condensed consolidated statements of income.

At September 30, 2010, bank loans, bonds and other investments of consolidated VIEs were \$1,154 million, \$100 million, and \$39 million, respectively. The weighted-average maturity of the bank loans and bonds was approximately 4.2 years.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****7. Variable Interest Entities (continued)*****VIEs in which BlackRock is the Primary Beneficiary (continued)****As of December 31, 2009*

As of December 31, 2009, BlackRock was the primary beneficiary of one VIE, a sponsored private equity investment fund in which it did not have a substantive investment, due to its de-facto third party relationships with other partners in the fund. Due to the consolidation of this VIE, at December 31, 2009, the Company recorded \$54 million of net assets, primarily comprised of investments and cash and cash equivalents. These net assets were offset by \$54 million of nonredeemable non-controlling interests, which reflect the equity ownership of third parties, on the Company's condensed consolidated statements of financial condition.

***VIEs in which the Company holds significant variable interests or is the sponsor that holds a variable interest but is not the Primary Beneficiary of the VIE***

At September 30, 2010 and December 31, 2009, the Company's carrying value of assets and liabilities and its maximum risk of loss related to VIEs in which it holds a significant variable interest or is the sponsor that holds a variable interest, but for which it was not the primary beneficiary, were as follows:

*At September 30, 2010*

|                                  | (Dollar amounts in millions)                                                      |                          |                                |                      |
|----------------------------------|-----------------------------------------------------------------------------------|--------------------------|--------------------------------|----------------------|
|                                  | Variable Interests on the Condensed Consolidated Statement of Financial Condition |                          |                                |                      |
|                                  | Investments                                                                       | Advisory Fee Receivables | Other Net Assets (Liabilities) | Maximum Risk of Loss |
| CDOs/CLOs                        | \$ 2                                                                              | \$ 3                     | (\$ 3)                         | \$ 21                |
| Other sponsored investment funds | 22                                                                                | 203                      |                                | 225                  |
| <b>Total</b>                     | <b>\$ 24</b>                                                                      | <b>\$ 206</b>            | <b>(\$ 3)</b>                  | <b>\$ 246</b>        |

## Edgar Filing: BlackRock Inc. - Form 10-Q

The size of the net assets of the VIEs that the Company does not consolidate related to CDOs/CLOs, collective trust funds and other sponsored investment funds were as follows:

CDOs/CLOs - approximately (\$5) billion, comprised of approximately \$8 billion of assets at fair value and \$13 billion of liabilities, primarily comprised of unpaid principal debt obligations to CDO/CLO debt holders.

Other sponsored investments funds    approximately \$1.5 trillion to \$1.6 trillion

This amount includes approximately \$1.2 trillion of collective trusts. Each collective trust has been aggregated separately and may include collective trusts that invest in other collective trusts.

The net assets of the VIEs are primarily comprised of cash and cash equivalents and investments offset by liabilities primarily comprised of various accruals for the sponsored investment vehicles.

At September 30, 2010, BlackRock's maximum risk of loss associated with these VIEs primarily relates to: (i) BlackRock's investments, (ii) advisory fee receivables and (iii) credit protection sold by BlackRock to a third party in a synthetic CDO transaction.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****7. Variable Interest Entities (continued)**

*VIEs in which BlackRock holds significant variable interests or is the sponsor that holds a variable interest but is not the Primary Beneficiary of the VIE (continued)*

*At December 31, 2009*

|                                  | (Dollar amounts in millions)                                                      |                          |                                |                      |
|----------------------------------|-----------------------------------------------------------------------------------|--------------------------|--------------------------------|----------------------|
|                                  | Variable Interests on the Condensed Consolidated Statement of Financial Condition |                          |                                |                      |
|                                  | Investments                                                                       | Advisory Fee Receivables | Other Net Assets (Liabilities) | Maximum Risk of Loss |
| CDOs/CLOs                        | \$ 2                                                                              | \$ 2                     | (\$ 3)                         | \$ 21                |
| Other sponsored investment funds | 14                                                                                | 254                      | (7)                            | 268                  |
| <b>Total</b>                     | <b>\$ 16</b>                                                                      | <b>\$ 256</b>            | <b>(\$ 10)</b>                 | <b>\$ 289</b>        |

The size of the net assets of the VIEs that the Company does not consolidate related to CDOs/CLOs, collective trust funds and other sponsored investment funds were as follows:

CDOs/CLOs - approximately (\$8) billion, comprised of approximately \$10 billion of assets at fair value and \$18 billion of liabilities, primarily comprised of unpaid principal debt obligations to CDO/CLO debt holders.

Other sponsored investments funds approximately \$1.5 trillion to \$1.6 trillion

## Edgar Filing: BlackRock Inc. - Form 10-Q

This amount includes approximately \$1.1 trillion of collective trusts. Each collective trust has been aggregated separately and may include collective trusts that invest in other collective trusts.

The net assets of the VIEs are primarily comprised of cash and cash equivalents and investments offset by liabilities primarily comprised of various accruals for the sponsored investment vehicles.

At December 31, 2009, BlackRock's maximum risk of loss associated with these VIEs primarily relates to: (i) BlackRock's investments, (ii) advisory fee receivables and (iii) credit protection sold by BlackRock to a third party in a synthetic CDO transaction.

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 1. Financial Statements (continued)**

**BlackRock, Inc.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(unaudited)**

**8. Derivatives and Hedging**

For the nine months ended September 30, 2010 and the year ended December 31, 2009, the Company did not hold any derivatives designated in a formal hedge relationship under ASC 815-10, *Derivatives and Hedging* ( ASC 815-10 ).

By using derivative financial instruments, the Company exposes itself to market and counterparty risk. Market risk from forward foreign currency exchange contracts is the effect on the value of a financial instrument that results from a change in currency exchange rates. The Company manages exposure to market risk associated with foreign currency exchange contracts by establishing and monitoring parameters that limit the types and degrees of market risk that may be undertaken. At September 30, 2010, the Company had two outstanding forward foreign currency exchange contracts with two counterparties with an aggregate notional value of \$100 million.

During 2007, the Company commenced a program to enter into a series of total return swaps to economically hedge against market price exposures with respect to certain seed investments in sponsored investment products. At September 30, 2010, the Company had outstanding total return swaps with two counterparties with an aggregate notional value of approximately \$24 million.

The Company acts as the portfolio manager for a synthetic CDO transaction, referred to as Pillars. In connection with the transaction, the Company entered into a credit default swap with Citibank, N.A. ( Citibank ), providing Citibank credit protection of approximately \$17 million, representing the Company's maximum risk of loss with respect to the provision of credit protection. Pursuant to ASC 815-10, the Company carries the Pillars credit default swap at fair value based on the expected future cash flows under the arrangement.

On behalf of clients that maintain separate accounts representing segregated funds held for the purpose of funding individual and group pension contracts, the Company invests in various derivative instruments, which may include futures and forward foreign currency exchange contracts and interest rate and inflation rate swaps.

The Company consolidates certain sponsored investment funds, which may utilize derivative instruments as a part of the fund's investment strategy. The change in fair value of such derivatives, which is recorded in non-operating income (expense), was not material to the Company's condensed consolidated financial statements.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****8. Derivatives and Hedging (continued)**

The following table presents the fair value at September 30, 2010 of derivative instruments not designated as hedging instruments:

|                                     | <b>Assets<br/>Balance Sheet</b> |                   | <b>Liabilities<br/>Balance Sheet</b> |                   |
|-------------------------------------|---------------------------------|-------------------|--------------------------------------|-------------------|
| <b>(Dollar amounts in millions)</b> | <b>Location</b>                 | <b>Fair Value</b> | <b>Location</b>                      | <b>Fair Value</b> |
| Foreign currency exchange contracts | Other assets                    | \$                | Other liabilities                    | \$ 3              |
| Credit default swap (Pillars)       | Other assets                    |                   | Other liabilities                    | 3                 |
| Separate account derivatives        | Separate account assets         | 1,709             | Separate account liabilities         | 1,709             |
| Total                               |                                 | \$ 1,709          |                                      | \$ 1,715          |

The following table presents the fair value at December 31, 2009 of derivative instruments not designated as hedging instruments:

|                                     | <b>Assets<br/>Balance Sheet</b> |                   | <b>Liabilities<br/>Balance Sheet</b> |                   |
|-------------------------------------|---------------------------------|-------------------|--------------------------------------|-------------------|
| <b>(Dollar amounts in millions)</b> | <b>Location</b>                 | <b>Fair Value</b> | <b>Location</b>                      | <b>Fair Value</b> |
| Foreign currency exchange contracts | Other assets                    | \$                | Other liabilities                    | \$                |
| Credit default swap (Pillars)       | Other assets                    |                   | Other liabilities                    | 3                 |
| Separate account derivatives        | Separate account assets         | 1,501             | Separate account liabilities         | 1,501             |
| Total                               |                                 | \$ 1,501          |                                      | \$ 1,504          |

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****8. Derivatives and Hedging (continued)**

The following table presents gains (losses) recognized in income on derivative instruments for the three and nine months ended September 30, 2010:

| (Dollar amounts in millions)        |                                     | Three<br>Months<br>Ended<br>September 30, 2010 | Nine<br>Months<br>Ended<br>September 30, 2010 |
|-------------------------------------|-------------------------------------|------------------------------------------------|-----------------------------------------------|
|                                     | Income Statement Location           |                                                |                                               |
| Foreign currency exchange contracts | General and administration expenses | (\$ 3)                                         | (\$ 3)                                        |
| Total return swaps                  | Non-operating income (expense)      | (3)                                            |                                               |
| Credit default swap (Pillars)       | Non-operating income (expense)      |                                                |                                               |
| Total                               |                                     | (\$ 6)                                         | (\$ 3)                                        |

Net realized and unrealized gains and losses attributable to derivatives held by separate account assets and liabilities accrue directly to the contract owners and are not reported in the Company's condensed consolidated statements of income.

**9. Goodwill**

Goodwill at September 30, 2010 and changes during the nine months ended September 30, 2010 were as follows:

|                                           |           |
|-------------------------------------------|-----------|
| (Dollar amounts in millions)              |           |
| December 31, 2009, as reported            | \$ 12,570 |
| BGI purchase price allocation adjustments | 68        |
| December 31, 2009, as adjusted            | 12,638    |
| Impact of excess tax basis amortization   | (13)      |
| Other net additions                       | 16        |
| September 30, 2010                        | \$ 12,641 |

## Edgar Filing: BlackRock Inc. - Form 10-Q

In accordance with ASC 805, goodwill has been retrospectively adjusted to reflect new information obtained about facts that existed as of December 1, 2009, the BGI acquisition date. During the nine months ended September 30, 2010, goodwill increased by \$71 million. The increase related to purchase price allocation adjustments related to the BGI Transaction, the purchase of substantially all of the net assets of Helix Financial Group LLC and other net additions, offset by a decline related to tax benefits realized from tax-deductible goodwill in excess of book goodwill.

At September 30, 2010, the balance of the Quellos tax-deductible goodwill in excess of book goodwill was approximately \$330 million. Goodwill related to the Quellos Transaction will continue to be reduced in future periods by the amount of tax benefits realized from tax-deductible goodwill in excess of book goodwill.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****10. Intangible Assets**

The carrying amounts of identifiable intangible assets are summarized as follows:

| <b>(Dollar amounts in millions)</b>       | <b>Indefinite-lived<br/>intangible assets</b> | <b>Finite-lived<br/>intangible assets</b> | <b>Total</b> |
|-------------------------------------------|-----------------------------------------------|-------------------------------------------|--------------|
| December 31, 2009, as reported            | \$ 16,566                                     | \$ 1,082                                  | \$ 17,648    |
| BGI purchase price allocation adjustments | 25                                            | (7)                                       | 18           |
| December 31, 2009, as adjusted            | 16,591                                        | 1,075                                     | 17,666       |
| Amortization expense                      |                                               | (120)                                     | (120)        |
| September 30, 2010                        | \$ 16,591                                     | \$ 955                                    | \$ 17,546    |

In accordance with ASC 805, intangible assets have been retrospectively adjusted to reflect new information obtained about facts that existed at December 1, 2009, the BGI acquisition date. During the nine months ended September 30, 2010, intangible assets decreased \$102 million related to \$120 million of amortization expense, partially offset by \$18 million of BGI purchase price allocation adjustments.

**11. Borrowings*****Short-Term Borrowings***

The carrying value of short-term borrowings included the following:

| <b>(Dollar amounts in millions)</b> | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|-------------------------------------|-------------------------------|------------------------------|
| Commercial paper program            | \$                            | \$ 2,034                     |
| 2007 Revolving credit facility      | 100                           | 200                          |
| Total short-term borrowings         | \$ 100                        | \$ 2,234                     |

*Commercial Paper Program*

## Edgar Filing: BlackRock Inc. - Form 10-Q

On October 14, 2009, BlackRock established a commercial paper program (the CP Program ) under which the Company may issue unsecured commercial paper notes (the CP Notes ) on a private placement basis up to a maximum aggregate amount outstanding at any time of \$3 billion. The proceeds of the commercial paper issuances were used for the financing of a portion of the BGI Transaction. Subsidiaries of Bank of America and Barclays, as well as other third parties, act as dealers under the CP Program. The CP Program is supported by the 2007 revolving credit facility.

The Company began issuance of CP Notes under the CP Program on November 4, 2009. As of September 30, 2010, BlackRock did not have any outstanding CP Notes.

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 1. Financial Statements (continued)**

**BlackRock, Inc.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(unaudited)**

**11. Borrowings (continued)**

***Short-Term Borrowings (continued)***

*2007 Revolving Credit Facility*

In August 2007, the Company entered into a five-year \$2.5 billion unsecured revolving credit facility (the 2007 facility), which permits the Company to request an additional \$500 million of borrowing capacity, subject to lender credit approval, up to a maximum of \$3.0 billion. The 2007 facility requires the Company not to exceed a maximum leverage ratio (ratio of net debt to earnings before interest, taxes, depreciation and amortization, where net debt equals total debt less domestic unrestricted cash) of 3 to 1, which was satisfied with a ratio of less than 1 to 1 at September 30, 2010.

The 2007 facility provides back-up liquidity, funds ongoing working capital for general corporate purposes and funds various investment opportunities. At September 30, 2010, the Company had \$100 million outstanding under the 2007 facility with an interest rate of 0.48% and a maturity date during November 2010.

Lehman Commercial Paper Inc. has a \$140 million participation under the 2007 facility; however BlackRock does not expect that Lehman Commercial Paper Inc. will honor its commitment to fund additional amounts. Bank of America, a related party, has a \$140 million participation under the 2007 facility.

*Japan Commitment-line*

In September 2010, BlackRock Japan Co., Ltd., a wholly-owned subsidiary of the Company, renewed a five billion Japanese yen commitment-line agreement with a banking institution (the Japan Commitment-line). The term of the renewed Japan Commitment-line is one year and will accrue interest on outstanding borrowings at the applicable Japanese short-term prime rate. The Japan Commitment-line is intended to provide liquidity and flexibility for operating requirements in Japan. At September 30, 2010, the Company had no borrowings outstanding under the Japan Commitment-line.

***Convertible Debentures***

The carrying value of the 2.625% convertible debentures due in 2035 included the following:

## Edgar Filing: BlackRock Inc. - Form 10-Q

| (Dollar amounts in millions)     | September 30,<br>2010 | December 31,<br>2009 |
|----------------------------------|-----------------------|----------------------|
| Maturity amount / Carrying value | \$ 67                 | \$ 243               |

The Company recognized interest expense of \$2 million and \$8 million for the nine months ended September 30, 2010 and 2009, respectively, comprised of \$2 million and \$5 million related to the coupon and less than \$1 million and \$3 million related to amortization of the discount for the nine months ended September 30, 2010 and 2009, respectively. At September 30, 2010, the estimated fair value of the convertible debentures was \$111 million, which was estimated using a market price at the end of September 2010.

On February 15, 2009, the convertible debentures became convertible at the option of the holder into cash and shares of the Company's common stock at any time prior to maturity. During the nine months ended September 30, 2010, holders of \$176 million of debentures converted their holdings into cash and approximately 942 thousand shares.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****11. Borrowings (continued)*****Long-Term Borrowings***

The carrying value and fair value of long-term borrowings estimated using market prices at September 30, 2010 included the following:

| <b>(Dollar amounts in millions)</b> | <b>2.25%<br/>Notes<br/>due 2012</b> | <b>3.50%<br/>Notes<br/>due 2014</b> | <b>6.25%<br/>Notes<br/>due 2017</b> | <b>5.00%<br/>Notes<br/>due 2019</b> | <b>Total<br/>Long-term<br/>Borrowings</b> |
|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------------|
| Maturity amount                     | \$ 500                              | \$ 1,000                            | \$ 700                              | \$ 1,000                            | \$ 3,200                                  |
| Unamortized discount                | (1)                                 | (1)                                 | (4)                                 | (3)                                 | (9)                                       |
| Carrying value                      | \$ 499                              | \$ 999                              | \$ 696                              | \$ 997                              | \$ 3,191                                  |
| Fair value<br><i>2017 Notes</i>     | \$ 513                              | \$ 1,063                            | \$ 831                              | \$ 1,116                            | \$ 3,523                                  |

In September 2007, the Company issued \$700 million in aggregate principal amount of 6.25% senior unsecured notes maturing on September 15, 2017 (the "2017 Notes"). Interest is payable semi-annually on March 15 and September 15 of each year, or approximately \$44 million per year. The 2017 Notes may be redeemed prior to maturity at any time in whole or in part at the option of the Company at a make-whole redemption price. The 2017 Notes were issued at a discount of \$6 million, which is being amortized over their ten-year term. The Company incurred approximately \$4 million of debt issuance costs, which are being amortized over ten years. As of September 30, 2010, \$3 million of unamortized debt issuance costs were included in other assets on the condensed consolidated statement of financial condition.

***2012, 2014 and 2019 Notes***

In December 2009, the Company issued \$2.5 billion in aggregate principal amount of unsecured and unsubordinated obligations. These notes were issued as three separate series of senior debt securities including \$0.5 billion of 2.25% notes, \$1.0 billion of 3.50% notes and \$1.0 billion of 5.0% notes maturing in December 2012, 2014 and 2019, respectively. Net proceeds of this offering were used to repay borrowings under the CP Program and for general corporate purposes. Interest on these notes is payable semi-annually on June 10 and December 10 of each year beginning June 10, 2010, or approximately \$96 million per year. These notes may be redeemed prior to maturity at any time in whole or in part at the option of the Company at a make-whole redemption price. These notes were issued collectively at a discount of \$5 million that is being amortized over the terms of the notes. The Company incurred approximately \$13 million of debt issuance costs, which are being amortized over

## Edgar Filing: BlackRock Inc. - Form 10-Q

the respective terms of these notes. As of September 30, 2010, \$12 million of unamortized debt issuance costs were included in other assets on the condensed consolidated statement of financial condition.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****11. Borrowings (continued)***Carrying Value and Fair Value of Long-Term Borrowings (continued)*

The carrying value and fair value of long-term borrowings estimated using market prices at December 31, 2009 included the following:

| <b>(Dollar amounts in millions)</b> | <b>2.25%<br/>Notes<br/>due 2012</b> | <b>3.50%<br/>Notes<br/>due 2014</b> | <b>6.25%<br/>Notes<br/>due 2017</b> | <b>5.00%<br/>Notes<br/>due 2019</b> | <b>Total Long-<br/>term<br/>Borrowings</b> |
|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|--------------------------------------------|
| Maturity amount                     | \$ 500                              | \$ 1,000                            | \$ 700                              | \$ 1,000                            | \$ 3,200                                   |
| Unamortized discount                | (1)                                 | (1)                                 | (4)                                 | (3)                                 | (9)                                        |
| Carrying value                      | \$ 499                              | \$ 999                              | \$ 696                              | \$ 997                              | \$ 3,191                                   |
| Fair value                          | \$ 497                              | \$ 987                              | \$ 751                              | \$ 987                              | \$ 3,222                                   |

**12. Commitments and Contingencies*****Investment Commitments***

At September 30, 2010, the Company had approximately \$241 million of investment commitments relating primarily to funds of private equity funds, real estate funds and hedge funds. Amounts to be funded generally are callable at any time prior to the expiration of the commitment. This amount excludes additional commitments made by consolidated sponsored funds of funds to underlying third party funds as third party non-controlling interest holders have the legal obligation to fund the respective commitments of such funds of funds.

***Legal Proceedings***

From time to time, BlackRock receives subpoenas or other requests for information from various U.S. federal, state governmental and regulatory authorities in connection with certain industry-wide or other investigations or proceedings. It is BlackRock's policy to cooperate fully with such inquiries. The Company and certain of its subsidiaries have been named as defendants in various legal actions, including arbitrations and other litigation arising in connection with BlackRock's activities. Additionally, certain of the investment funds that the Company manages are subject to lawsuits, any of which potentially could harm the investment returns of the applicable fund or result in the Company being liable to the funds for any resulting damages.

## Edgar Filing: BlackRock Inc. - Form 10-Q

Management, after consultation with legal counsel, currently does not anticipate that the aggregate liability, if any, arising out of regulatory matters or lawsuits will have a material adverse effect on BlackRock's earnings, financial position, or cash flows although, at the present time, management is not in a position to determine whether any such pending or threatened matters will have a material adverse effect on BlackRock's results of operations in any future reporting period.

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 1. Financial Statements (continued)**

**BlackRock, Inc.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(unaudited)**

**12. Commitments and Contingencies (continued)**

***Indemnifications***

In the ordinary course of business, BlackRock enters into contracts pursuant to which it may agree to indemnify third parties in certain circumstances. The terms of these indemnities vary from contract to contract and the amount of indemnification liability, if any, cannot be determined.

Under the transaction agreement in the MLIM Transaction, the Company has agreed to indemnify Merrill Lynch & Co., Inc. ( "Merrill Lynch" ) for losses it may incur arising from (1) any alleged or actual breach, failure to comply, violation or other deficiency with respect to any regulatory or fiduciary requirements relating to the operation of BlackRock's business, (2) any fees or expenses incurred or owed by BlackRock to any brokers, financial advisors or comparable other persons retained or employed by BlackRock in connection with the MLIM Transaction, and (3) certain specified tax covenants.

Under the transaction agreement in the BGI Transaction, the Company has agreed to indemnify Barclays for losses it may incur arising from (1) breach by the Company of certain representations, (2) breach by the Company of any covenant in the agreement, (3) liabilities of the entities acquired in the transaction other than liabilities assumed by Barclays or for which it is providing indemnification, and (4) certain taxes.

Management believes that the likelihood of any liability arising under the MLIM Transaction and BGI Transaction indemnification provisions is remote. Management cannot estimate any potential maximum exposure due both to the remoteness of any potential claims and the fact that items that would be included within any such calculated claim would be beyond the control of BlackRock. Consequently, no liability has been recorded on the Company's condensed consolidated statements of financial condition.

***Contingent Payments Related to Business Acquisitions***

On October 1, 2007, the Company acquired the fund of funds business of Quellos. As part of this transaction, Quellos is entitled to receive two contingent payments upon achieving certain investment advisory revenue measures through December 31, 2010, totaling up to an additional \$969 million in a combination of cash and stock. The first contingent payment was paid in 2009 and the second contingent payment, of up to \$595 million, is payable in cash in 2011.

During 2009, the Company determined the first contingent payment to be \$219 million, of which \$11 million was previously paid in cash during 2008. Of the remaining \$208 million, \$156 million was paid in cash and \$52 million was paid in common stock, or approximately 330,000 shares based on a price of \$157.33 per share. Quellos may also be entitled to a "catch-up" payment related to the first contingent payment if certain performance measures are met in 2010 as the value of the first contingent payment was less than \$374 million.

## Edgar Filing: BlackRock Inc. - Form 10-Q

In connection with the acquisition of SSR, the holding company of State Street Research and Management Company, which closed in January 2005, the Company made a final contingent payment in August 2010 of approximately \$8 million based on the Company's retained assets under management associated with the MetLife, Inc. defined benefit and defined contribution plans.

### ***Other Contingent Payments***

The Company acts as the portfolio manager in a series of credit default swap transactions and has a maximum potential exposure of \$17 million under a credit default swap between the Company and Citibank. See Note 8, Derivatives and Hedging, for further discussion of this transaction and the related commitment.

### ***Drapers Gardens***

In January 2010, the Company entered into an agreement with Mourant & Co Trustees Limited and Mourant Property Trustees Limited as Trustees of the Drapers Gardens Unit Trust, for the lease of approximately 292,418 square feet of office and ancillary (including retail) space located at Drapers Gardens, 12 Throgmorton Avenue, London, EC2, United Kingdom.

The term of the lease began on February 17, 2010 (the Effective Date) and will continue for 25 years, with the option to renew for an additional five year term. The lease provides for total annual base rental payments of approximately £13 million (exclusive of value added tax and other lease charges, or approximately \$21.7 million based on an exchange rate of \$1.60 per £1), payable quarterly in advance. The annual rent is subject to increase on each fifth anniversary of the Effective Date to the then open market rent. The lease includes an initial rent free period for 36 months and 22 days following the Effective Date.

In addition, the Company entered into a purchase obligation for construction services of approximately £43 million. The Company incurred £3 million of construction services during the nine months ended September 30, 2010 resulting in a remaining obligation of £40 million (or approximately \$63 million based on the September 30, 2010 exchange rate of \$1.58 per £1).

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****13. Stock-Based Compensation**

The components of the Company's stock-based compensation expense are comprised of the following:

| <b>(Dollar amounts in millions)</b>                  | <b>Three Months Ended<br/>September 30,</b> |              | <b>Nine Months Ended<br/>September 30,</b> |               |
|------------------------------------------------------|---------------------------------------------|--------------|--------------------------------------------|---------------|
|                                                      | <b>2010</b>                                 | <b>2009</b>  | <b>2010</b>                                | <b>2009</b>   |
| Stock-based compensation:                            |                                             |              |                                            |               |
| Restricted stock and restricted stock units ( RSUs ) | \$ 96                                       | \$ 55        | \$ 282                                     | \$ 178        |
| Long-term incentive plans funded by PNC              | 15                                          | 15           | 44                                         | 45            |
| Stock options                                        | 3                                           | 3            | 9                                          | 9             |
| <b>Total stock-based compensation</b>                | <b>\$ 114</b>                               | <b>\$ 73</b> | <b>\$ 335</b>                              | <b>\$ 232</b> |

***Restricted Stock and RSUs***

Restricted stock and RSU activity at September 30, 2010 and changes during the nine months ended September 30, 2010 were as follows:

|                                         | <b>Unvested<br/>Restricted<br/>Stock and<br/>Units</b> | <b>Weighted-<br/>Average<br/>Grant Date<br/>Fair Value</b> |
|-----------------------------------------|--------------------------------------------------------|------------------------------------------------------------|
| <b>Outstanding at</b>                   |                                                        |                                                            |
| December 31, 2009                       | 5,360,463                                              | \$ 154.75                                                  |
| Granted                                 | 3,169,080                                              | \$ 230.78                                                  |
| Converted                               | (1,382,836)                                            | \$ 156.44                                                  |
| Forfeited                               | (334,576)                                              | \$ 190.23                                                  |
| <b>September 30, 2010<sup>(1)</sup></b> | <b>6,812,131</b>                                       | <b>\$ 188.03</b>                                           |

<sup>(1)</sup> At September 30, 2010, 24,728 awards have vested but have not been converted.

The Company values restricted stock and RSUs at their grant-date fair value as measured by BlackRock's common stock price.

## Edgar Filing: BlackRock Inc. - Form 10-Q

In January 2010, the Company granted the following awards under the BlackRock, Inc. 1999 Stock Award and Incentive Plan:

846,884 RSUs to employees as part of annual incentive compensation that vest ratably over three years from the date of grant.

256,311 RSUs to employees that cliff vest on January 31, 2012. Awards to certain individuals require that BlackRock has actual GAAP earnings per share of at least \$6.13 in 2010 or \$6.50 in 2011 or has attained an alternative performance hurdle based on the Company's earnings per share growth rate versus certain peers over the term of the awards. The RSUs may not be sold before the one-year anniversary of the vesting date.

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 1. Financial Statements (continued)**

**BlackRock, Inc.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(unaudited)**

**13. Stock-Based Compensation (continued)**

***Restricted Stock and RSUs (continued)***

1,497,222 RSUs to employees that vest 50% on both January 31, 2013 and 2014. Awards to certain individuals require that BlackRock has actual GAAP earnings per share of at least \$6.13 in 2010 or \$6.50 in 2011 or has attained an alternative performance hurdle based on the Company's earnings per share growth rate versus certain peers over the term of the awards.

124,575 shares of restricted common stock to employees that vest in tranches on January 31, 2010, 2011 and 2012. The restricted common stock may not be sold before the one-year anniversary of each vesting date.

In May 2010, the Company granted 198,977 RSUs to employees that cliff vest on January 31, 2012. Awards to certain individuals require that BlackRock has actual GAAP earnings per share of at least \$6.13 in 2010 or \$6.50 in 2011 or has attained an alternative performance hurdle based on the Company's earnings per share growth rate versus certain peers over the term of the awards. The RSUs may not be sold before the one-year anniversary of the vesting date.

At September 30, 2010, there was \$631 million in total unrecognized stock-based compensation expense related to unvested restricted stock and RSUs. The unrecognized compensation cost is expected to be recognized over the remaining weighted-average period of 1.5 years.

***Long-Term Incentive Plans Funded by PNC***

Under a share surrender agreement, PNC committed to provide up to 4,000,000 shares of BlackRock stock, held by PNC, to fund certain BlackRock long-term incentive plans ( LTIP ). In February 2009, the share surrender agreement was amended for PNC to provide BlackRock series C non-voting participating preferred stock to fund the remaining committed shares.

The BlackRock, Inc. 2002 Long-Term Retention and Incentive Plan (the 2002 LTIP Awards ) permitted the grant of up to \$240 million in deferred compensation awards, of which the Company previously granted approximately \$233 million. Approximately \$208 million of the 2002 LTIP Awards were paid in January 2007. The 2002 LTIP Awards were settled for approximately 16.7% in cash and the remainder in BlackRock stock contributed by PNC and distributed to plan participants. During the nine months ended September 30, 2010, approximately \$6 million of previously issued 2002 LTIP Awards were settled in cash and BlackRock shares held by PNC at a conversion price approximating the market price on the settlement date. On the payment date, the Company recorded a capital contribution from PNC for the amount of shares funded by PNC.



**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****13. Stock-Based Compensation (continued)*****Stock Options***

Options outstanding at September 30, 2010 and changes during the nine months ended September 30, 2010 were as follows:

|                       | <b>Shares</b> | <b>Weighted-</b> |
|-----------------------|---------------|------------------|
|                       | <b>Under</b>  | <b>Average</b>   |
|                       | <b>Option</b> | <b>Exercise</b>  |
|                       |               | <b>Price</b>     |
| <b>Outstanding at</b> |               |                  |
| December 31, 2009     | 2,641,836     | \$ 98.59         |
| Exercised             | (219,550)     | \$ 38.57         |
| Forfeited             | (9,002)       | \$ 167.76        |
| September 30, 2010    | 2,413,284     | \$ 103.79        |

The aggregate intrinsic value of options exercised during the nine months ended September 30, 2010 was \$37 million.

At September 30, 2010, the Company had \$12 million in unrecognized stock-based compensation expense related to unvested stock options. The unrecognized compensation cost is expected to be recognized over a remaining weighted-average period of 1.0 year.

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 1. Financial Statements (continued)**

**BlackRock, Inc.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(unaudited)**

**14. Related Party Transactions**

***Loan Commitments with Anthracite***

Prior to March 31, 2010, the Company was committed to provide financing of up to \$60 million to Anthracite Capital, Inc. ( Anthracite ), a specialty commercial real estate finance company that was managed by a subsidiary of BlackRock. The financing is collateralized by a pledge by Anthracite of its ownership interest in a real estate debt investment fund, which is also managed by a subsidiary of BlackRock. At September 30, 2010, \$33.5 million of financing was outstanding and remains outstanding as of November 2010, which is past its final maturity date of March 5, 2010. At September 30, 2010, the carrying value of the collateral was estimated to be \$8 million, which resulted in an additional \$4.5 million reduction in amounts due from related parties on the Company's condensed consolidated statement of financial condition and an equal amount recorded in general and administrative expenses on the Company's condensed consolidated statement of income in the nine months ended September 30, 2010. The Company has no obligation to loan additional amounts to Anthracite under this facility. Anthracite filed a voluntary petition for relief under Chapter 7 of Title 11 of the U.S. Code in the U.S. Bankruptcy Court for the Southern District of New York on March 15, 2010. The management agreement between the Company and Anthracite has expired. Recovery of any amount of the financing provided by the Company in excess of the value of the collateral is not anticipated. The Company continues to evaluate the collectability of the outstanding borrowings by reviewing the carrying value of the net assets of the collateral, which fluctuates each period.

**15. Net Capital Requirements**

The Company is required to maintain net capital in certain regulated subsidiaries within a number of jurisdictions, which is partially maintained by retaining cash and cash equivalent investments in those jurisdictions. As a result, such subsidiaries of the Company may be restricted in their ability to transfer cash between different jurisdictions and to their parents. Additionally, transfers of cash between international jurisdictions, including repatriation to the United States, may have adverse tax consequences that could discourage such transfers.

***Banking Regulatory Requirements***

BlackRock Institutional Trust Company, N.A. ( BTC ), a wholly-owned subsidiary of the Company, is chartered as a national bank whose powers are limited to trust activities. BTC is subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's condensed consolidated financial statements. Under the capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that invoke quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under the regulatory accounting practices. BTC's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

***Broker-dealers***

BlackRock Investments, LLC, BlackRock Capital Markets, LLC, BlackRock Execution Services and BlackRock Fund Distribution Company are registered broker-dealers and wholly-owned subsidiaries of BlackRock that are subject to the Uniform Net Capital requirements under the

## Edgar Filing: BlackRock Inc. - Form 10-Q

Securities Exchange Act of 1934, which requires maintenance of certain minimum net capital levels.

### ***Capital Requirements as of September 30, 2010***

At September 30, 2010, the Company was required to maintain approximately \$885 million in net capital in certain regulated subsidiaries, including BTC, and is in compliance with all applicable regulatory minimum net capital requirements.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****16. Capital Stock*****Non-voting Participating Preferred Stock***

The Company's preferred shares authorized, issued and outstanding consisted of the following:

|                                     | September 30,<br>2010 | December 31,<br>2009 |
|-------------------------------------|-----------------------|----------------------|
| <b><u>Series A</u></b>              |                       |                      |
| Shares authorized, \$0.01 par value | 20,000,000            | 20,000,000           |
| Shares issued                       |                       |                      |
| Shares outstanding                  |                       |                      |
| <b><u>Series B</u></b>              |                       |                      |
| Shares authorized, \$0.01 par value | 150,000,000           | 150,000,000          |
| Shares issued                       | 124,620,593           | 112,817,151          |
| Shares outstanding                  | 124,620,593           | 112,817,151          |
| <b><u>Series C</u></b>              |                       |                      |
| Shares authorized, \$0.01 par value | 6,000,000             | 6,000,000            |
| Shares issued                       | 2,866,439             | 2,889,467            |
| Shares outstanding                  | 2,866,439             | 2,889,467            |
| <b><u>Series D</u></b>              |                       |                      |
| Shares authorized, \$0.01 par value | 20,000,000            | 20,000,000           |
| Shares issued                       |                       | 11,203,442           |
| Shares outstanding                  |                       | 11,203,442           |

***Capital Exchanges***

In January 2010, 600,000 common shares were exchanged for Series B preferred stock and all 11,203,442 Series D preferred stock outstanding at December 31, 2009 were exchanged for Series B preferred stock.

***PNC Contribution***

During the nine months ended September 30, 2010, PNC contributed 23,028 of Series C preferred stock in connection with its share surrender agreement to fund certain LTIP awards.



**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****17. Earnings Per Share**

The following table sets forth the computation of basic and diluted earnings per share ( EPS ) for the three months ended September 30, 2010 and 2009:

| (Dollar amounts in millions, except per share data)                              | 2010        |             | 2009        |             |
|----------------------------------------------------------------------------------|-------------|-------------|-------------|-------------|
|                                                                                  | Basic       | Diluted     | Basic       | Diluted     |
| Net income attributable to BlackRock, Inc.                                       | \$ 551      | \$ 551      | \$ 317      | \$ 317      |
| Less:                                                                            |             |             |             |             |
| Dividends distributed to common shares                                           | 190         | 190         | 104         | 104         |
| Dividends distributed to participating RSUs                                      | 3           | 3           | 4           | 4           |
| Undistributed net income attributable to BlackRock, Inc.                         | 358         | 358         | 209         | 209         |
| Percentage of undistributed net income allocated to common shares <sup>(a)</sup> | 98.6%       | 98.6%       | 97.4%       | 97.4%       |
| Undistributed net income allocated to common shares                              | 353         | 353         | 204         | 204         |
| Plus:                                                                            |             |             |             |             |
| Common share dividends                                                           | 190         | 190         | 104         | 104         |
| Net income attributable to common shares                                         | \$ 543      | \$ 543      | \$ 308      | \$ 308      |
| Weighted-average common shares outstanding                                       | 190,494,905 | 190,494,905 | 133,266,379 | 133,266,379 |
| Dilutive effect of:                                                              |             |             |             |             |
| Stock options and non-participating RSUs                                         |             | 1,610,086   |             | 1,713,363   |
| Convertible debt                                                                 |             | 221,850     |             | 922,499     |
| Total weighted-average shares outstanding                                        |             | 192,326,841 |             | 135,902,241 |
| Earnings per share attributable to BlackRock, Inc., common stockholders:         | \$ 2.85     | \$ 2.83     | \$ 2.31     | \$ 2.27     |

- (a) Allocation to common shareholders is based on the total of common and participating security shareholders. For the three months ended September 30, 2010 and 2009, participating securities include 2.7 million and 3.6 million, respectively, of unvested RSUs that contain nonforfeitable rights to dividends.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****17. Earnings Per Share (continued)**

The following table sets forth the computation of basic and diluted EPS for the nine months ended September 30, 2010 and 2009:

| (Dollar amounts in millions, except per share data)                              | 2010        |             | 2009        |             |
|----------------------------------------------------------------------------------|-------------|-------------|-------------|-------------|
|                                                                                  | Basic       | Diluted     | Basic       | Diluted     |
| Net income attributable to BlackRock, Inc.                                       | \$ 1,406    | \$ 1,406    | \$ 619      | \$ 619      |
| Less:                                                                            |             |             |             |             |
| Dividends distributed to common shares                                           | 574         | 574         | 307         | 307         |
| Dividends distributed to participating RSUs                                      | 8           | 8           | 9           | 9           |
| Undistributed net income attributable to BlackRock, Inc.                         | 824         | 824         | 303         | 303         |
| Percentage of undistributed net income allocated to common shares <sup>(a)</sup> | 98.5%       | 98.5%       | 97.2%       | 97.2%       |
| Undistributed net income allocated to common shares                              | 812         | 812         | 295         | 295         |
| Plus:                                                                            |             |             |             |             |
| Common share dividends                                                           | 574         | 574         | 307         | 307         |
| Net income attributable to common shares                                         | \$ 1,386    | \$ 1,386    | \$ 602      | \$ 602      |
| Weighted-average common shares outstanding                                       | 190,385,046 | 190,385,046 | 131,481,677 | 131,481,677 |
| Dilutive effect of:                                                              |             |             |             |             |
| Stock options and non-participating RSUs                                         |             | 1,578,143   |             | 1,365,891   |
| Convertible debt                                                                 |             | 317,490     |             | 1,154,231   |
| Total weighted-average shares outstanding                                        |             | 192,280,679 |             | 134,001,799 |
| Earnings per share attributable to BlackRock, Inc., common stockholders:         | \$ 7.28     | \$ 7.21     | \$ 4.58     | \$ 4.50     |

- (a) Allocation to common shareholders is based on the total of common and participating security shareholders. For the nine months ended September 30, 2010 and 2009, participating securities include 2.8 million and 3.8 million, respectively, of unvested RSUs that contain nonforfeitable rights to dividends.

Basic EPS is calculated pursuant to the two-class method to determine income attributable to common shareholders. Basic EPS is calculated by dividing net distributed and undistributed earnings allocated to common shareholders by the weighted-average number of common shares outstanding. Diluted EPS includes the determinants of basic EPS and in addition, reflects the impact of other potentially dilutive shares, including RSU awards that do not contain nonforfeitable rights to dividends, unexercised stock options and convertible debentures. The dilutive effect of participating securities is calculated under the more dilutive of either the treasury method or the two-class method.

Due to the similarities in terms between BlackRock series A, B, C and D non-voting participating preferred stock and the Company's common stock, the Company considers the series A, B, C and D non-voting participating preferred stock to be a common stock equivalent for purposes of EPS calculations. As such, the Company has included the outstanding series A, B, C and D non-voting participating preferred stock in the calculation of average basic and diluted shares outstanding for the three and nine months ended September 30, 2010 and 2009.

For the three and nine months ended September 30, 2010, 340,526 and zero options, respectively, were excluded from the calculation of diluted EPS because to include them would have an anti-dilutive effect. For the three and nine months ended September 30, 2010, 1,412,212 and 1,155,977 RSUs, respectively, were excluded from the calculation of diluted EPS because to include them would have an anti-dilutive effect.

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 1. Financial Statements (continued)**

**BlackRock, Inc.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(unaudited)**

**17. Earnings Per Share (continued)**

***Shares issued in Quellos Transaction***

On October 1, 2007, the Company acquired the fund of funds business of Quellos Group ( Quellos ). The Company issued 1,191,785 shares of BlackRock common stock that were placed into an escrow account. In 2008 and 2009, a total of 322,845 common shares were released to Quellos in accordance with the Quellos asset purchase agreement, which resulted in an adjustment to the recognized purchase price. In October 2010, 865,337 common shares were released to Quellos in accordance with the Quellos asset purchase agreement and will have a dilutive effect for the three months ended December 31, 2010. The remaining 3,603 common shares may have a dilutive effect in future periods based on the timing of the release of shares from the escrow account in accordance with the Quellos asset purchase agreement.

**18. Income Taxes**

***Tax Legislation in the United Kingdom***

In July 2010, the United Kingdom enacted legislation reducing corporate income taxes, effective April 2011. The legislation resulted in a revaluation of certain net deferred tax liabilities primarily related to acquired intangible assets, which resulted in an income tax benefit of approximately \$30 million for the three and nine months ended September 30, 2010.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****19. Segment Information**

The Company's management directs BlackRock's operations as one business, the asset management business. As such, the Company operates in one business segment in accordance with ASC 280-10, Segment Reporting.

The following table illustrates investment advisory, administration fees, securities lending revenue and performance fees, *BlackRock Solutions*<sup>®</sup> and advisory, distribution fees and other revenue for the three and nine months ended September 30, 2010 and 2009, respectively.

| (Dollar amounts in millions)                                                                    | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|-------------------------------------------------------------------------------------------------|-------------------------------------|----------|------------------------------------|----------|
|                                                                                                 | 2010                                | 2009     | 2010                               | 2009     |
| Equity                                                                                          | \$ 958                              | \$ 333   | \$ 2,912                           | \$ 860   |
| Fixed income                                                                                    | 390                                 | 221      | 1,118                              | 630      |
| Multi-asset class                                                                               | 186                                 | 141      | 530                                | 346      |
| Alternative                                                                                     | 245                                 | 120      | 606                                | 323      |
| Cash management                                                                                 | 129                                 | 149      | 387                                | 490      |
| Total investment advisory, administration fees, securities lending revenue and performance fees | 1,908                               | 964      | 5,553                              | 2,649    |
| <i>BlackRock Solutions</i> and advisory                                                         | 101                                 | 122      | 328                                | 369      |
| Distribution fees                                                                               | 29                                  | 25       | 89                                 | 73       |
| Other revenue                                                                                   | 54                                  | 29       | 149                                | 65       |
| Total revenue                                                                                   | \$ 2,092                            | \$ 1,140 | \$ 6,119                           | \$ 3,156 |

The following tables illustrate the Company's total revenue for the three and nine months ended September 30, 2010 and 2009, respectively, by geographic region. These amounts are aggregated on a legal entity basis and do not necessarily reflect where the customer resides.

| (Dollar amounts in millions) | Three Months Ended<br>September 30, |            |        |            |
|------------------------------|-------------------------------------|------------|--------|------------|
|                              | 2010                                | % of total | 2009   | % of total |
| Revenue                      |                                     |            |        |            |
| Americas                     | \$ 1,395                            | 66%        | \$ 793 | 70%        |

Edgar Filing: BlackRock Inc. - Form 10-Q

|               |          |      |          |      |
|---------------|----------|------|----------|------|
| Europe        | 576      | 28%  | 296      | 26%  |
| Asia-Pacific  | 121      | 6%   | 51       | 4%   |
| Total revenue | \$ 2,092 | 100% | \$ 1,140 | 100% |

| (Dollar amounts in millions) |          | Nine Months Ended<br>September 30, |          |               |
|------------------------------|----------|------------------------------------|----------|---------------|
| Revenue                      | 2010     | % of<br>total                      | 2009     | % of<br>Total |
| Americas                     | \$ 4,148 | 68%                                | \$ 2,324 | 74%           |
| Europe                       | 1,609    | 26%                                | 710      | 22%           |
| Asia-Pacific                 | 362      | 6%                                 | 122      | 4%            |
| Total revenue                | \$ 6,119 | 100%                               | \$ 3,156 | 100%          |

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 1. Financial Statements (continued)****BlackRock, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****19. Segment Information (continued)**

The following table shows the Company's long-lived assets, including goodwill and net property and equipment at September 30, 2010 and December 31, 2009 and does not necessarily reflect where the asset is physically located.

**(Dollar amounts in millions)**

|                             | <b>September 30,<br/>2010</b> |          | <b>December 31,<br/>2009</b> |          |
|-----------------------------|-------------------------------|----------|------------------------------|----------|
| <b>Long-lived Assets</b>    |                               |          |                              |          |
| Americas                    | \$ 12,941                     | 99%      | \$ 12,961                    | 99%      |
| Europe                      | 49                            | %        | 46                           | %        |
| Asia-Pacific                | 80                            | 1%       | 74                           | 1%       |
| <br>Total long-lived assets | <br>\$ 13,070                 | <br>100% | <br>\$ 13,081                | <br>100% |

Americas primarily is comprised of the United States, Canada, Brazil and Mexico, while Europe primarily is comprised of the United Kingdom and Asia-Pacific primarily is comprised of Japan, Australia and Hong Kong.

**20. Subsequent Events*****Primasia Investment Trust Co., LTD.***

In October 2010, the Company completed the acquisition of all of the net assets of Primasia Investment Trust Co., LTD., which sells offshore mutual funds in Taiwan. The total consideration paid for the acquisition is not material to the Company's condensed consolidated financial statements.

***Secondary Offering of Common Stock***

On November 3, 2010 the Company commenced a secondary offering of 42 million shares of its common stock, 34.5 million shares are being offered by Bank of America and up to 7.5 million shares are being offered by PNC. Bank of America also expects to grant the underwriters a 30-day option to purchase an additional 6.3 million shares of BlackRock's common stock to cover over-allotments, if any. BlackRock will not receive any of the proceeds from the sale of shares of its common stock.

***Additional Subsequent Event Review***

## Edgar Filing: BlackRock Inc. - Form 10-Q

In addition to the subsequent events included in the notes to the condensed consolidated financial statements, the Company conducted a review for additional subsequent events and determined that no additional subsequent events had occurred that would require accrual or additional disclosures.

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

***Forward-looking Statements***

This report, and other statements that BlackRock may make, may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act, with respect to BlackRock's future financial or business performance, strategies or expectations.

Forward-looking statements are typically identified by words or phrases such as trend, potential, opportunity, pipeline, believe, comfortable, expect, anticipate, current, intention, estimate, position, assume, outlook, continue, remain, maintain, sustain, seek, expressions, or future or conditional verbs such as will, would, should, could, may or similar expressions.

BlackRock cautions that forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made, and BlackRock assumes no duty to and does not undertake to update forward-looking statements. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

In addition to risk factors previously disclosed in BlackRock's Securities and Exchange Commission (SEC) reports and those identified elsewhere in this report the following factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance: (1) the introduction, withdrawal, success and timing of business initiatives and strategies; (2) changes and volatility in political, economic or industry conditions, the interest rate environment, foreign exchange rates or financial and capital markets, which could result in changes in demand for products or services or in the value of assets under management; (3) the relative and absolute investment performance of BlackRock's investment products; (4) the impact of increased competition; (5) the impact of capital improvement projects; (6) the impact of future acquisitions or divestitures; (7) the unfavorable resolution of legal proceedings; (8) the extent and timing of any share repurchases; (9) the impact, extent and timing of technological changes and the adequacy of intellectual property protection; (10) the impact of legislative and regulatory actions and reforms, including the recently approved Dodd-Frank Wall Street Reform and Consumer Protection Act, and regulatory, supervisory or enforcement actions of government agencies relating to BlackRock, Barclays Bank PLC, Bank of America Corporation, Merrill Lynch & Co., Inc. or The PNC Financial Services Group, Inc.; (11) terrorist activities, international hostilities and natural disasters, which may adversely affect the general economy, domestic and local financial and capital markets, specific industries or BlackRock; (12) the ability to attract and retain highly talented professionals; (13) fluctuations in the carrying value of BlackRock's economic investments; (14) the impact of changes to tax legislation and, generally, the tax position of the Company; (15) BlackRock's success in maintaining the distribution of its products; (16) the impact of BlackRock electing to provide support to its products from time to time; (17) the impact of problems at other financial institutions or the failure or negative performance of products at other financial institutions; and (18) the ability of BlackRock to integrate the operations of Barclays Global Investors.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)*****Overview***

BlackRock, Inc. ( "BlackRock" or the "Company" ) is the largest publicly traded investment management firm. As of September 30, 2010, the Company managed \$3.446 trillion of assets under management ( "AUM" ) on behalf of institutional and individual investors worldwide. The Company's products include equities, fixed income, multi-asset class, alternative investment and cash management products, and offer clients diversified access to global markets through separate accounts, collective investment trusts, open-end and closed-end mutual funds, exchange-traded funds, hedge funds and funds of funds. In addition, *BlackRock Solutions*® provides market risk management, financial markets advisory and enterprise investment system services to a broad base of clients. Financial markets advisory services include valuation of illiquid securities, dispositions and workout assignments (including long-term portfolio liquidation assignments), risk management and strategic planning and execution.

On December 1, 2009, BlackRock acquired from Barclays Bank PLC ( "Barclays" ) all of the outstanding equity interests of subsidiaries of Barclays conducting the business of Barclays Global Investors ( "BGI" ) in exchange for capital shares valued at closing of \$8.53 billion and \$6.65 billion in cash.

At September 30, 2010, equity ownership of BlackRock was as follows:

|                                                      | <b>Voting<br/>Common<br/>Stock</b> | <b>Capital<br/>Stock<sup>(1)</sup></b> |
|------------------------------------------------------|------------------------------------|----------------------------------------|
| Bank of America Corporation/Merrill Lynch & Co. Inc. | 3.7%                               | 33.9%                                  |
| The PNC Financial Services Group, Inc. ( "PNC" )     | 34.7%                              | 24.3%                                  |
| Barclays                                             | 4.8%                               | 19.7%                                  |
| Other                                                | 56.8%                              | 22.1%                                  |
|                                                      | 100.0%                             | 100.0%                                 |

<sup>(1)</sup> Includes outstanding common and non-voting preferred stock only.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****Overview (continued)****Financial Highlights**

(Dollar amounts in millions, except per share data)

(unaudited)

The following tables summarize BlackRock's operating performance for each of the three months ended September 30, 2010, June 30, 2010 and September 30, 2009 and the nine months ended September 30, 2010 and 2009.

|                                                                                                                 | Three Months Ended |             |             | Variance vs. Three Months Ended |             |               |             |  |  |
|-----------------------------------------------------------------------------------------------------------------|--------------------|-------------|-------------|---------------------------------|-------------|---------------|-------------|--|--|
|                                                                                                                 | September 30,      |             | June 30,    | September 30, 2009              |             | June 30, 2010 |             |  |  |
|                                                                                                                 | 2010               | 2009        | 2010        | Amount                          | %<br>Change | Amount        | %<br>Change |  |  |
| <b>GAAP basis:</b>                                                                                              |                    |             |             |                                 |             |               |             |  |  |
| Total revenue                                                                                                   | \$ 2,092           | \$ 1,140    | \$ 2,032    | \$ 952                          | 84%         | \$ 60         | 3%          |  |  |
| Total expenses                                                                                                  | \$ 1,385           | \$ 783      | \$ 1,335    | \$ 602                          | 77%         | \$ 50         | 4%          |  |  |
| Operating income                                                                                                | \$ 707             | \$ 357      | \$ 697      | \$ 350                          | 98%         | \$ 10         | 1%          |  |  |
| Operating margin                                                                                                | 33.8%              | 31.3%       | 34.3%       | 2.5%                            | 8%          | (0.5%)        | (1%)        |  |  |
| Non-operating income (expense), less net income (loss) attributable to non-controlling interests                | \$ 45              | \$ 61       | (\$ 32)     | (\$ 16)                         | (26%)       | \$ 77         | NM          |  |  |
| Net income attributable to BlackRock, Inc.                                                                      | \$ 551             | \$ 317      | \$ 432      | \$ 234                          | 74%         | \$ 119        | 28%         |  |  |
| Diluted earnings per common share <sup>(e)</sup>                                                                | \$ 2.83            | \$ 2.27     | \$ 2.21     | \$ 0.56                         | 25%         | \$ 0.62       | 28%         |  |  |
| <b>As adjusted:</b>                                                                                             |                    |             |             |                                 |             |               |             |  |  |
| Operating income <sup>(a)</sup>                                                                                 | \$ 737             | \$ 400      | \$ 741      | \$ 337                          | 84%         | (\$ 4)        | (1%)        |  |  |
| Operating margin <sup>(a)</sup>                                                                                 | 38.4%              | 40.1%       | 38.8%       | (1.7%)                          | (4%)        | (0.4%)        | (1%)        |  |  |
| Non-operating income (expense), less net income (loss) attributable to non-controlling interests <sup>(b)</sup> | \$ 39              | \$ 52       | (\$ 28)     | (\$ 13)                         | (25%)       | \$ 67         | NM          |  |  |
| Net income attributable to BlackRock, Inc. <sup>(c), (d)</sup>                                                  | \$ 537             | \$ 293      | \$ 463      | \$ 244                          | 83%         | \$ 74         | 16%         |  |  |
| Diluted earnings per common share <sup>(c), (d), (e)</sup>                                                      | \$ 2.75            | \$ 2.10     | \$ 2.37     | \$ 0.65                         | 31%         | \$ 0.38       | 16%         |  |  |
| <b>Other:</b>                                                                                                   |                    |             |             |                                 |             |               |             |  |  |
| Diluted weighted-average common shares                                                                          | 192,326,841        | 135,902,241 | 192,569,539 | 56,424,600                      | 42%         | (242,698)     | %           |  |  |

# Edgar Filing: BlackRock Inc. - Form 10-Q

outstanding<sup>(e)</sup>

|                                                      |              |              |              |              |      |            |    |
|------------------------------------------------------|--------------|--------------|--------------|--------------|------|------------|----|
| Assets under management<br>(end of period)           | \$ 3,446,066 | \$ 1,434,769 | \$ 3,150,585 | \$ 2,011,297 | 140% | \$ 295,481 | 9% |
| Shares outstanding (end<br>of period) <sup>(1)</sup> | 191,115,491  | 134,214,577  | 191,881,795  | 56,900,914   | 42%  | (766,304)  | %  |

<sup>(1)</sup> September 30, 2010, September 30, 2009 and June 30, 2010 includes common stock held in escrow related to the Quellos Transaction of 868,940, 911,266 and 868,940, respectively.

NM Not Meaningful

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)*****Overview (continued)*****Financial Highlights (continued)****(Dollar amounts in millions, except per share data)****(unaudited)**

|                                                                                                                    | Nine Months Ended<br>September 30, |              | Variance vs. Nine<br>Months Ended<br>September 30, 2009 |             |
|--------------------------------------------------------------------------------------------------------------------|------------------------------------|--------------|---------------------------------------------------------|-------------|
|                                                                                                                    | 2010                               | 2009         | Amount                                                  | %<br>Change |
| <b><u>GAAP basis:</u></b>                                                                                          |                                    |              |                                                         |             |
| Total revenue                                                                                                      | \$ 6,119                           | \$ 3,156     | \$ 2,963                                                | 94%         |
| Total expenses                                                                                                     | \$ 4,061                           | \$ 2,267     | \$ 1,794                                                | 79%         |
| Operating income                                                                                                   | \$ 2,058                           | \$ 889       | \$ 1,169                                                | 131%        |
| Operating margin                                                                                                   | 33.6%                              | 28.2%        | 5.4%                                                    | 19%         |
| Non-operating income (expense), less net income (loss)<br>attributable to non-controlling interests                | \$ 10                              | (\$ 45)      | \$ 55                                                   | NM          |
| Net income attributable to BlackRock, Inc.                                                                         | \$ 1,406                           | \$ 619       | \$ 787                                                  | 127%        |
| Diluted earnings per common share <sup>(e)</sup>                                                                   | \$ 7.21                            | \$ 4.50      | \$ 2.71                                                 | 60%         |
| <b><u>As adjusted:</u></b>                                                                                         |                                    |              |                                                         |             |
| Operating income <sup>(a)</sup>                                                                                    | \$ 2,205                           | \$ 1,009     | \$ 1,196                                                | 119%        |
| Operating margin <sup>(a)</sup>                                                                                    | 38.7%                              | 37.4%        | 1.3%                                                    | 3%          |
| Non-operating income (expense), less net income (loss)<br>attributable to non-controlling interests <sup>(b)</sup> | \$ 5                               | (\$ 59)      | \$ 64                                                   | NM          |
| Net income attributable to BlackRock, Inc. <sup>(c), (d)</sup>                                                     | \$ 1,469                           | \$ 642       | \$ 827                                                  | 129%        |
| Diluted earnings per common share <sup>(c), (d), (e)</sup>                                                         | \$ 7.53                            | \$ 4.66      | \$ 2.87                                                 | 62%         |
| <b><u>Other:</u></b>                                                                                               |                                    |              |                                                         |             |
| Diluted weighted-average common shares outstanding <sup>(e)</sup>                                                  | 192,280,679                        | 134,001,799  | 58,278,880                                              | 43%         |
| Assets under management (end of period)                                                                            | \$ 3,446,066                       | \$ 1,434,769 | \$ 2,011,297                                            | 140%        |
| Shares outstanding (end of period) <sup>(1)</sup>                                                                  | 191,115,491                        | 134,214,577  | 56,900,914                                              | 42%         |

<sup>(1)</sup> September 30, 2010 and 2009 includes common stock held in escrow related to the Quellos Transaction of 868,940 and 911,266, respectively.

NM Not Meaningful

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)*****Overview (continued)*****Financial Highlights****(continued)**

BlackRock reports its financial results in accordance with accounting principles generally accepted in the United States ( GAAP ); however, management believes that evaluating the Company's ongoing operating results may be enhanced if investors have additional non-GAAP basis financial measures. Management reviews non-GAAP financial measures to assess ongoing operations and, for the reasons described below, considers them to be effective indicators, for both management and investors, of BlackRock's financial performance over time. BlackRock's management does not advocate that investors consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP.

Certain prior period non-GAAP data has been reclassified to conform to the current presentation. Computations for all periods are derived from the Company's condensed consolidated statements of income as follows:

***(a) Operating income, as adjusted, and operating margin, as adjusted:***

Operating income, as adjusted, equals operating income, GAAP basis, excluding certain items deemed non-recurring by management or transactions that ultimately will not impact BlackRock's book value, as indicated in the table below. Operating income used for operating margin measurement equals operating income, as adjusted, excluding the impact of closed-end fund launch costs and commissions. Operating margin, as adjusted, equals operating income used for operating margin measurement, divided by revenue used for operating margin measurement, as indicated in the table below.

| (Dollar amounts in millions)                                                               | Three Months Ended    |               | June 30,<br>2010 | Nine Months Ended     |               |
|--------------------------------------------------------------------------------------------|-----------------------|---------------|------------------|-----------------------|---------------|
|                                                                                            | September 30,<br>2010 | 2009          |                  | September 30,<br>2010 | 2009          |
| <b>Operating income, GAAP basis</b>                                                        | <b>\$ 707</b>         | <b>\$ 357</b> | <b>\$ 697</b>    | <b>\$ 2,058</b>       | <b>\$ 889</b> |
| Non-GAAP expense adjustments:                                                              |                       |               |                  |                       |               |
| BGI transaction/integration costs                                                          |                       |               |                  |                       |               |
| Employee compensation and benefits                                                         | 3                     |               | 4                | 25                    |               |
| General and administration                                                                 | 3                     | 16            | 28               | 65                    | 31            |
| Total BGI transaction/integration costs                                                    | 6                     | 16            | 32               | 90                    | 31            |
| PNC LTIP funding obligation                                                                | 15                    | 15            | 14               | 44                    | 45            |
| Merrill Lynch compensation contribution                                                    | 3                     | 3             | 2                | 8                     | 8             |
| Restructuring charges                                                                      |                       |               |                  |                       | 22            |
| Compensation expense related to appreciation (depreciation) on deferred compensation plans | 6                     | 9             | (4)              | 5                     | 14            |

Edgar Filing: BlackRock Inc. - Form 10-Q

|                                                        |              |              |              |              |              |
|--------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Operating income, as adjusted</b>                   | <b>737</b>   | <b>400</b>   | <b>741</b>   | <b>2,205</b> | <b>1,009</b> |
| Closed-end fund launch costs                           | 15           |              |              | 15           | 2            |
| Closed-end fund launch commissions                     | 2            |              |              | 2            | 1            |
| Operating income used for operating margin measurement | \$ 754       | \$ 400       | \$ 741       | \$ 2,222     | \$ 1,012     |
| Revenue, GAAP basis                                    | \$ 2,092     | \$ 1,140     | \$ 2,032     | \$ 6,119     | \$ 3,156     |
| Non-GAAP adjustments:                                  |              |              |              |              |              |
| Distribution and servicing costs                       | (105)        | (119)        | (97)         | (302)        | (371)        |
| Amortization of deferred sales commissions             | (26)         | (23)         | (27)         | (79)         | (76)         |
| Revenue used for operating margin measurement          | \$ 1,961     | \$ 998       | \$ 1,908     | \$ 5,738     | \$ 2,709     |
| <b>Operating margin, GAAP basis</b>                    | <b>33.8%</b> | <b>31.3%</b> | <b>34.3%</b> | <b>33.6%</b> | <b>28.2%</b> |
| <b>Operating margin, as adjusted</b>                   | <b>38.4%</b> | <b>40.1%</b> | <b>38.8%</b> | <b>38.7%</b> | <b>37.4%</b> |

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

*Overview (continued)*

**Financial Highlights**

**(continued)**

*(a) (continued)*

Management believes that operating income, as adjusted, and operating margin, as adjusted, are effective indicators of BlackRock's financial performance over time. As such, management believes that operating income, as adjusted, and operating margin, as adjusted, provide useful disclosure to investors.

***Operating income, as adjusted:***

BGI transaction and integration costs recorded in 2010 and 2009 consist principally of certain advisory payments, compensation expense, legal fees, marketing and promotional, occupancy and consulting expenses incurred in conjunction with the BGI Transaction. Restructuring charges recorded in 2009 consist of compensation costs, occupancy costs and professional fees. The expenses associated with restructuring and BGI transaction and integration costs have been deemed non-recurring by management and have been excluded from operating income, as adjusted, to help enhance the comparability of this information to prior periods. As such, management believes that operating margins exclusive of these costs are useful measures in evaluating BlackRock's operating performance for the respective periods.

The portion of compensation expense associated with certain long-term incentive plans ( LTIP ) that will be funded through the distribution to participants of shares of BlackRock stock held by PNC and a Merrill Lynch & Co., Inc. ( Merrill Lynch ) cash compensation contribution, a portion of which has been received, has been excluded because these charges ultimately do not impact BlackRock's book value.

Compensation expense associated with appreciation (depreciation) on investments related to certain BlackRock deferred compensation plans has been excluded as returns on investments set aside for these plans, which substantially offset this expense, are reported in non-operating income (expense).

***Operating margin, as adjusted:***

Operating income used for measuring operating margin, as adjusted, is equal to operating income, as adjusted, excluding the impact of closed-end fund launch costs and commissions. Management believes that excluding such costs and commissions is useful because these costs can fluctuate considerably and revenues associated with the expenditure of these costs will not fully impact the Company's results until future periods.

Operating margin, as adjusted, allows the Company to compare performance from period-to-period by adjusting for items that may not recur, recur infrequently or may fluctuate based on market movements, such as restructuring charges, transaction and integration costs, closed-end fund launch costs, commissions paid to certain employees as compensation and fluctuations in compensation expense based on mark-to-market movements in investments held to fund certain compensation plans. The Company also uses operating margin, as adjusted, to monitor corporate performance and efficiency and as a benchmark to compare its performance to other companies. Management uses both the GAAP and non-GAAP financial measures in evaluating the financial performance of BlackRock. The non-GAAP measure by itself may pose limitations

## Edgar Filing: BlackRock Inc. - Form 10-Q

because it does not include all of the Company's revenues and expenses.

Revenue used for operating margin, as adjusted, excludes distribution and servicing costs paid to related parties and other third parties. Management believes that excluding such costs is useful to BlackRock because it creates consistency in the treatment for certain contracts for similar services, which due to the terms of the contracts, are accounted for under GAAP on a net basis within investment advisory, administration fees and securities lending revenue. Amortization of deferred sales commissions is excluded from revenue used for operating margin measurement, as adjusted, because such costs, over time, offset distribution fee revenue earned by the Company. For each of these items, BlackRock excludes from revenue used for operating margin, as adjusted, the costs related to each of these items as a proxy for such offsetting revenues.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)*****Overview (continued)*****Financial Highlights****(continued)***(b) Non-operating income (expense), less net income (loss) attributable to non-controlling interests, as adjusted:*

Non-operating income (expense), less net income (loss) attributable to non-controlling interests ( NCI ), as adjusted, equals non-operating income (expense), GAAP basis, less net income (loss) attributable to NCI, GAAP basis, adjusted for compensation expense associated with depreciation (appreciation) on investments related to certain BlackRock deferred compensation plans. The compensation expense offset is recorded in operating income. This compensation expense has been included in non-operating income (expense), less net income (loss) attributable to NCI, as adjusted, to offset returns on investments set aside for these plans, which are reported in non-operating income (expense), GAAP basis.

| (Dollar amounts in millions)                                                                   | Three Months Ended    |              |                  | Nine Months Ended     |                |
|------------------------------------------------------------------------------------------------|-----------------------|--------------|------------------|-----------------------|----------------|
|                                                                                                | September 30,<br>2010 | 2009         | June 30,<br>2010 | September 30,<br>2010 | 2009           |
| Non-operating income (expense), GAAP basis                                                     | \$ 78                 | \$ 78        | (\$ 75)          | \$ 5                  | (\$ 24)        |
| Less: Net income (loss) attributable to NCI                                                    | 33                    | 17           | (43)             | (5)                   | 21             |
| Non-operating income (expense) <sup>(1)</sup>                                                  | 45                    | 61           | (32)             | 10                    | (45)           |
| Compensation expense related to (appreciation) depreciation on deferred compensation plans     | (6)                   | (9)          | 4                | (5)                   | (14)           |
| <b>Non-operating income (expense), less net income (loss) attributable to NCI, as adjusted</b> | <b>\$ 39</b>          | <b>\$ 52</b> | <b>(\$ 28)</b>   | <b>\$ 5</b>           | <b>(\$ 59)</b> |

<sup>(1)</sup> Net of net income (loss) attributable to non-controlling interests.

Management believes that non-operating income (expense), less net income (loss) attributable to NCI, as adjusted, provides for comparability of this information to prior periods and is an effective measure for reviewing BlackRock's non-operating contribution to its results. As compensation expense associated with (appreciation) depreciation on investments related to certain deferred compensation plans, which is included in operating income, offsets the gain/(loss) on the investments set aside for these plans, management believes that non-operating income (expense), less net income (loss) attributable to NCI, as adjusted, provides a useful measure, for both management and investors, of BlackRock's non-operating results that impact book value.



**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****Overview (continued)****Financial Highlights****(continued)***(c) Net income attributable to BlackRock, Inc., as adjusted:*

Management believes that net income attributable to BlackRock, Inc., as adjusted, and diluted earnings per common share, as adjusted, are useful measures of BlackRock's profitability and financial performance. Net income attributable to BlackRock, Inc., as adjusted, equals net income attributable to BlackRock, Inc., GAAP basis, adjusted for significant non-recurring items as well as charges that ultimately will not impact BlackRock's book value or benefits that do not impact cash flow.

| (Dollar amounts in millions, except per share data)                                   | Three Months Ended    |                       |                  | Nine Months Ended     |                       |  |
|---------------------------------------------------------------------------------------|-----------------------|-----------------------|------------------|-----------------------|-----------------------|--|
|                                                                                       | September 30,<br>2010 | September 30,<br>2009 | June 30,<br>2010 | September 30,<br>2010 | September 30,<br>2009 |  |
| <b>Net income attributable to BlackRock, Inc., GAAP basis</b>                         | <b>\$ 551</b>         | <b>\$ 317</b>         | <b>\$ 432</b>    | <b>\$ 1,406</b>       | <b>\$ 619</b>         |  |
| Non-GAAP adjustments, net of tax: <sup>(d)</sup>                                      |                       |                       |                  |                       |                       |  |
| BGI transaction/integration costs                                                     | 4                     | 11                    | 21               | 59                    | 21                    |  |
| PNC LTIP funding obligation                                                           | 10                    | 9                     | 9                | 29                    | 29                    |  |
| Merrill Lynch compensation contribution                                               | 2                     | 1                     | 1                | 5                     | 4                     |  |
| Restructuring charges                                                                 |                       |                       |                  |                       | 14                    |  |
| Income tax law changes                                                                | (30)                  | (45)                  |                  | (30)                  | (45)                  |  |
| <b>Net income attributable to BlackRock, Inc., as adjusted</b>                        | <b>\$ 537</b>         | <b>\$ 293</b>         | <b>\$ 463</b>    | <b>\$ 1,469</b>       | <b>\$ 642</b>         |  |
| Allocation of net income attributable to BlackRock, Inc., as adjusted: <sup>(f)</sup> |                       |                       |                  |                       |                       |  |
| Common shares <sup>(e)</sup>                                                          | \$ 530                | \$ 285                | \$ 456           | \$ 1,448              | \$ 625                |  |
| Participating RSUs                                                                    | 7                     | 8                     | 7                | 21                    | 17                    |  |
| <b>Net income attributable to BlackRock, Inc., as adjusted</b>                        | <b>\$ 537</b>         | <b>\$ 293</b>         | <b>\$ 463</b>    | <b>\$ 1,469</b>       | <b>\$ 642</b>         |  |
| Diluted weighted-average common shares outstanding <sup>(e)</sup>                     | 192,326,841           | 135,902,241           | 192,569,539      | 192,280,679           | 134,001,799           |  |

## Edgar Filing: BlackRock Inc. - Form 10-Q

### **Diluted earnings per common share, GAAP basis<sup>(e)</sup>**

|    |      |    |      |    |      |    |      |    |      |
|----|------|----|------|----|------|----|------|----|------|
| \$ | 2.83 | \$ | 2.27 | \$ | 2.21 | \$ | 7.21 | \$ | 4.50 |
|----|------|----|------|----|------|----|------|----|------|

|                                                                     |                |           |             |           |             |           |             |           |             |
|---------------------------------------------------------------------|----------------|-----------|-------------|-----------|-------------|-----------|-------------|-----------|-------------|
| <b>Diluted earnings per common share, as adjusted<sup>(e)</sup></b> | <b>\$ 2.75</b> | <b>\$</b> | <b>2.10</b> | <b>\$</b> | <b>2.37</b> | <b>\$</b> | <b>7.53</b> | <b>\$</b> | <b>4.66</b> |
|---------------------------------------------------------------------|----------------|-----------|-------------|-----------|-------------|-----------|-------------|-----------|-------------|

The restructuring charges and BGI transaction and integration costs reflected in GAAP net income attributable to BlackRock, Inc. have been deemed non-recurring by management and have been excluded from net income attributable to BlackRock, Inc., as adjusted, to help enhance the comparability of this information to prior reporting periods.

The portion of the compensation expense associated with certain LTIP awards that will be funded through the distribution to participants of shares of BlackRock stock held by PNC and the Merrill Lynch cash compensation contribution, a portion of which has been received, has been excluded from net income attributable to BlackRock, Inc., as adjusted, because these charges ultimately do not impact BlackRock's book value.

During third quarter 2010 and third quarter 2009, the United Kingdom and New York City, respectively, enacted legislation reducing corporate income tax rates, which resulted in a revaluation of certain net deferred tax liabilities primarily related to acquired intangible assets. The resulting decrease in income taxes has been excluded from net income attributable to BlackRock, Inc., as adjusted, as these were non-recurring enacted tax legislation changes that do not have a cash flow impact and to ensure comparability of this information to current reporting periods.

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

***Overview (continued)***

**Financial Highlights**

**(continued)**

(d) For each of the quarters ended September 30, 2010, September 30, 2009 and June 30, 2010, non-GAAP adjustments were tax effected at 30.8%, 35% and 35%, respectively, which reflects the blended rate applicable to the adjustments. For each of the nine months ended September 30, 2010 and 2009, non-GAAP adjustments were tax effected at 33.5% and 35%, respectively.

(e) Series A, B, C and D non-voting participating preferred stock are considered to be common stock equivalents for purposes of determining basic and diluted earnings per share calculations. Certain unvested restricted stock units ( RSUs ) are not included in this number as they are deemed participating securities in accordance with Accounting Standards Codification ( ASC ) 260-10, *Earnings per Share* ( ASC 260-10 ).

(f) Allocation of net income attributable to BlackRock, Inc., as adjusted, to common shares and participating RSUs is calculated pursuant to the two-class method as defined in ASC 260-10.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)*****Overview (continued)***

BlackRock has portfolio managers located around the world, including the United States, the United Kingdom, the Netherlands, Japan, Hong Kong, Australia and Germany. The Company provides a wide array of taxable and tax-exempt fixed income, equity and multi-asset class investment funds, including exchange traded funds and mutual funds, and separate accounts, as well as a wide assortment of index-based equity and alternative investment products for a diverse global clientele. BlackRock provides global advisory services for investment funds and other non-U.S. retail products. The Company's non-U.S. investment funds are based in a number of domiciles and cover a range of asset classes, including cash management, fixed income and equities.

*iShares*® is the global product leader in exchange traded funds for institutional, retail and high net worth investors with over 460 funds globally across equities, fixed income and commodities, which trade like common stocks on 19 exchanges worldwide. The BlackRock Global Funds, the Company's primary retail fund group offered outside the United States, are authorized for distribution in more than 35 jurisdictions worldwide. In the United States, the primary retail offerings include various open-end and closed-end funds, including *iShares*. Additional fund offerings include structured products, real estate funds, hedge funds, hedge funds of funds, private equity funds and funds of funds, managed futures funds and exchange funds. These products are sold to both U.S. and non-U.S. high net worth, retail and institutional investors in a wide variety of active and passive strategies covering both equity and fixed income assets.

BlackRock's client base consists of financial institutions and other corporate clients, pension plans, charities, official institutions, such as central banks, sovereign wealth funds, supranational authorities and other government entities, high net worth individuals and retail investors around the world. BlackRock maintains a significant sales and marketing presence both inside and outside the United States that is focused on establishing and maintaining retail and institutional investment management relationships by marketing its services to retail and institutional investors directly and through financial professionals, pension consultants and establishing third-party distribution relationships. BlackRock also distributes its products and services through Merrill Lynch under a global distribution agreement, which following Bank of America Corporation's (Bank of America) acquisition of Merrill Lynch, runs through January 2014. After such term, the agreement will renew for one automatic three-year extension if certain conditions are met.

BlackRock derives a substantial portion of its revenue from investment advisory and administration fees, which are recognized as the services are performed. Such fees are primarily based on pre-determined percentages of the market value of AUM, percentages of committed capital during investment periods of certain alternative products, or, in the case of certain real estate equity clients, net operating income generated by the underlying properties, and are affected by changes in AUM, including market appreciation or depreciation, foreign exchange translation and net subscriptions or redemptions. Net subscriptions or redemptions represent the sum of new client assets, additional fundings from existing clients (including dividend reinvestment), withdrawals of assets from, and termination of, client accounts, purchases and redemptions of investment fund shares and distributions to investors representing return of capital and return on investments to investors. Market appreciation or depreciation includes current income earned on, and changes in the fair value of, securities held in client accounts. Foreign exchange translation reflects the impact of converting non-U.S. dollar denominated AUM into U.S. dollars for reporting purposes.

BlackRock also earns revenue by lending securities on behalf of clients, primarily to brokerage institutions. Such revenues are accounted for on an accrual basis. The securities loaned are secured by collateral in the form of cash or securities, with minimums generally ranging from approximately 102% to 112% of the value of the loaned securities. The revenue earned is shared between BlackRock and the funds or other third-party accounts managed by the Company from which the securities are borrowed.

Investment advisory agreements for certain separate accounts and BlackRock's alternative investment products provide for performance fees, based upon relative and/or absolute investment performance, in addition to base fees based on AUM. Investment advisory performance fees generally are earned after a given period of time and when investment performance exceeds a contractual threshold. As such, the timing of recognition of performance fees may increase the volatility of BlackRock's revenue and earnings. Historically, the magnitude of performance

## Edgar Filing: BlackRock Inc. - Form 10-Q

fees in the fourth quarter generally exceeds the first three calendar quarters in a year due to the higher number of products with performance measurement periods that end on December 31.

## **Table of Contents**

### **PART I FINANCIAL INFORMATION (continued)**

#### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

##### ***Overview (continued)***

BlackRock provides a variety of risk management, investment analytic and investment system and advisory services to financial institutions, pension funds, asset managers, foundations, consultants, mutual fund sponsors, real estate investment trusts and government agencies. These services are provided under the brand name *BlackRock Solutions* and include a wide array of risk management services, valuation services related to illiquid securities, disposition and workout assignments (including long-term portfolio liquidation assignments), strategic planning and execution, and enterprise investment system outsourcing to clients. Over \$9.5 trillion of positions are processed on our *Aladdin*® operating platform, which serves as the investment system for BlackRock and other institutional investors. Fees earned for *BlackRock Solutions* and advisory services are determined using some, or all, of the following methods: (i) fixed fees, (ii) percentages of various attributes of advisory assets under management and (iii) performance fees if contractual thresholds are met.

BlackRock also builds upon its leadership position to meet the growing need for investment and risk management solutions. Through its scale and diversity of products, it is able to provide its clients with customized solutions including fiduciary outsourcing for liability-driven investments and overlay strategies for pension plan sponsors, balance sheet management and related services for insurance companies and target date and target return funds, as well as asset allocation portfolios, for retail investors. BlackRock is also able to service these clients via its *Aladdin* platform to provide risk management and other outsourcing services for institutional investors and custom and tailored solutions to address complex risk exposures.

The Company also earns fees for transition management services comprised of referral fees or agency commissions from acting as an introducing broker-dealer in buying and selling securities on behalf of its customers. Commissions and clearing expenses related to transition management services are recorded on a trade-date basis as securities transactions occur.

Operating expenses reflect employee compensation and benefits, distribution and servicing costs, amortization of deferred sales commissions, direct fund expenses, general and administration expenses and amortization of finite-lived intangible assets.

Employee compensation and benefits expense includes salaries, commissions, temporary help, severance, deferred and incentive compensation, employer payroll taxes and related benefit costs.

Distribution and servicing costs include payments made to Merrill Lynch-affiliated entities under a global distribution agreement, to PNC-affiliated entities and Barclays, as well as other third parties, primarily associated with obtaining and retaining client investments in certain BlackRock products.

Direct fund expenses primarily consist of third party non-advisory expenses incurred by BlackRock related to certain funds for the use of index trademarks, reference data for indices, custodial services, fund administration, fund accounting, transfer agent services, shareholder reporting services, legal expenses, audit and tax services as well as other fund related expenses directly attributable to the non-advisory operations of the fund. These expenses may vary over time with fluctuations in AUM, number of shareholder accounts, or other attributes directly related to volume of business.

BlackRock primarily holds investments in sponsored investment products that invest in a variety of asset classes, including private equity, distressed credit/mortgage debt securities, hedge funds and real estate. Investments generally are made for co-investment purposes, to establish a performance track record, to hedge exposure to certain deferred compensation plans, or for regulatory purposes, including Federal Reserve Bank

## Edgar Filing: BlackRock Inc. - Form 10-Q

stock. Non-operating income (expense) and other comprehensive income, for available-for-sale investments, includes the impact of changes in the valuations and pick up of equity method earnings of these investments, as well as interest and dividend income and interest expense.

In addition, non-operating income (expense) includes the impact of changes in the valuations of consolidated sponsored investment funds and consolidated collateralized loan obligations. The portion of non-operating income (expense) not attributable to BlackRock is allocated to non-controlling interests on the consolidated statements of income.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)*****Assets Under Management***

AUM for reporting purposes generally is based upon how investment advisory and administration fees are calculated for each portfolio. Net asset values, total assets, committed assets or other measures may be used to determine portfolio AUM.

**Assets Under Management****By Asset Class**

(Dollar amounts in millions)

| (Dollar amounts in millions) | Variance vs.          |                     |                                        |                                         |                  |                 |                 |
|------------------------------|-----------------------|---------------------|----------------------------------------|-----------------------------------------|------------------|-----------------|-----------------|
|                              | September 30,<br>2010 | June 30,<br>2010    | December<br>31,<br>2009 <sup>(1)</sup> | September<br>30,<br>2009 <sup>(1)</sup> | June 30,<br>2010 | Dec 31,<br>2009 | Sep 30,<br>2009 |
| Equity:                      |                       |                     |                                        |                                         |                  |                 |                 |
| Index                        | \$ 1,245,678          | \$ 1,091,964        | \$ 1,187,481                           | \$ 84,020                               | 14%              | 5%              | NM              |
| Active                       | 317,367               | 290,848             | 348,574                                | 206,650                                 | 9%               | (9%)            | 54%             |
| Fixed income:                |                       |                     |                                        |                                         |                  |                 |                 |
| Index                        | 556,376               | 488,265             | 459,744                                | 4,337                                   | 14%              | 21%             | NM              |
| Active                       | 611,581               | 592,221             | 595,883                                | 533,129                                 | 3%               | 3%              | 15%             |
| Multi-asset class            | 170,608               | 148,160             | 142,029                                | 99,543                                  | 15%              | 20%             | 71%             |
| Alternative                  | 105,742               | 101,536             | 102,101                                | 53,776                                  | 4%               | 4%              | 97%             |
| <b>Long-term</b>             | <b>3,007,352</b>      | <b>2,712,994</b>    | <b>2,835,812</b>                       | <b>981,455</b>                          | <b>11%</b>       | <b>6%</b>       | <b>206%</b>     |
| Cash management              | 283,710               | 279,227             | 349,277                                | 290,428                                 | 2%               | (19%)           | (2%)            |
| Sub-total                    | 3,291,062             | 2,992,221           | 3,185,089                              | 1,271,883                               | 10%              | 3%              | 159%            |
| Advisory <sup>(2)</sup>      | 155,004               | 158,364             | 161,167                                | 162,886                                 | (2%)             | (4%)            | (5%)            |
| <b>Total</b>                 | <b>\$ 3,446,066</b>   | <b>\$ 3,150,585</b> | <b>\$ 3,346,256</b>                    | <b>\$ 1,434,769</b>                     | <b>9%</b>        | <b>3%</b>       | <b>140%</b>     |

NM Not Meaningful

<sup>(1)</sup> Data reflects the reclassification of AUM into the current period presentation.

<sup>(2)</sup> Advisory AUM represents long-term portfolio liquidation assignments.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**  
**Assets Under Management (continued)****Mix of Assets Under Management  
By Asset Class**

|                         | September 30,<br>2010 | June 30,<br>2010 | December<br>31,<br>2009 <sup>(1)</sup> | September<br>30,<br>2009 <sup>(1)</sup> |
|-------------------------|-----------------------|------------------|----------------------------------------|-----------------------------------------|
| Equity:                 |                       |                  |                                        |                                         |
| Index                   | 36%                   | 35%              | 35%                                    | 6%                                      |
| Active                  | 9%                    | 9%               | 11%                                    | 15%                                     |
| Fixed income:           |                       |                  |                                        |                                         |
| Index                   | 16%                   | 15%              | 14%                                    | %                                       |
| Active                  | 18%                   | 19%              | 18%                                    | 37%                                     |
| Multi-asset class       | 5%                    | 5%               | 4%                                     | 7%                                      |
| Alternative             | 3%                    | 3%               | 3%                                     | 4%                                      |
| <b>Long-term</b>        | <b>87%</b>            | <b>86%</b>       | <b>85%</b>                             | <b>69%</b>                              |
| Cash management         | 8%                    | 9%               | 10%                                    | 20%                                     |
| Sub-total               | 95%                   | 95%              | 95%                                    | 89%                                     |
| Advisory <sup>(2)</sup> | 5%                    | 5%               | 5%                                     | 11%                                     |
| <b>Total</b>            | <b>100%</b>           | <b>100%</b>      | <b>100%</b>                            | <b>100%</b>                             |

<sup>(1)</sup> Data reflects the reclassification of AUM into the current period presentation.<sup>(2)</sup> Advisory AUM represents long-term portfolio liquidation assignments.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**  
**Assets Under Management (continued)**

The following table presents the component changes in BlackRock's AUM for the three months ended September 30, 2010.

| (Dollar amounts in millions) | June 30,<br>2010    | Net<br>subscriptions<br>(redemptions) <sup>(1)</sup> | BGI<br>merger-<br>related<br>outflows <sup>(2)</sup> | Market<br>appreciation<br>(depreciation) | Foreign<br>exchange<br><sup>(3)</sup> | September 30,<br>2010 |
|------------------------------|---------------------|------------------------------------------------------|------------------------------------------------------|------------------------------------------|---------------------------------------|-----------------------|
| <b>Equity:</b>               |                     |                                                      |                                                      |                                          |                                       |                       |
| Index                        | \$ 1,091,964        | \$ 25,886                                            | (\$ 19,843)                                          | \$ 126,617                               | \$ 21,054                             | \$ 1,245,678          |
| Active                       | 290,848             | (4,299)                                              | (10,672)                                             | 34,180                                   | 7,310                                 | 317,367               |
| <b>Fixed income:</b>         |                     |                                                      |                                                      |                                          |                                       |                       |
| Index                        | 488,265             | 31,830                                               | (187)                                                | 16,450                                   | 20,018                                | 556,376               |
| Active                       | 592,221             | (5,129)                                              | (2,895)                                              | 19,396                                   | 7,988                                 | 611,581               |
| Multi-asset class            | 148,160             | 5,290                                                |                                                      | 12,379                                   | 4,779                                 | 170,608               |
| Alternative                  | 101,536             | (969)                                                | (260)                                                | 3,646                                    | 1,789                                 | 105,742               |
| <b>Long-term</b>             | <b>2,712,994</b>    | <b>52,609</b>                                        | <b>(33,857)</b>                                      | <b>212,668</b>                           | <b>62,938</b>                         | <b>3,007,352</b>      |
| Cash management              | 279,227             | 1,787                                                | (566)                                                | (7)                                      | 3,269                                 | 283,710               |
| <b>Sub-total</b>             | <b>2,992,221</b>    | <b>54,396</b>                                        | <b>(34,423)</b>                                      | <b>212,661</b>                           | <b>66,207</b>                         | <b>3,291,062</b>      |
| Advisory <sup>(4)</sup>      | 158,364             | (4,332)                                              |                                                      | (142)                                    | 1,114                                 | 155,004               |
| <b>Total</b>                 | <b>\$ 3,150,585</b> | <b>\$ 50,064</b>                                     | <b>(\$ 34,423)</b>                                   | <b>\$ 212,519</b>                        | <b>\$ 67,321</b>                      | <b>\$ 3,446,066</b>   |

(1) Includes distributions representing return of capital and return on investment to investors.

(2) Includes BGI merger-related outflows due to manager concentration considerations and active quantitative performance.

(3) Foreign exchange reflects the impact of converting non-U.S. dollar denominated AUM into U.S. dollars for reporting purposes.

(4) Advisory AUM represents long-term portfolio liquidation assignments.

AUM increased approximately \$295 billion, or 9%, to \$3.446 trillion at September 30, 2010, compared to \$3.151 trillion at June 30, 2010. The increase in AUM primarily was attributable to \$50 billion of net subscriptions excluding outflows due to manager concentration considerations and active quantitative performance (merger-related outflows), \$213 billion in net market appreciation, and a \$67 billion increase due to foreign exchange movements, partially offset by \$34 billion of BGI merger-related outflows. Merger-related outflows since the close of the BGI transaction represents less than 5% of acquired AUM.

Net market appreciation of \$213 billion included net appreciation of \$161 billion in equity products due to an increase in global equity markets, \$36 billion in fixed income products, \$12 billion in multi-asset class products and \$4 billion in alternative investments. The \$67 billion net increase in AUM from foreign exchange movements was due to the weakening of the U.S. dollar, primarily against the Euro and Pound Sterling, which resulted in an increase in AUM from converting non-U.S. dollar denominated AUM into U.S. dollars.

*Total Net Subscriptions/(Redemptions)*

## Edgar Filing: BlackRock Inc. - Form 10-Q

Combined net subscriptions of \$50 billion and BGI merger-related outflows of \$34 billion for the three months ended September 30, 2010, included net subscriptions of \$13 billion from *iShares* clients and \$9 billion from institutional clients, partially offset by net redemptions of \$6 billion from retail and high net worth clients.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**  
**Assets Under Management (continued)***Long-term Net Subscriptions/(Redemptions) excluding merger-related outflows*

Net subscriptions in long-term mandates of \$53 billion were the result of net subscriptions of: (a) \$32 billion in index fixed income products, which were primarily related to local currency and global strategies, (b) \$26 billion in index equity products, which were primarily related to global and regional/country strategies including over \$6 billion in *iShares*, (c) \$5 billion in multi-asset class products, including global asset allocation and target date solutions, such as the *LifePath*® portfolios, partially offset by net redemptions of: (a) \$5 billion in active fixed income primarily related to outflows in U.S. core, U.S. sector-specialty products and U.S. target duration products offset by inflows in various global fixed income strategies, (b) \$4 billion in active equity products, primarily related to sector, U.S. equity and regional/country fundamental equity products and (c) \$1 billion in alternative mandates including distributions from opportunistic hedge funds and real estate outflows partially offset by inflows in currency and commodity products.

*Cash Management Net Subscriptions/(Redemptions) excluding merger-related outflows*

Cash management net inflows of \$2 billion primarily included flows from clients in the Americas. The Company experienced net subscriptions of \$11 billion from institutional clients, largely offset by \$8 billion of net outflows from retail and high net worth clients and the \$1 billion effect of the reclassification of an exchange-traded fund as fixed income. The \$2 billion of net flows primarily related to inflows in offshore liquidity products which were largely offset by outflows in tax exempt and prime liquidity products.

The following table presents the component changes in BlackRock's AUM<sup>(1)</sup> for the nine months ended September 30, 2010.

| (Dollar amounts in millions) | December 31,<br>2009 | Net<br>subscriptions<br>(redemptions) <sup>(2)</sup> | BGI<br>merger-<br>related<br>outflows <sup>(3)</sup> | Acquisition <sup>(4)</sup> | Market<br>appreciation<br>(depreciation) | Foreign<br>exchange<br><sup>(5)</sup> | September 30,<br>2010 |
|------------------------------|----------------------|------------------------------------------------------|------------------------------------------------------|----------------------------|------------------------------------------|---------------------------------------|-----------------------|
| <b>Equity:</b>               |                      |                                                      |                                                      |                            |                                          |                                       |                       |
| Index                        | \$ 1,187,481         | \$ 46,719                                            | (\$ 28,570)                                          | (\$ 3,862)                 | \$ 40,935                                | \$ 2,975                              | \$ 1,245,678          |
| Active                       | 348,574              | (1,328)                                              | (42,028)                                             |                            | 11,795                                   | 354                                   | 317,367               |
| <b>Fixed income:</b>         |                      |                                                      |                                                      |                            |                                          |                                       |                       |
| Index                        | 459,744              | 54,816                                               | (1,042)                                              |                            | 34,571                                   | 8,287                                 | 556,376               |
| Active                       | 595,883              | (19,360)                                             | (8,931)                                              |                            | 43,776                                   | 213                                   | 611,581               |
| Multi-asset class            | 142,029              | 20,203                                               | (127)                                                |                            | 8,333                                    | 170                                   | 170,608               |
| Alternative                  | 102,101              | 1,926                                                | (462)                                                |                            | 1,467                                    | 710                                   | 105,742               |
| <b>Long-term</b>             | <b>2,835,812</b>     | <b>102,976</b>                                       | <b>(81,160)</b>                                      | <b>(3,862)</b>             | <b>140,877</b>                           | <b>12,709</b>                         | <b>3,007,352</b>      |
| Cash management              | 349,277              | (62,232)                                             | (1,063)                                              |                            | (11)                                     | (2,261)                               | 283,710               |
| <b>Sub-total</b>             | <b>3,185,089</b>     | <b>40,744</b>                                        | <b>(82,223)</b>                                      | <b>(3,862)</b>             | <b>140,866</b>                           | <b>10,448</b>                         | <b>3,291,062</b>      |
| Advisory <sup>(6)</sup>      | 161,167              | (6,843)                                              |                                                      |                            | (82)                                     | 762                                   | 155,004               |
| <b>Total</b>                 | <b>\$ 3,346,256</b>  | <b>\$ 33,901</b>                                     | <b>(\$ 82,223)</b>                                   | <b>(\$ 3,862)</b>          | <b>\$ 140,784</b>                        | <b>\$ 11,210</b>                      | <b>\$ 3,446,066</b>   |

- (1) Data reflects the reclassification of prior period AUM into the current period presentation.
- (2) Includes distributions representing return of capital and return on investment to investors.
- (3) Includes BGI merger-related outflows due to manager concentration considerations and active quantitative performance.
- (4) Includes acquisition adjustments of AUM acquired from Barclays in December 2009 to conform to current period combined AUM policy.
- (5) Foreign exchange reflects the impact of converting non-U.S. dollar denominated AUM into U.S. dollars for reporting purposes.
- (6) Advisory AUM represents long-term portfolio liquidation assignments.

---

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**  
***Assets Under Management (continued)***

AUM increased approximately \$100 billion, or 3%, to \$3.446 trillion at September 30, 2010, compared to \$3.346 trillion at December 31, 2009. The increase in AUM primarily was attributable to \$103 billion of net subscriptions in long-term products excluding merger-related outflows, \$141 billion in net market appreciation and an \$11 billion increase due to foreign exchange movements, partially offset by \$82 billion, or less than 5% of acquired BGI AUM, of total BGI merger-related outflows, \$62 billion of cash management net outflows and \$7 billion of advisory distributions and outflows. Net market appreciation of \$141 billion included \$78 billion in fixed income products, \$53 billion in equity products due to an increase in global equity markets, \$8 billion in multi-asset class products and \$1 billion in alternative products.

*Net Subscriptions/(Redemptions)*

Combined net subscriptions of \$34 billion and BGI merger-related outflows of \$82 billion for the nine months ended September 30, 2010 included net redemptions of \$78 billion from institutional clients, offset by net subscriptions of \$30 billion from clients for U.S. and international *iShares*.

*Long-term Net Subscriptions/(Redemptions) excluding merger-related outflows*

Net subscriptions in long-term mandates of \$103 billion, were primarily the result of net subscriptions of: (a) \$55 billion in index fixed income products related to institutional and *iShares* clients in local currency, U.S. targeted duration, U.S. sector specialty strategies and global index strategies, (b) \$47 billion in index equity products primarily related to institutional and *iShares* clients in global and regional/country strategies, (c) \$20 billion in multi-asset class products, including global asset allocation and target date solutions, such as the *LifePath* portfolios, and (d) \$2 billion in alternative products, partially offset by net redemptions of \$19 billion in active fixed income primarily related to U.S. targeted duration and U.S. core products.

*Cash Management Net Subscriptions/(Redemptions) excluding merger-related outflows*

Cash management net outflows of \$62 billion included \$44 billion, \$17 billion and \$1 billion from institutional clients, retail/high net worth clients and the \$1 billion effect of the reclassification of an exchange-traded fund as fixed income, respectively, across all cash management strategies, concentrated in prime, government and tax exempt products.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**  
**Assets Under Management (continued)**

The following table presents the component changes in BlackRock's AUM<sup>(1)</sup> for the twelve months ended September 30, 2010.

| (Dollar amounts in millions) | September 30,<br>2009 | Net<br>subscriptions<br>(redemptions)<br>(2) | BGI<br>Merger-<br>related<br>outflows <sup>(3)</sup> | Acquisition <sup>(4)</sup> | Market<br>appreciation<br>(depreciation) | Foreign<br>exchange<br>(5) | September 30,<br>2010 |
|------------------------------|-----------------------|----------------------------------------------|------------------------------------------------------|----------------------------|------------------------------------------|----------------------------|-----------------------|
| <b>Equity:</b>               |                       |                                              |                                                      |                            |                                          |                            |                       |
| Index                        | \$ 84,020             | \$ 63,708                                    | (\$ 29,062)                                          | \$ 1,055,736               | \$ 74,793                                | (\$ 3,517)                 | \$ 1,245,678          |
| Active                       | 206,650               | 507                                          | (43,546)                                             | 128,063                    | 26,459                                   | (766)                      | 317,367               |
| <b>Fixed income:</b>         |                       |                                              |                                                      |                            |                                          |                            |                       |
| Index                        | 4,337                 | 60,531                                       | (1,066)                                              | 467,768                    | 23,200                                   | 1,606                      | 556,376               |
| Active                       | 533,129               | (5,190)                                      | (9,715)                                              | 49,491                     | 44,986                                   | (1,120)                    | 611,581               |
| Multi-asset class            | 99,543                | 24,825                                       | (127)                                                | 36,408                     | 10,346                                   | (387)                      | 170,608               |
| Alternative                  | 53,776                | 3,276                                        | (508)                                                | 48,051                     | 867                                      | 280                        | 105,742               |
| <b>Long-term</b>             | <b>981,455</b>        | <b>147,657</b>                               | <b>(84,024)</b>                                      | <b>1,785,517</b>           | <b>180,651</b>                           | <b>(3,904)</b>             | <b>3,007,352</b>      |
| Cash management              | 290,428               | (61,810)                                     | (1,063)                                              | 59,530                     | (430)                                    | (2,945)                    | 283,710               |
| <b>Sub-total</b>             | <b>1,271,883</b>      | <b>85,847</b>                                | <b>(85,087)</b>                                      | <b>1,845,047</b>           | <b>180,221</b>                           | <b>(6,849)</b>             | <b>3,291,062</b>      |
| Advisory <sup>(6)</sup>      | 162,886               | (9,355)                                      |                                                      |                            | 84                                       | 1,389                      | 155,004               |
| <b>Total</b>                 | <b>\$ 1,434,769</b>   | <b>\$ 76,492</b>                             | <b>(\$ 85,087)</b>                                   | <b>\$ 1,845,047</b>        | <b>\$ 180,305</b>                        | <b>(\$ 5,460)</b>          | <b>\$ 3,446,066</b>   |

(1) Data reflects the reclassification of prior period AUM into the current period presentation.

(2) Includes distributions representing return of capital and return on investment to investors.

(3) Includes BGI merger-related outflows due to manager concentration considerations and active quantitative performance.

(4) Includes AUM acquired from Barclays in December 2009 and acquisition adjustments to conform to current period combined AUM policy.

(5) Foreign exchange reflects the impact of converting non-U.S. dollar denominated AUM into U.S. dollars for reporting purposes.

(6) Advisory AUM represents long-term portfolio liquidation assignments.

AUM increased approximately \$2.011 trillion, or 140%, to \$3.446 trillion at September 30, 2010, compared to \$1.435 trillion at September 30, 2009. The growth in AUM primarily was attributable to \$1.845 trillion of acquired AUM in the BGI Transaction, \$148 billion of long-term net subscriptions excluding BGI merger-related outflows and \$180 billion in net market appreciation, partially offset by \$85 billion, or less than 5% of acquired BGI AUM, of total BGI merger-related outflows, \$62 billion of cash management net outflows, \$9 billion of advisory distribution and outflows and \$5 billion in foreign exchange movements. Net market appreciation of \$180 billion included \$68 billion of fixed income products due to current income and changes in interest rate spreads, \$101 billion in equity products due to improvements in global equity markets in fourth quarter 2009 and 2010 and \$10 billion in multi-asset class products.

*Net Subscriptions/(Redemptions)*

## Edgar Filing: BlackRock Inc. - Form 10-Q

Combined net subscriptions of \$76 billion and BGI merger-related outflows of \$85 billion for the twelve months ended September 30, 2010 included net redemptions of \$60 billion from institutional clients, partially offset by net subscriptions of \$42 billion from clients for U.S. and international *iShares* and \$9 billion from retail and high net worth clients.

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**  
***Assets Under Management (continued)***

*Long-term Net Subscriptions/(Redemptions) excluding merger-related outflows*

Net subscriptions in long-term mandates of \$148 billion were primarily the result of net subscriptions of: (a) \$64 billion in index equity products primarily related to institutional and *iShares* clients in regional/country and global equity products, (b) \$61 billion in index fixed income products, related to institutional and *iShares* clients in local currency, U.S. targeted duration, U.S. sector specialty strategies and global index strategies, (c) \$25 billion in multi-asset class products, including global asset allocation and target date solutions, such as the *LifePath* portfolios, and (d) \$3 billion in alternative products, including commodities and currency overlay strategies partially offset by net redemptions of \$5 billion in active fixed income strategies, primarily attributable to U.S. target duration and U.S. core products.

*Cash Management Net Subscriptions/(Redemptions) excluding merger-related outflows*

Cash management net outflows of \$62 billion included \$41 billion, \$20 billion and \$1 billion from institutional clients, retail/high net worth clients and the effect of the reclassification of an exchange traded fund as fixed income, respectively, across prime, tax exempt and government liquidity products.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)*****Operating results for the three months ended September 30, 2010, as compared with the three months ended September 30, 2009***

The three months ended September 30, 2010 included the results of the BGI Transaction, which closed on December 1, 2009. Given the magnitude of the acquired business, certain line item variances are primarily driven by the inclusion of BGI results in 2010.

***Revenue***

| (Dollar amounts in millions)                                                    | Three Months Ended<br>September 30, |                 | Variance      |             |
|---------------------------------------------------------------------------------|-------------------------------------|-----------------|---------------|-------------|
|                                                                                 | 2010                                | 2009            | Amount        | % Change    |
| <b>Investment advisory, administration fees and securities lending revenue:</b> |                                     |                 |               |             |
| Equity:                                                                         |                                     |                 |               |             |
| Index                                                                           | \$ 503                              | \$ 7            | \$ 496        | NM          |
| Active                                                                          | 443                                 | 323             | 120           | 37%         |
| Fixed income:                                                                   |                                     |                 |               |             |
| Index                                                                           | 114                                 |                 | 114           | NM          |
| Active                                                                          | 266                                 | 219             | 47            | 21%         |
| Multi-asset class                                                               | 183                                 | 127             | 56            | 44%         |
| Alternative                                                                     | 156                                 | 90              | 66            | 73%         |
| Cash management                                                                 | 129                                 | 149             | (20)          | (13%)       |
| <b>Total</b>                                                                    | <b>1,794</b>                        | <b>915</b>      | <b>879</b>    | <b>96%</b>  |
| Investment advisory performance fees:                                           |                                     |                 |               |             |
| Equity                                                                          | 12                                  | 3               | 9             | 300%        |
| Fixed income                                                                    | 10                                  | 2               | 8             | 400%        |
| Multi-asset class                                                               | 3                                   | 14              | (11)          | (79%)       |
| Alternative                                                                     | 89                                  | 30              | 59            | 197%        |
| <b>Total</b>                                                                    | <b>114</b>                          | <b>49</b>       | <b>65</b>     | <b>133%</b> |
| <i>BlackRock Solutions</i> and advisory                                         | 101                                 | 122             | (21)          | (17%)       |
| Distribution fees                                                               | 29                                  | 25              | 4             | 16%         |
| Other revenue                                                                   | 54                                  | 29              | 25            | 86%         |
| <b>Total revenue</b>                                                            | <b>\$ 2,092</b>                     | <b>\$ 1,140</b> | <b>\$ 952</b> | <b>84%</b>  |

NM Not Meaningful

Total revenue for the three months ended September 30, 2010 increased \$952 million, or 84%, to \$2,092 million, compared with \$1,140 million for the three months ended September 30, 2009. The \$952 million increase was the result of an \$879 million increase in total investment advisory, administration fees and securities lending revenue, a \$65 million increase in performance fees, a \$25 million increase in other revenue, a \$4 million increase in distribution fees, partially offset by a \$21 million decrease in *BlackRock Solutions* and advisory revenue.



---

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

*Operating results for the three months ended September 30, 2010, as compared with the three months ended September 30, 2009*

*Revenue (continued)*

***Investment Advisory, Administration Fees and Securities Lending Revenue***

The increase in investment advisory, administration fees and securities lending revenues of \$879 million for the three months ended September 30, 2010, compared with the three months ended September 30, 2009 consisted of increases of \$496 million in index equity products, \$120 million in active equity products, \$114 million in index fixed income products, \$47 million in active fixed income products, \$56 million in multi-asset class products and \$66 million in alternative investment products, partially offset by a \$20 million decrease in cash management products. The \$879 million net increase primarily related to fees earned on products acquired in the BGI acquisition as well as organic growth in long-term AUM due to net market appreciation and net new business during the prior twelve month period, partially offset by a decline in fees from cash management products due to lower average AUM.

***Performance Fees***

Investment advisory performance fees increased \$65 million, or 133%, to \$114 million for the three months ended September 30, 2010, as compared to \$49 million for the three months ended September 30, 2009, primarily due to an increase in performance fees from U.K. equity hedge funds, alternative fixed income hedge funds, including opportunistic funds and regional/country equity strategies, partially offset by lower performance fees in multi-asset class separate accounts.

***BlackRock Solutions and Advisory***

*BlackRock Solutions* and advisory revenue for the three months ended September 30, 2010 decreased \$21 million, or 17%, compared with the three months ended September 30, 2009. The decrease in *BlackRock Solutions* and advisory revenue was primarily due to fewer advisory assignments, including portfolio liquidation assignments, which have AUM based fees, partially offset by additional *Aladdin*, risk management solutions and investment accounting mandates.

***Distribution Fees***

Distribution fees of \$29 million for the three months ended September 30, 2010 increased \$4 million, as compared to \$25 million for the three months ended September 30, 2009. The increase included the effect of higher AUM in certain share classes of *BlackRock Funds*.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)***Operating results for the three months ended September 30, 2010, as compared with the three months ended September 30, 2009**Revenue (continued)**Other Revenue*

| (Dollar amounts in millions)                     | Three Months Ended<br>September 30, |              | Variance     |            |
|--------------------------------------------------|-------------------------------------|--------------|--------------|------------|
|                                                  | 2010                                | 2009         | Amount       | % Change   |
| <b>Other revenue:</b>                            |                                     |              |              |            |
| Transition management service fees               | \$ 23                               | \$ 5         | \$ 18        | 360%       |
| Commissions revenue                              | 7                                   | 8            | (1)          | (13%)      |
| iPath® marketing fees <sup>(1)</sup>             | 7                                   |              | 7            | NM         |
| Equity method investment earnings <sup>(2)</sup> | 7                                   | 11           | (4)          | (36%)      |
| Other miscellaneous revenue                      | 10                                  | 5            | 5            | 100%       |
| <b>Total other revenue</b>                       | <b>\$ 54</b>                        | <b>\$ 29</b> | <b>\$ 25</b> | <b>86%</b> |

NM Not Meaningful

<sup>(1)</sup> Related to exchange traded notes issued by Barclays.<sup>(2)</sup> Related to operating and advisory company investments.

Other revenue of \$54 million for the three months ended September 30, 2010 increased \$25 million, or 86%, compared with the three months ended September 30, 2009. The increase in other revenue primarily was the result of an \$18 million increase in fees earned for transition management services due to an increase in transactions to execute transitions of equity mandates and a \$7 million increase in marketing fees earned for services to distribute Barclays iPath products.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)***Operating results for the three months ended September 30, 2010, as compared with the three months ended September 30, 2009 (continued)**Expenses*

| (Dollar amounts in millions)                                                               | Three Months Ended<br>September 30, |        | Variance |          |
|--------------------------------------------------------------------------------------------|-------------------------------------|--------|----------|----------|
|                                                                                            | 2010                                | 2009   | Amount   | % Change |
| <b>Expenses:</b>                                                                           |                                     |        |          |          |
| Employee compensation and benefits                                                         | \$ 774                              | \$ 444 | \$ 330   | 74%      |
| Distribution and servicing costs                                                           | 105                                 | 119    | (14)     | (12%)    |
| Amortization of deferred sales commissions                                                 | 26                                  | 23     | 3        | 13%      |
| Direct fund expenses                                                                       | 124                                 | 15     | 109      | NM       |
| General and administration                                                                 | 316                                 | 146    | 170      | 116%     |
| Amortization of intangible assets                                                          | 40                                  | 36     | 4        | 11%      |
| Total expenses, GAAP                                                                       | \$ 1,385                            | \$ 783 | \$ 602   | 77%      |
| Total expenses, GAAP                                                                       | \$ 1,385                            | \$ 783 | \$ 602   | 77%      |
| Less non-GAAP expense adjustments:                                                         |                                     |        |          |          |
| BGI transaction/integration costs                                                          |                                     |        |          |          |
| Employee compensation and benefits                                                         | 3                                   |        | 3        | NM       |
| General and administration                                                                 | 3                                   | 16     | (13)     | (81%)    |
| Total BGI transaction/integration costs                                                    | 6                                   | 16     | (10)     | (63%)    |
| PNC LTIP funding obligation                                                                | 15                                  | 15     |          | %        |
| Merrill Lynch compensation contribution                                                    | 3                                   | 3      |          | %        |
| Compensation expense related to appreciation (depreciation) on deferred compensation plans | 6                                   | 9      | (3)      | (33%)    |
| Total non-GAAP expense adjustments                                                         | 30                                  | 43     | (13)     | (30%)    |
| Total expenses, as adjusted                                                                | \$ 1,355                            | \$ 740 | \$ 615   | 83%      |

NM Not Meaningful

Total GAAP expenses increased \$602 million, or 77%, to \$1,385 million for the three months ended September 30, 2010, compared to \$783 million for the three months ended September 30, 2009. Excluding certain items deemed non-recurring by management or transactions that ultimately will not affect the Company's book value, total expenses, as adjusted, increased \$615 million, or 83%. The increase in total expenses, as adjusted, primarily is attributable to increases in employee compensation and benefits, general and administration expenses and direct fund expenses, partially offset by a reduction of distribution and servicing costs.



**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)*****Operating results for the three months ended September 30, 2010, as compared with the three months ended September 30, 2009 (continued)******Expenses (continued)******Employee Compensation and Benefits***

| (Dollar amounts in millions)                                                               | Three Months<br>Ended<br>September 30, |        | Variance |          |
|--------------------------------------------------------------------------------------------|----------------------------------------|--------|----------|----------|
|                                                                                            | 2010                                   | 2009   | Amount   | % Change |
| Employee compensation and benefits, GAAP                                                   | \$ 774                                 | \$ 444 | \$ 330   | 74%      |
| Less non-GAAP expense adjustments:                                                         |                                        |        |          |          |
| BGI integration costs                                                                      | 3                                      |        | 3        | NM       |
| PNC LTIP funding obligation                                                                | 15                                     | 15     |          | %        |
| Merrill Lynch compensation contribution                                                    | 3                                      | 3      |          | %        |
| Compensation expense related to appreciation (depreciation) on deferred compensation plans | 6                                      | 9      | (3)      | (33%)    |
| Total non-GAAP expense adjustments                                                         | 27                                     | 27     |          | %        |
| Employee compensation and benefits, as adjusted                                            | \$ 747                                 | \$ 417 | \$ 330   | 79%      |

NM Not Meaningful

Employee compensation and benefits expense increased \$330 million, or 74%, to \$774 million for the three months ended September 30, 2010, compared to \$444 million for the three months ended September 30, 2009.

The \$330 million increase in employee compensation and benefits, as adjusted, was attributable to a \$170 million increase in salaries, benefits, payroll taxes and commissions and a \$160 million increase in incentive compensation. The \$170 million increase in salaries, benefits, payroll taxes and commissions reflects an increase in the number of employees primarily resulting from the BGI Transaction. Employees at September 30, 2010 totaled approximately 8,900 as compared to 5,000 at September 30, 2009. The \$160 million increase in incentive compensation primarily is associated with the increase in operating income after excluding the BGI integration costs and a \$40 million increase in stock-based compensation expense related to the effect of additional grants to a larger number of employees at the end of January 2010.

***Distribution and Servicing Costs***

Distribution and servicing costs decreased \$14 million to \$105 million for the three months ended September 30, 2010, compared to \$119 million for the three months ended September 30, 2009. These costs include payments to Bank of America/Merrill Lynch under a global distribution agreement, PNC and Barclays, as well as other third parties, primarily associated with the distribution and servicing of client

## Edgar Filing: BlackRock Inc. - Form 10-Q

investments in certain BlackRock products. The \$14 million decrease primarily related to lower levels of distribution payments due to lower levels of average cash management AUM, and a decrease of costs due to an increase in advisory fee waivers for certain cash management funds serviced by Merrill Lynch.

Distribution and servicing costs for the three months ended September 30, 2010 included \$65 million of costs attributable to Bank of America/Merrill Lynch and affiliates and \$1 million of costs attributable to PNC and affiliates as compared to \$88 million and \$4 million of costs, respectively, in the three months ended September 30, 2009. Distribution and servicing costs related to other third parties, including Barclays, increased \$12 million to \$39 million for the three months ended September 30, 2010, as compared to \$27 million for the three months ended September 30, 2009 due to an expansion of distribution platforms and higher long term AUM.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)***Operating results for the three months ended September 30, 2010, as compared with the three months ended September 30, 2009 (continued)**Expenses (continued)****Direct Fund Expenses***

Direct fund expenses increased \$109 million primarily related to the addition of legacy BGI funds subject to these arrangements, under which BlackRock pays certain fund expenses.

***General and Administration Expenses***

| (Dollar amounts in millions)                             | Three Months<br>Ended<br>September 30, |               | Variance       |              |
|----------------------------------------------------------|----------------------------------------|---------------|----------------|--------------|
|                                                          | 2010                                   | 2009          | Amount         | % Change     |
| <b>General and administration expenses, GAAP:</b>        |                                        |               |                |              |
| Marketing and promotional                                | \$ 77                                  | \$ 19         | \$ 58          | 305%         |
| Occupancy                                                | 67                                     | 36            | 31             | 86%          |
| Portfolio services                                       | 45                                     | 23            | 22             | 96%          |
| Technology                                               | 37                                     | 27            | 10             | 37%          |
| Professional services                                    | 21                                     | 27            | (6)            | (22%)        |
| Closed-end fund launch costs                             | 15                                     |               | 15             | NM           |
| Other general and administration                         | 54                                     | 14            | 40             | 286%         |
| <b>Total general and administration expenses, GAAP</b>   | <b>\$ 316</b>                          | <b>\$ 146</b> | <b>\$ 170</b>  | <b>116%</b>  |
| Less BGI transaction and integration costs:              |                                        |               |                |              |
| Marketing and promotional                                | \$ 2                                   | \$ 3          | (\$ 1)         | (33%)        |
| Technology                                               |                                        | 1             | (1)            | (100%)       |
| Professional services                                    |                                        | 12            | (12)           | (100%)       |
| Other general and administration                         | 1                                      |               | 1              | NM           |
| <b>Total BGI transaction and integration costs</b>       | <b>\$ 3</b>                            | <b>\$ 16</b>  | <b>(\$ 13)</b> | <b>(81%)</b> |
| <b>General and administration expenses, as adjusted:</b> |                                        |               |                |              |
| Marketing and promotional                                | \$ 75                                  | \$ 16         | \$ 59          | 369%         |
| Occupancy                                                | 67                                     | 36            | 31             | 86%          |
| Portfolio services                                       | 45                                     | 23            | 22             | 96%          |
| Technology                                               | 37                                     | 26            | 11             | 42%          |
| Professional services                                    | 21                                     | 15            | 6              | 40%          |
| Closed-end fund launch costs                             | 15                                     |               | 15             | NM           |

## Edgar Filing: BlackRock Inc. - Form 10-Q

|                                                        |        |        |        |      |
|--------------------------------------------------------|--------|--------|--------|------|
| Other general and administration                       | 53     | 14     | 39     | 279% |
| Total general and administration expenses, as adjusted | \$ 313 | \$ 130 | \$ 183 | 141% |

NM Not Meaningful

### *General and Administration Expenses, GAAP*

General and administration expenses increased \$170 million, or 116%, for the three months ended September 30, 2010 compared with the three months ended September 30, 2009.

---

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

*Operating results for the three months ended September 30, 2010, as compared with the three months ended September 30, 2009 (continued)*

*Expenses (continued)*

*BGI Transaction and Integration Costs*

BGI transaction and integration costs of \$3 million for the three months ended September 30, 2010 decreased \$13 million as compared to the three months ended September 30, 2009 primarily due to advisory costs incurred in third quarter 2009.

*General and Administration Expenses, as Adjusted*

Excluding the BGI transaction and integration expenses, general and administration expenses, as adjusted, increased \$183 million, or 141%, for the three months ended September 30, 2010 compared with the three months ended September 30, 2009.

Marketing and promotional expenses increased \$59 million, primarily due to an increase in global and exchange traded fund marketing expenses, which included travel, promotional, rebranding and advertising expenses. Occupancy costs increased \$31 million primarily related to growth of the Company due to the acquisition of BGI. Portfolio service costs increased \$22 million, or 96%, to \$45 million, primarily due to an increase in market data and research expenses as well as transition management execution and clearing expenses. Closed-end fund launch costs (excluding compensation costs) increased \$15 million as compared with the three months ended September 30, 2009 due to the third quarter 2010 launch of the Build America Bond Trust fund, which generated approximately \$1.2 billion in AUM. Technology expenses increased \$11 million, or 42%, to \$37 million, primarily due to an increase in software licensing and maintenance and hardware depreciation expenses. Professional services increased \$6 million, or 40%, to \$21 million compared to \$15 million for the three months ended September 30, 2009, primarily related to legal and consulting costs as a result of growth of the Company due to the acquisition of BGI. Other general and administration expenses increased \$39 million, to \$53 million compared to \$14 million for the three months ended September 30, 2009, primarily related to increases in foreign currency remeasurement costs of \$10 million, communications and other miscellaneous expenses as a result of growth of the Company due to the acquisition of BGI.

*Amortization of Intangible Assets*

Amortization of intangible assets increased \$4 million to \$40 million for the three months ended September 30, 2010, as compared to \$36 million for the three months ended September 30, 2009. The increase in amortization of intangible assets reflects additional amortization for finite-lived management contracts acquired in the BGI Transaction.

## **Table of Contents**

### **PART I FINANCIAL INFORMATION (continued)**

#### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

##### *Operating results for the three months ended September 30, 2010, as compared with the three months ended September 30, 2009 (continued)*

##### *Operating Income and Operating Margin*

##### **GAAP**

Operating income totaled \$707 million for the three months ended September 30, 2010, which was an increase of \$350 million compared with the three months ended September 30, 2009. Operating income for the three months ended September 30, 2010 included the effect of revenue and expenses related to the December 1, 2009 acquisition of BGI and \$6 million of BGI integration costs as compared to \$16 million of BGI transaction costs for the three months ended September 30, 2009. The transaction/integration expenses are not part of the on-going business and are principally comprised of compensation expense, legal fees, advisory payments, occupancy costs, marketing and promotional and consulting expenses.

The increase in operating income for the three months ended September 30, 2010 included the effect of an \$879 million increase in investment advisory, administration fees and securities lending revenue associated with the acquired BGI AUM and growth in long-term AUM, which included net new business during the prior twelve months, a \$65 million increase in performance fees revenue and a \$29 million increase in distribution fees and other revenue, partially offset by a \$21 million decrease in *BlackRock Solutions* and advisory revenue. The increase in total revenue is partially offset by a \$602 million net increase in operating expenses due to increases in employee compensation and benefits, general and administration expenses, direct fund expenses and amortization of intangible assets, partially offset by a decrease in distribution and servicing costs.

The Company's operating margin was 33.8% for the three months ended September 30, 2010, compared to 31.3% for the three months ended September 30, 2009. The increase in operating margin for the three months ended September 30, 2010, as compared with the three months ended September 30, 2009 included the effect of the BGI Transaction, a decline in BGI transaction and integration costs, partially offset by a \$40 million increase in stock-based compensation related to additional grants to a larger number of employees at the end of January 2010, \$17 million of closed-end fund launch costs/commissions, a \$10 million increase in foreign currency remeasurement costs, as well as increased investments to grow the business.

##### ***As Adjusted***

Operating income, as adjusted, totaled \$737 million for the three months ended September 30, 2010, which was an increase of \$337 million compared with the three months ended September 30, 2009. The increase in operating income, as adjusted, for the three months ended September 30, 2010 as compared with the three months ended September 30, 2009 is related to the effect of the \$952 million increase in total revenue, partially offset by a \$615 million increase in operating expenses, as adjusted, due to increases in employee compensation and benefits, general and administration expenses, direct fund expenses and amortization of intangible assets and deferred sales commissions, partially offset by a decrease in distribution and servicing costs.

Operating margin, as adjusted, was 38.4% and 40.1% for the three months ended September 30, 2010 and 2009, respectively. The decrease in operating margin included the effects of a \$10 million increase in foreign currency remeasurement costs, a \$40 million increase in stock-based compensation related to additional grants to a larger number of employees at the end of January 2010, as well as increased investments to grow the business.

Operating income, as adjusted, and operating margin, as adjusted, are described in more detail in the Overview to Management's Discussion and Analysis of Financial Condition and Results of Operations.



**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****Non-operating results for the three months ended September 30, 2010, as compared with the three months ended September 30, 2009****Non-Operating Income (Expense), Less Net Income (Loss) Attributable to Non-Controlling Interests**

Non-operating income (expense), less net income (loss) attributable to non-controlling interests for the three months ended September 30, 2010 and 2009 was as follows:

| (Dollar amounts in millions)                                                               | Three Months Ended September 30, |       | Variance |          |
|--------------------------------------------------------------------------------------------|----------------------------------|-------|----------|----------|
|                                                                                            | 2010                             | 2009  | Amount   | % Change |
| Non-operating income (expense), GAAP basis                                                 | \$ 78                            | \$ 78 | \$       | %        |
| Less: Net income (loss) attributable to NCI <sup>(1)</sup>                                 | 33                               | 17    | 16       | 94%      |
| Non-operating income (expense) <sup>(2)</sup>                                              | 45                               | 61    | (16)     | (26%)    |
| Compensation expense related to (appreciation) depreciation on deferred compensation plans | (6)                              | (9)   | 3        | 33%      |
| Non-operating income (expense), as adjusted <sup>(2)</sup>                                 | \$ 39                            | \$ 52 | (\$ 13)  | (25%)    |

<sup>(1)</sup> Includes a \$12 million gain attributable to consolidated variable interest entities for the three months ended September 30, 2010.

<sup>(2)</sup> Net of net income (loss) attributable to non-controlling interests.

The components of non-operating income (expense), less net income (loss) attributable to non-controlling interests, for the three months ended September 30, 2010 and 2009 were as follows:

| (Dollar amounts in millions)                       | Three Months Ended September 30, |       | Variance |          |
|----------------------------------------------------|----------------------------------|-------|----------|----------|
|                                                    | 2010                             | 2009  | Amount   | % Change |
| Net gain (loss) on investments <sup>(1)</sup>      |                                  |       |          |          |
| Private equity                                     | \$ 20                            | \$ 13 | \$ 7     | 54%      |
| Real estate                                        | 11                               | (6)   | 17       | NM       |
| Distressed credit/mortgage funds                   | 25                               | 47    | (22)     | (47%)    |
| Hedge funds/funds of hedge funds                   | 4                                | 7     | (3)      | (43%)    |
| Other investments <sup>(2)</sup>                   | 6                                | 2     | 4        | 200%     |
| Sub-total                                          | 66                               | 63    | 3        | 5%       |
| Investments related to deferred compensation plans | 6                                | 9     | (3)      | (33%)    |
| Total net gain (loss) on investments               | 72                               | 72    |          | %        |
| Interest and dividend income                       | 10                               | 4     | 6        | 150%     |

## Edgar Filing: BlackRock Inc. - Form 10-Q

|                                                                                            |       |       |         |       |
|--------------------------------------------------------------------------------------------|-------|-------|---------|-------|
| Interest expense                                                                           | (37)  | (15)  | (22)    | 147%  |
| Net interest expense                                                                       | (27)  | (11)  | (16)    | 145%  |
| Total non-operating income (expense) <sup>(1)</sup>                                        | 45    | 61    | (16)    | (26%) |
| Compensation expense related to (appreciation) depreciation on deferred compensation plans | (6)   | (9)   | 3       | 33%   |
| Non-operating income (expense), as adjusted <sup>(1)</sup>                                 | \$ 39 | \$ 52 | (\$ 13) | (25%) |

NM Not Meaningful

<sup>(1)</sup> Net of net income (loss) attributable to non-controlling interests.

<sup>(2)</sup> Includes net gains / (losses) related to equity and fixed income investments and BlackRock's seed capital hedging program.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)*****Non-operating results for the three months ended September 30, 2010, as compared with the three months ended September 30, 2009 (continued)******Non-Operating Income (Expense), Less Net Income (Loss) Attributable to Non-Controlling Interests (continued)***

Non-operating income, less net income (loss) attributable to non-controlling interests, decreased \$16 million to \$45 million for the three months ended September 30, 2010, as compared to \$61 million for the three months ended September 30, 2009 due to an increase in net interest expense. The \$45 million non-operating income, net of non-controlling interests for the three months ended September 30, 2010, was comprised of \$66 million of net gains primarily on co-investments and \$6 million of appreciation related to hedges of deferred compensation, partially offset by \$27 million of net interest expense.

The \$66 million net gain on investments included net gains in distressed credit/mortgage funds of \$25 million, private equity investments of \$20 million, real estate equity/debt products of \$11 million, hedge funds/funds of hedge funds of \$4 million and other investments of \$6 million.

Net interest expense of \$27 million increased \$16 million primarily due to an increase in interest expense related to the December 2009 issuances of \$2.5 billion of long-term notes, partially offset by higher dividend income related to a regulatory investment.

***Net Economic Investment Portfolio***

The Company presents total net economic investments to enable investors to understand the portion of its investments that are owned by the Company, net of non-controlling interests, as a gauge to measure the impact of changes in net non-operating gain (loss) on investments to net income (loss) attributable to BlackRock, Inc. The Company further presents the total net economic investment exposure, net of deferred compensation investments and hedged investments, to reflect another gauge for investors as the economic impact of investments held pursuant to deferred compensation arrangements is substantially offset by a change in compensation expense and the impact of hedged investments is substantially mitigated by total return swap hedges. Finally, the Company's regulatory investment in Federal Reserve Bank stock which is not subject to market or interest rate risk is excluded from the Company's net economic investment exposure.

Changes in the investment portfolio are due to purchases, sales, maturities and distributions as well as the impact of valuations. The following table represents the carrying value of investments, by asset type, at September 30, 2010 and December 31, 2009:

| (Dollar amounts in millions)           | September 30, | December 31, | Variance |          |
|----------------------------------------|---------------|--------------|----------|----------|
|                                        | 2010          | 2009         | Amount   | % Change |
| Private equity                         | \$ 262        | \$ 236       | \$ 26    | 11%      |
| Real estate                            | 70            | 44           | 26       | 59%      |
| Distressed credit/mortgage funds       | 253           | 197          | 56       | 28%      |
| Hedge funds/funds of hedge funds       | 112           | 108          | 4        | 4%       |
| Other investments <sup>(1)</sup>       | 242           | 142          | 100      | 70%      |
| Total net economic investment exposure | 939           | 727          | 212      | 29%      |
| Federal Reserve Bank stock             | 325           | 10           | 315      | NM       |
| Deferred compensation investments      | 71            | 71           |          | %        |
| Hedged investments                     | 24            | 36           | (12)     | (33%)    |

## Edgar Filing: BlackRock Inc. - Form 10-Q

|                                |          |        |        |     |
|--------------------------------|----------|--------|--------|-----|
| Total net economic investments | \$ 1,359 | \$ 844 | \$ 515 | 61% |
|--------------------------------|----------|--------|--------|-----|

NM Not Meaningful

- <sup>(1)</sup> Other investments primarily include seed investments in fixed income and equity funds as well as foreign government securities held for regulatory purposes.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

*Non-operating results for the three months ended September 30, 2010, as compared with the three months ended September 30, 2009 (continued)*

*Net Economic Investment Portfolio (continued)**Fair Value Measurements*

BlackRock reports its investments on a GAAP basis, which includes investments that are owned by sponsored investment funds that are deemed to be controlled by BlackRock in accordance with GAAP and therefore consolidated even though BlackRock may not own the majority of any such funds. As a result, management reviews its investments on an economic basis, which eliminates the portion of investments that do not impact BlackRock's book value. BlackRock's management does not advocate that investors consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP.

The following table represents investments measured at fair value on a recurring basis at September 30, 2010:

|                                                                                 | Quoted Prices<br>in Active<br>Markets<br>for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Other<br>Investments<br>Not Held at<br>Fair Value <sup>(3)</sup> | Investments at<br>September<br>30,<br>2010 |
|---------------------------------------------------------------------------------|-------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|------------------------------------------------------------------|--------------------------------------------|
| <b>(Dollar amounts in millions)</b>                                             |                                                                               |                                                           |                                                    |                                                                  |                                            |
| Total investments, GAAP                                                         | \$ 151                                                                        | \$ 190                                                    | \$ 727                                             | \$ 444                                                           | \$ 1,512                                   |
| Net assets for which the Company does not bear economic exposure <sup>(1)</sup> | (10)                                                                          | (13)                                                      | (130)                                              |                                                                  | (153)                                      |
| Net economic investments                                                        | \$ 141                                                                        | \$ 177                                                    | \$ 597                                             | \$ 444                                                           | \$ 1,359                                   |

<sup>(1)</sup> Consists of net assets attributable to non-controlling investors of consolidated non-VIE sponsored investment funds.

<sup>(2)</sup> Includes BlackRock's portion of cash and cash equivalents, other assets, accounts payable and accrued liabilities, and other liabilities that are consolidated from non-VIE sponsored investment funds.

<sup>(3)</sup> Comprised of investments held at cost, amortized cost and equity method investments, which include investment companies, and other assets which in accordance with GAAP are not accounted for under a fair value measure. In accordance with GAAP, certain equity method investees do not account for both their financial assets and financial liabilities under fair value measures, therefore, the Company's investment in such equity method investees may not represent fair value.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

*Non-operating results for the three months ended September 30, 2010, as compared with the three months ended September 30, 2009 (continued)*

*Income Tax Expense*

|                                           | Three Months<br>Ended<br>September 30, |        |             | Three Months Ended<br>September 30, |             |             |
|-------------------------------------------|----------------------------------------|--------|-------------|-------------------------------------|-------------|-------------|
|                                           | 2010                                   | 2009   |             | 2010                                | 2009        |             |
| (Dollar amounts in millions)              | GAAP                                   | GAAP   | %<br>Change | As adjusted                         | As adjusted | %<br>Change |
| Income before income taxes <sup>(1)</sup> | \$ 752                                 | \$ 418 | 80%         | \$ 776                              | \$ 452      | 72%         |
| Income tax expense                        | \$ 201                                 | \$ 101 | 99%         | \$ 239                              | \$ 159      | 50%         |
| Effective tax rate                        | 26.7%                                  | 24.2%  |             | 30.8%                               | 35.2%       |             |

<sup>(1)</sup> Net of net income (loss) attributable to non-controlling interests.

Income tax expense increased \$100 million in the three months ended September 30, 2010 as compared to the three months ended September 30, 2009. The effective income tax rates for the three months ended September 30, 2010 and 2009 were 26.7% and 24.2%, respectively.

The three months ended September 30, 2010 included the effect of third quarter 2010 tax legislation enacted in the United Kingdom, which resulted in approximately a \$30 million tax benefit revaluation of certain net deferred tax liabilities primarily related to acquired intangible assets, which has been excluded from net income attributable to BlackRock, Inc., as adjusted, as it was a non-recurring enacted tax legislation change that does not have a cash flow impact and to ensure comparability of this information to prior reporting periods. In addition, the three months ended September 30, 2010 included the effect of favorable tax rulings, a portion of which is attributable to the first half of 2010, and the resolution of certain outstanding tax positions in third quarter 2010.

The three months ended September 30, 2009 included the effect of third quarter 2009 legislation enacted primarily with respect to New York City corporate income taxes, effective January 1, 2009, which resulted in approximately a \$45 million revaluation of net deferred tax liabilities primarily related to acquired intangible assets, which has been excluded from net income attributable to BlackRock, Inc., as adjusted, as it was a non-recurring enacted tax legislation change that does not have a cash flow impact and to ensure comparability of this information to prior reporting periods.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)***Operating results for the three months ended September 30, 2010, as compared with the three months ended September 30, 2009 (continued)**Net Income Attributable to BlackRock, Inc.*

The components of net income attributable to BlackRock, Inc. and net income attributable to BlackRock, Inc., as adjusted, for the three months ended September 30, 2010 and 2009 are as follows:

|                                                                   | Three Months Ended<br>September 30, |               |                     | Three Months Ended<br>September 30, |                    |                     |
|-------------------------------------------------------------------|-------------------------------------|---------------|---------------------|-------------------------------------|--------------------|---------------------|
|                                                                   | 2010                                | 2009          |                     | 2010                                | 2009               |                     |
| <b>(Dollar amounts in millions, except per share data)</b>        | <b>GAAP</b>                         | <b>GAAP</b>   | <b>%<br/>Change</b> | <b>As adjusted</b>                  | <b>As adjusted</b> | <b>%<br/>Change</b> |
| Operating income                                                  | \$ 707                              | \$ 357        | 98%                 | \$ 737                              | \$ 400             | 84%                 |
| Non-operating income <sup>(1)</sup>                               | 45                                  | 61            | (26%)               | 39                                  | 52                 | (25%)               |
| Income tax expense                                                | (201)                               | (101)         | 99%                 | (239)                               | (159)              | 50%                 |
| Net income attributable to BlackRock, Inc.                        | \$ 551                              | \$ 317        | 74%                 | \$ 537                              | \$ 293             | 83%                 |
| Allocation of net income attributable to BlackRock, Inc.:         |                                     |               |                     |                                     |                    |                     |
| Common shares                                                     | \$ 544                              | \$ 308        | 77%                 | \$ 530                              | \$ 285             | 86%                 |
| Participating RSUs                                                | 7                                   | 9             | (22%)               | 7                                   | 8                  | (13%)               |
| <b>Net income attributable to BlackRock, Inc.</b>                 | <b>\$ 551</b>                       | <b>\$ 317</b> | <b>74%</b>          | <b>\$ 537</b>                       | <b>\$ 293</b>      | <b>83%</b>          |
| Diluted weighted-average common shares outstanding <sup>(2)</sup> | 192,326,841                         | 135,902,241   | 42%                 | 192,326,841                         | 135,902,241        | 42%                 |
| Components of diluted earnings per common share                   |                                     |               |                     |                                     |                    |                     |
| Operating income                                                  | \$ 2.52                             | \$ 1.66       | 52%                 | \$ 2.61                             | \$ 1.86            | 40%                 |
| Non-operating income <sup>(1)</sup>                               | 0.16                                | 0.28          | (43%)               | 0.14                                | 0.24               | (42%)               |
| Income tax benefit                                                | 0.15                                | 0.33          | (55%)               |                                     |                    | %                   |
| Diluted earnings per common share                                 | \$ 2.83                             | \$ 2.27       | 25%                 | \$ 2.75                             | \$ 2.10            | 31%                 |

NM Not Meaningful

<sup>(1)</sup> Net of net income (loss) attributable to non-controlling interests (redeemable and nonredeemable).

<sup>(2)</sup>

## Edgar Filing: BlackRock Inc. - Form 10-Q

Series B and C, non-voting participating preferred stock are considered to be common stock equivalents for purposes of determining basic and diluted earnings per share calculations. Certain unvested RSUs are not included in this number as they are deemed participating securities in accordance with ASC 260-10.

### **GAAP**

Net income attributable to BlackRock, Inc. for the three months ended September 30, 2010 included operating income of \$707 million, or \$2.52 per diluted common share, non-operating income, less net income attributable to non-controlling interests, of \$45 million, or \$0.16 per diluted common share and an income tax benefit of \$30 million, or \$0.15 per diluted common share due to tax legislation enacted in the United Kingdom. Net income attributable to BlackRock, Inc. totaled \$551 million, or \$2.83 per diluted common share, for the three months ended September 30, 2010, which was an increase of \$234 million, or \$0.56 per diluted common share, compared with the three months ended September 30, 2009. The \$2.27 earnings per diluted common share in the three months ended September 30, 2009 included the effect of \$45 million, or \$0.33 per diluted common share, of tax benefits related to a non-cash reduction in income tax expense as a result of enacted legislation primarily with respect to New York City corporate income taxes during the three months ended September 30, 2009.

---

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

*Operating results for the three months ended September 30, 2010, as compared with the three months ended September 30, 2009 (continued)*

*Net Income Attributable to BlackRock, Inc. (continued)*

Net income attributable to BlackRock, Inc. of \$551 million for the three months ended September 30, 2010 included the after-tax effect of the portion of certain LTIP awards, which will be funded through a capital contribution of BlackRock stock held by PNC of \$10 million, the after-tax effect of the BGI integration costs of \$4 million and certain compensation for former MLIM employees of \$2 million to be funded through a cash contribution by Merrill Lynch, a portion of which was received by BlackRock in third quarter 2010. Net income for the three months ended September 30, 2010 included a \$30 million decrease in income taxes related to tax legislation enacted in the United Kingdom, which resulted in a revaluation of certain net deferred tax liabilities primarily related to acquired intangible assets. In addition, net income included the effect of favorable tax rulings, a portion of which is attributable to the first half of 2010, and the resolution of certain outstanding tax positions.

Net income attributable to BlackRock, Inc. of \$317 million for the three months ended September 30, 2009 included the after-tax effect of the portion of certain LTIP awards, which will be funded through a capital contribution of BlackRock stock held by PNC of \$9 million, BGI transaction/integration cost of \$11 million and certain compensation for former MLIM employees of \$1 million to be funded through a cash contribution by Merrill Lynch, a portion of which was received by BlackRock in third quarter 2009. In addition, net income for the three months ended September 30, 2009 included a \$45 million non-cash reduction in income tax expense as a result of enacted legislation primarily with respect to New York City corporate income taxes, which resulted in a revaluation of certain net deferred tax liabilities.

***As Adjusted***

Exclusive of the items discussed above, diluted earnings per common share, as adjusted, of \$2.75 for the three months ended September 30, 2010 increased \$0.65, or 31%, compared to the three months ended September 30, 2009.

Net income attributable to BlackRock, Inc., as adjusted, for the three months ended September 30, 2010 included operating income of \$737 million, or \$2.61 per diluted common share and non-operating income, less net income attributable to non-controlling interests, of \$39 million, or \$0.14 per diluted common share. Net income of \$293 million or \$2.10 per diluted common share attributable to BlackRock, Inc., as adjusted, for the three months ended September 30, 2009 included operating income of \$400 million, or \$1.86 per diluted common share and non-operating income, less net income attributable to non-controlling interests, of \$52 million, or \$0.24 per diluted common share. Diluted earnings per common share, as adjusted, is described in more detail in the Overview to Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)*****Operating results for the nine months ended September 30, 2010, as compared with the nine months ended September 30, 2009***

The nine months ended September 30, 2010 included the results of the BGI Transaction, which closed on December 1, 2009. Given the magnitude of the acquired business, certain line item variances are driven primarily by the inclusion of BGI results in 2010.

***Revenue***

| (Dollar amounts in millions)                                                    | Nine Months Ended<br>September 30, |                 | Variance        |             |
|---------------------------------------------------------------------------------|------------------------------------|-----------------|-----------------|-------------|
|                                                                                 | 2010                               | 2009            | Amount          | % Change    |
| <b>Investment advisory, administration fees and securities lending revenue:</b> |                                    |                 |                 |             |
| Equity:                                                                         |                                    |                 |                 |             |
| Index                                                                           | \$ 1,513                           | \$ 18           | \$ 1,495        | NM          |
| Active                                                                          | 1,364                              | 832             | 532             | 64%         |
| Fixed income:                                                                   |                                    |                 |                 |             |
| Index                                                                           | 309                                | 1               | 308             | NM          |
| Active                                                                          | 777                                | 619             | 158             | 26%         |
| Multi-asset class                                                               | 524                                | 331             | 193             | 58%         |
| Alternatives                                                                    | 465                                | 281             | 184             | 65%         |
| Cash management                                                                 | 387                                | 490             | (103)           | (21%)       |
| <b>Total</b>                                                                    | <b>5,339</b>                       | <b>2,572</b>    | <b>2,767</b>    | <b>108%</b> |
| Investment advisory performance fees:                                           |                                    |                 |                 |             |
| Equity                                                                          | 35                                 | 10              | 25              | 250%        |
| Fixed income                                                                    | 32                                 | 10              | 22              | 220%        |
| Multi-asset class                                                               | 6                                  | 15              | (9)             | (60%)       |
| Alternative                                                                     | 141                                | 42              | 99              | 236%        |
| <b>Total</b>                                                                    | <b>214</b>                         | <b>77</b>       | <b>137</b>      | <b>178%</b> |
| <i>BlackRock Solutions</i> and advisory                                         | 328                                | 369             | (41)            | (11%)       |
| Distribution fees                                                               | 89                                 | 73              | 16              | 22%         |
| Other revenue                                                                   | 149                                | 65              | 84              | 129%        |
| <b>Total revenue</b>                                                            | <b>\$ 6,119</b>                    | <b>\$ 3,156</b> | <b>\$ 2,963</b> | <b>94%</b>  |

NM Not Meaningful

Total revenue for the nine months ended September 30, 2010 increased \$2,963 million, or 94%, to \$6,119 million, compared to \$3,156 million for the nine months ended September 30, 2009. The \$2,963 million increase was the result of a \$2,767 million increase in total investment advisory, administration fees and securities lending revenue, a \$137 million increase in performance fees, an \$84 million increase in other revenue and a \$16 million increase in distribution fees, partially offset by a \$41 million decrease in *BlackRock Solutions* and advisory revenue.



---

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

*Operating results for the nine months ended September 30, 2010, as compared with the nine months ended September 30, 2009 (continued)*

*Revenue (continued)*

***Investment Advisory, Administration Fees and Securities Lending Revenue***

Investment advisory, administration fees and securities lending revenues increased \$2,767 million to \$5,339 million for the nine months ended September 30, 2010, compared to \$2,572 million for the nine months ended September 30, 2009. The increase was attributable to an increase in revenue of \$1,495 million in index equity products, \$532 million in active equity products, \$308 million in index fixed income products, \$158 million in active fixed income products, \$193 million in multi-asset class products and \$184 million in alternative investment products, partially offset by a \$103 million decrease in cash management products. The \$2,767 million net increase primarily related to fees earned on products acquired in the BGI acquisition as well as organic growth in long-term AUM due to market appreciation and net new business during the prior twelve months and an increase in volume of lent securities, partially offset by the effect of lower average AUM in cash management products.

***Performance Fees***

Investment advisory performance fees increased \$137 million, or 178%, to \$214 million for the nine months ended September 30, 2010, as compared to \$77 million for the nine months ended September 30, 2009, primarily due to an increase in performance fees from fixed income hedge funds, including opportunistic funds, U.K. equity hedge funds, regional/country equity strategies and U.S. core and local currency fixed income products, partially offset by lower performance fees in multi-asset class separate accounts and real estate products.

***BlackRock Solutions and Advisory***

*BlackRock Solutions* and advisory revenue for the nine months ended September 30, 2010 decreased \$41 million, or 11%, compared with the nine months ended September 30, 2009. The decrease in *BlackRock Solutions* and advisory revenue was primarily due to a decline in non-recurring advisory assignments, as well as the effect of a decline in advisory AUM due to distributions in portfolio liquidation assignments, which have AUM based fees, partially offset by additional *Aladdin*, risk management solutions and investment accounting mandates. Revenue earned on advisory assignments was comprised of advisory and portfolio structuring assignment fees and ongoing fees based on AUM of the respective portfolio assignments.

***Distribution Fees***

Distribution fees of \$89 million for the nine months ended September 30, 2010 increased \$16 million, as compared to \$73 million for the nine months ended September 30, 2009. The increase primarily is the result of higher AUM in certain share classes of *BlackRock Funds*.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)*****Operating results for the nine months ended September 30, 2010, as compared with the nine months ended September 30, 2009 (continued)******Revenue (continued)******Other Revenue***

| (Dollar amounts in millions)                     | Nine Months Ended<br>September 30, |              | Variance     |             |
|--------------------------------------------------|------------------------------------|--------------|--------------|-------------|
|                                                  | 2010                               | 2009         | Amount       | % Change    |
| <b>Other revenue:</b>                            |                                    |              |              |             |
| Transition management service fees               | \$ 51                              | \$ 15        | \$ 36        | 240%        |
| Commissions revenue                              | 26                                 | 19           | 7            | 37%         |
| iPath marketing fees <sup>(1)</sup>              | 19                                 |              | 19           | NM          |
| Equity method investment earnings <sup>(2)</sup> | 18                                 | 13           | 5            | 38%         |
| Other miscellaneous revenue                      | 35                                 | 18           | 17           | 94%         |
| <b>Total other revenue</b>                       | <b>\$ 149</b>                      | <b>\$ 65</b> | <b>\$ 84</b> | <b>129%</b> |

NM Not Meaningful

<sup>(1)</sup> Related to exchange traded notes issued by Barclays.<sup>(2)</sup> Related to operating and advisory company investments.

Other revenue of \$149 million for the nine months ended September 30, 2010 increased \$84 million, or 129%, compared with the nine months ended September 30, 2009. The increase in other revenue was primarily the result of a \$36 million increase in fees earned for transition management services due to an increase in transactions to execute transitions of equity mandates, a \$19 million increase in marketing fees earned for services to distribute Barclays iPath products, \$10 million increase for custody fees earned on *LifePath* products and a \$7 million increase in commissions revenue as a result of unit trust and open-end mutual fund class A sales commissions.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)***Operating results for the nine months ended September 30, 2010, as compared with the nine months ended September 30, 2009 (continued)**Expenses*

| (Dollar amounts in millions)                                                               | Nine Months Ended<br>September 30, |                 | Variance        |             |
|--------------------------------------------------------------------------------------------|------------------------------------|-----------------|-----------------|-------------|
|                                                                                            | 2010                               | 2009            | Amount          | %<br>Change |
| <b>Expenses:</b>                                                                           |                                    |                 |                 |             |
| Employee compensation and benefits                                                         | \$ 2,256                           | \$ 1,185        | \$ 1,071        | 90%         |
| Distribution and servicing costs                                                           | 302                                | 371             | (69)            | (19%)       |
| Amortization of deferred sales commissions                                                 | 79                                 | 76              | 3               | 4%          |
| Direct fund expenses                                                                       | 359                                | 43              | 316             | NM          |
| General and administration                                                                 | 945                                | 462             | 483             | 105%        |
| Restructuring charges                                                                      |                                    | 22              | (22)            | (100%)      |
| Amortization of intangible assets                                                          | 120                                | 108             | 12              | 11%         |
| <b>Total expenses, GAAP</b>                                                                | <b>\$ 4,061</b>                    | <b>\$ 2,267</b> | <b>\$ 1,794</b> | <b>79%</b>  |
| <b>Total expenses, GAAP</b>                                                                | <b>\$ 4,061</b>                    | <b>\$ 2,267</b> | <b>\$ 1,794</b> | <b>79%</b>  |
| <b>Less non-GAAP expense adjustments:</b>                                                  |                                    |                 |                 |             |
| BGI transaction/integration costs                                                          |                                    |                 |                 |             |
| Employee compensation and benefits                                                         | 25                                 |                 | 25              | NM          |
| General and administration                                                                 | 65                                 | 31              | 34              | 110%        |
| <b>Total BGI transaction/integration costs</b>                                             | <b>90</b>                          | <b>31</b>       | <b>59</b>       | <b>190%</b> |
| PNC LTIP funding obligation                                                                | 44                                 | 45              | (1)             | (2%)        |
| Merrill Lynch compensation contribution                                                    | 8                                  | 8               |                 | %           |
| Restructuring charges                                                                      |                                    | 22              | (22)            | (100%)      |
| Compensation expense related to appreciation (depreciation) on deferred compensation plans | 5                                  | 14              | (9)             | (64%)       |
| <b>Total non-GAAP expense adjustments</b>                                                  | <b>147</b>                         | <b>120</b>      | <b>27</b>       | <b>23%</b>  |
| <b>Total expenses, as adjusted</b>                                                         | <b>\$ 3,914</b>                    | <b>\$ 2,147</b> | <b>\$ 1,767</b> | <b>82%</b>  |

NM Not Meaningful

## Edgar Filing: BlackRock Inc. - Form 10-Q

Total GAAP expenses increased \$1,794 million, or 79%, to \$4,061 million for the nine months ended September 30, 2010, compared to \$2,267 million for the nine months ended September 30, 2009. Excluding certain items deemed non-recurring by management or transactions that ultimately will not affect the Company's book value, total expenses, as adjusted, increased \$1,767 million, or 82%. The increase in total expenses, as adjusted, is primarily attributable to increases in employee compensation and benefits, general and administration expenses and direct fund expenses, partially offset by a reduction of distribution and servicing costs.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)***Operating results for the nine months ended September 30, 2010, as compared with the nine months ended September 30, 2009 (continued)**Expenses (continued)****Employee Compensation and Benefits***

| (Dollar amounts in millions)                                                               | Nine Months Ended<br>September 30, |          | Variance |          |
|--------------------------------------------------------------------------------------------|------------------------------------|----------|----------|----------|
|                                                                                            | 2010                               | 2009     | Amount   | % Change |
| Employee compensation and benefits, GAAP expenses:                                         | \$ 2,256                           | \$ 1,185 | \$ 1,071 | 90%      |
| Less non-GAAP expense adjustments:                                                         |                                    |          |          |          |
| BGI integration costs                                                                      | 25                                 |          | 25       | NM       |
| PNC LTIP funding obligation                                                                | 44                                 | 45       | (1)      | (2%)     |
| Merrill Lynch compensation contribution                                                    | 8                                  | 8        |          | %        |
| Compensation expense related to appreciation (depreciation) on deferred compensation plans | 5                                  | 14       | (9)      | (64%)    |
| Total non-GAAP expense adjustments                                                         | 82                                 | 67       | 15       | 22%      |
| Employee compensation and benefits, as adjusted                                            | \$ 2,174                           | \$ 1,118 | \$ 1,056 | 94%      |

NM Not Meaningful

Employee compensation and benefits expense increased \$1,071 million, or 90%, to \$2,256 million, for the nine months ended September 30, 2010, compared to \$1,185 million for the nine months ended September 30, 2009.

Employee compensation and benefits, as adjusted, increased by \$1,056 million after excluding the increase of \$15 million of non-GAAP adjustments primarily related to an increase in BGI integration costs. The \$1,056 million increase in employee compensation and benefits expense for the nine months ended September 30, 2010 was attributable to a \$497 million increase in salaries, benefits, payroll taxes, temporary help and commissions and a \$559 million increase in incentive compensation. The increase in incentive compensation is primarily associated with the increase in operating income after excluding the BGI integration costs, a \$107 million increase in stock-based compensation expense related to the effect of additional grants to a larger number of employees at the end of January 2010, offset by a \$6 million decrease in other deferred compensation. The \$497 million increase in salaries, benefits, payroll taxes and commissions reflects an increase in the number of employees primarily resulting from the BGI Transaction. Employees at September 30, 2010 totaled approximately 8,900 as compared to 5,000 at September 30, 2009.

***Distribution and Servicing Costs***

## Edgar Filing: BlackRock Inc. - Form 10-Q

Distribution and servicing costs decreased \$69 million to \$302 million for the nine months ended September 30, 2010, compared to \$371 million for the nine months ended September 30, 2009. These costs include payments to Bank of America/Merrill Lynch under a global distribution agreement, PNC and Barclays, as well as other third parties, primarily associated with the distribution and servicing of client investments in certain BlackRock products. The \$69 million decrease primarily related to lower levels of distribution payments due to lower levels of average cash management AUM and a decrease of costs due to an increase in advisory fee waivers for certain cash management funds serviced by Merrill Lynch.

Distribution and servicing costs for the nine months ended September 30, 2010 included \$183 million of costs attributable to Bank of America/Merrill Lynch and affiliates, and \$10 million of costs attributable to PNC and affiliates as compared to \$277 million, and \$14 million, respectively, in the nine months ended September 30, 2009. Distribution and servicing costs related to other third parties, including Barclays, increased \$29 million to \$109 million for the nine months ended September 30, 2010, as compared to \$80 million for the nine months ended September 30, 2009 due to an expansion of distribution platforms and higher long-term AUM.

### ***Direct Fund Expenses***

Direct fund expenses increased \$316 million primarily related to the addition of legacy BGI funds subject to these arrangements under which BlackRock pays certain fund expenses.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)***Operating results for the nine months ended September 30, 2010, as compared with the nine months ended September 30, 2009 (continued)**Expenses (continued)**General and Administration Expenses*

| (Dollar amounts in millions)                             | Nine Months Ended<br>September 30, |        | Variance |          |
|----------------------------------------------------------|------------------------------------|--------|----------|----------|
|                                                          | 2010                               | 2009   | Amount   | % Change |
| <b>General and administration expenses, GAAP:</b>        |                                    |        |          |          |
| Marketing and promotional                                | \$ 238                             | \$ 51  | \$ 187   | 367%     |
| Occupancy                                                | 219                                | 107    | 112      | 105%     |
| Portfolio services                                       | 129                                | 70     | 59       | 84%      |
| Technology                                               | 116                                | 78     | 38       | 49%      |
| Professional services                                    | 81                                 | 68     | 13       | 19%      |
| Closed-end fund launch costs                             | 15                                 | 2      | 13       | NM       |
| Other general and administration                         | 147                                | 86     | 61       | 71%      |
| Total general and administration expenses, GAAP          | \$ 945                             | \$ 462 | \$ 483   | 105%     |
| Less BGI transaction and integration costs:              |                                    |        |          |          |
| Marketing and promotional                                | \$ 32                              | \$ 3   | \$ 29    | NM       |
| Occupancy                                                | 11                                 |        | 11       | NM       |
| Technology                                               | 2                                  | 1      | 1        | 100%     |
| Professional services                                    | 14                                 | 27     | (13)     | (48%)    |
| Other general and administration                         | 6                                  |        | 6        | NM       |
| Total BGI transaction and integration costs              | \$ 65                              | \$ 31  | \$ 34    | 110%     |
| <b>General and administration expenses, as adjusted:</b> |                                    |        |          |          |
| Marketing and promotional                                | \$ 206                             | \$ 48  | \$ 158   | 329%     |
| Occupancy                                                | 208                                | 107    | 101      | 94%      |
| Portfolio services                                       | 129                                | 70     | 59       | 84%      |
| Technology                                               | 114                                | 77     | 37       | 48%      |
| Professional services                                    | 67                                 | 41     | 26       | 63%      |
| Closed-end fund launch costs                             | 15                                 | 2      | 13       | NM       |
| Other general and administration                         | 141                                | 86     | 55       | 64%      |
| Total general and administration expenses, as adjusted   | \$ 880                             | \$ 431 | \$ 449   | 104%     |

*General and Administration Expenses, GAAP*

General and administration expenses increased \$483 million, or 105%, to \$945 million, for the nine months ended September 30, 2010 compared to \$462 million for the nine months ended September 30, 2009.

*BGI Transaction and Integration Costs*

BGI transaction and integration costs of \$65 million for the nine months ended September 30, 2010 increased \$34 million as compared to the nine months ended September 30, 2009 as a significant amount of costs were incurred post the BGI acquisition, which occurred on December 1, 2009.

## **Table of Contents**

### **PART I FINANCIAL INFORMATION (continued)**

#### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

##### *Operating results for the nine months ended September 30, 2010, as compared with the nine months ended September 30, 2009 (continued)*

##### *Expenses (continued)*

##### *General and Administration Expenses, as Adjusted*

Excluding the BGI transaction and integration expenses, general and administration expenses, as adjusted of \$880 million, increased \$449 million, or 104%, for the nine months ended September 30, 2010 compared with \$431 million for the nine months ended September 30, 2009.

Marketing and promotional expenses increased \$158 million, primarily due to an increase in global and exchange traded fund marketing expenses, which included travel, promotional and rebranding and advertising expenses. Occupancy increased \$101 million primarily related to the expansion of the Company and an increase in lease impairments as a result of vacating certain locations in the nine months ended September 30, 2010. Portfolio service costs increased \$59 million, or 84%, to \$129 million, due to an increase in market data and research expenses as well as transition management execution and clearing expenses. Technology expenses increased \$37 million, or 48%, to \$114 million, primarily due to an increase in software licensing and maintenance and hardware depreciation expenses. Professional services increased \$26 million, or 63%, to \$67 million compared to \$41 million for the nine months ended September 30, 2009 primarily related to consulting, accounting/tax and legal costs. Closed-end fund launch costs (excluding compensation costs) increased \$13 million as compared to the nine months ended September 30, 2009 due to the Build America Bond Trust fund, which launched during the nine months ended September 30, 2010 and generated approximately \$1.2 billion in AUM. Other general and administration expenses increased \$55 million, or 64%, to \$141 million compared to \$86 million for the nine months ended September 30, 2009, primarily related to increases in communication, VAT, regulatory filing and license fees, other office related costs and other miscellaneous expenses, partially offset by a \$17 million change in foreign currency remeasurement costs/benefits from \$13 million of costs in the nine months ended September 30, 2009 to a \$4 million benefit in the nine months ended September 30, 2010 and a \$10 million decline in an expense for a potentially uncollectible receivable recorded in 2009.

##### *Restructuring Charges*

For the nine months ended September 30, 2009, BlackRock recorded pre-tax restructuring charges of \$22 million, primarily related to severance, outplacement costs, occupancy costs and accelerated amortization of certain previously granted stock awards associated with a reduction in work force and reengineering efforts.

##### *Amortization of Intangible Assets*

Amortization of intangible assets increased \$12 million to \$120 million for the nine months ended September 30, 2010, as compared to \$108 million for the nine months ended September 30, 2009. The increase in amortization of intangible assets reflects amortization of finite-lived management contracts acquired in the BGI Transaction.

## **Table of Contents**

### **PART I FINANCIAL INFORMATION (continued)**

#### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

##### ***Operating results for the nine months ended September 30, 2010, as compared with the nine months ended September 30, 2009 (continued)***

##### ***Operating Income and Operating Margin***

##### ***GAAP***

Operating income totaled \$2,058 million for the nine months ended September 30, 2010, which was an increase of \$1,169 million compared with the nine months ended September 30, 2009. Operating income for the nine months ended September 30, 2010 included the effect of revenue and expenses related to the December 1, 2009 acquisition of BGI and \$90 million of BGI integration costs as compared to \$31 million of BGI transaction costs for the nine months ended September 30, 2009. The transaction/integration expenses are not part of the on-going business and are principally comprised of compensation expense, legal fees, advisory payments, occupancy costs, marketing and promotional and consulting expenses.

The increase in operating income for the nine months ended September 30, 2010 included the effect of a \$2,767 million increase in investment advisory, administration fees and securities lending revenue associated with the acquired BGI AUM and growth in long-term AUM, which included market appreciation and net new business during the prior twelve months, a \$137 million increase in performance fees revenue and a \$100 million increase in distribution fees and other revenue, partially offset by a \$41 million reduction in *BlackRock Solutions* and advisory revenue. The increase in total revenue is partially offset by a \$1,794 million net increase in operating expenses due to increases in employee compensation and benefits, general and administration expenses, direct fund expenses and amortization of intangible assets, partially offset by decreases in distribution and servicing costs and restructuring expenses.

The Company's operating margin was 33.6% for the nine months ended September 30, 2010, compared to 28.2% for the nine months ended September 30, 2009. The increase in operating margin for nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009 included the effect of the BGI Transaction, growth in long-term AUM, a decline of \$22 million in restructuring charges, recorded in the nine months ended September 30, 2009, a change in foreign currency remeasurement costs/benefits from a \$13 million cost in the nine months ended September 30, 2009 to a \$4 million benefit in the nine months ended September 30, 2010, a \$10 million decline in expense for a potentially uncollectible receivable recorded in 2009 and a decline in deferred compensation related to depreciation on deferred compensation investments, partially offset by a \$59 million increase of BGI transaction/integration costs, an increase of \$107 million in stock-based compensation expense related to additional grants to a larger number of employees at the end of January 2010, an increase in occupancy costs related to lease impairments as a result of vacating certain locations in the nine months ended September 30, 2010, \$17 million of closed-end fund launch costs/commissions and a \$12 million increase in amortization of intangible assets related to the finite-lived management contracts acquired in the BGI Transaction, as well as increased investments to grow the business.

##### ***As Adjusted***

Operating income, as adjusted, totaled \$2,205 million for the nine months ended September 30, 2010, which was an increase of \$1,196 million compared to the nine months ended September 30, 2009. The increase in operating income, as adjusted, for the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009 is related to the effect of the \$2,963 million increase in total revenue, partially offset by a \$1,767 million increase in operating expenses due to increases in employee compensation and benefits, general and administration expenses, direct fund expenses and amortization of intangible assets, partially offset by a decrease in distribution and servicing costs.

Operating margin, as adjusted, was 38.7% and 37.4% for the nine months ended September 30, 2010 and 2009, respectively. The increase in operating margin reflects the inclusion of BGI, a change in foreign currency remeasurement costs/benefits from a \$13 million cost in the nine

## Edgar Filing: BlackRock Inc. - Form 10-Q

months ended September 30, 2009 to a \$4 million benefit in the nine months ended September 30, 2010, and a \$10 million decline in expense for a potentially uncollectible receivable recorded in 2009, partially offset by an increase of \$107 million in stock-based compensation expense related to additional grants to a larger number of employees at the end of January 2010, an increase in occupancy costs related to lease impairments as a result of vacating certain locations in the nine months ended September 30, 2010 and a \$12 million increase in amortization of intangible assets related to the finite-lived management contracts acquired in the BGI Transaction, as well as increased investments to grow the business.

Operating income, as adjusted, and operating margin, as adjusted, are described in more detail in the Overview to Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)*****Non-operating results for the nine months ended September 30, 2010, as compared with the nine months ended September 30, 2009******Non-Operating Income (Expense), Less Net Income (Loss) Attributable to Non-Controlling Interests***

Non-operating income (expense), less net income (loss) attributable to non-controlling interests for the nine months ended September 30, 2010 and 2009 was as follows:

| (Dollar amounts in millions)                                                               | Nine Months Ended<br>September 30, |         | Variance |          |
|--------------------------------------------------------------------------------------------|------------------------------------|---------|----------|----------|
|                                                                                            | 2010                               | 2009    | Amount   | % Change |
| Non-operating income (expense), GAAP basis                                                 | \$ 5                               | (\$ 24) | \$ 29    | NM       |
| Less: Net income (loss) attributable to NCI <sup>(1)</sup>                                 | (5)                                | 21      | (26)     | NM       |
| Non-operating income (expense) <sup>(2)</sup>                                              | 10                                 | (45)    | 55       | NM       |
| Compensation expense related to (appreciation) depreciation on deferred compensation plans | (5)                                | (14)    | 9        | 64%      |
| Non-operating income (expense), as adjusted <sup>(2)</sup>                                 | \$ 5                               | (\$ 59) | \$ 64    | NM       |

NM Not Meaningful

<sup>(1)</sup> Includes a \$16 million loss attributable to consolidated variable interest entities for the nine months ended September 30, 2010.

<sup>(2)</sup> Net of net income (loss) attributable to non-controlling interests.

The components of non-operating income (expense), less net income (loss) attributable to non-controlling interests, for the nine months ended September 30, 2010 and 2009 were as follows:

| (Dollar amounts in millions)                       | Nine Months Ended<br>September 30, |       | Variance |          |
|----------------------------------------------------|------------------------------------|-------|----------|----------|
|                                                    | 2010                               | 2009  | Amount   | % Change |
| Net gain (loss) on investments <sup>(1)</sup>      |                                    |       |          |          |
| Private equity                                     | \$ 17                              | \$ 4  | \$ 13    | 325%     |
| Real estate                                        | 13                                 | (111) | 124      | NM       |
| Distressed credit/mortgage funds                   | 49                                 | 79    | (30)     | (38%)    |
| Hedge funds/funds of hedge funds                   | 11                                 | 9     | 2        | 22%      |
| Other investments <sup>(2)</sup>                   | 11                                 | (11)  | 22       | NM       |
| Sub-total                                          | 101                                | (30)  | 131      | NM       |
| Investments related to deferred compensation plans | 5                                  | 14    | (9)      | (64%)    |

## Edgar Filing: BlackRock Inc. - Form 10-Q

|                                                                                            |       |         |       |      |
|--------------------------------------------------------------------------------------------|-------|---------|-------|------|
| Total net gain (loss) on investments                                                       | 106   | (16)    | 122   | NM   |
| Interest and dividend income                                                               | 19    | 16      | 3     | 19%  |
| Interest expense                                                                           | (115) | (45)    | (70)  | 156% |
| Net interest expense                                                                       | (96)  | (29)    | (67)  | 231% |
| Total non-operating income (expense) <sup>(1)</sup>                                        | 10    | (45)    | 55    | NM   |
| Compensation expense related to (appreciation) depreciation on deferred compensation plans | (5)   | (14)    | 9     | 64%  |
| Non-operating income (expense), as adjusted <sup>(1)</sup>                                 | \$ 5  | (\$ 59) | \$ 64 | NM   |

NM Not Meaningful

<sup>(1)</sup> Net of net income (loss) attributable to non-controlling interests (redeemable and nonredeemable) related to investment activities.

<sup>(2)</sup> Includes net gains / (losses) related to equity and fixed income investments and BlackRock's seed capital hedging program.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)*****Non-operating results for the nine months ended September 30, 2010, as compared with the nine months ended September 30, 2009 (continued)******Non-Operating Income (Expense), Less Net Income (Loss) Attributable to Non-Controlling Interests (continued)***

Non-operating income, less net income (loss) attributable to non-controlling interests, increased \$55 million to \$10 million for the nine months ended September 30, 2010, as compared to \$45 million net non-operating expense for the nine months ended September 30, 2009. The \$10 million non-operating income, net of non-controlling interests for the nine months ended September 30, 2010 was comprised of \$101 million of net gains on co-investments and seed investments and \$5 million of appreciation related to hedges of deferred compensation, partially offset by \$96 million of net interest expense.

The \$101 million net gain on investments, less non-controlling interests, related to the Company's co-investments and seed investments, included net gains in distressed credit/mortgage funds of \$49 million, private equity investments of \$17 million, real estate equity/debt products of \$13 million, hedge funds/funds of hedge funds of \$11 million and other investments of \$11 million.

Net interest expense was \$96 million, an increase of \$67 million primarily due to an increase in interest expense related to the December 2009 issuances of \$2.5 billion of long-term notes.

***Income Tax Expense***

|                                           | Nine Months Ended<br>September 30, |        |        | Nine Months Ended<br>September 30, |             |        |
|-------------------------------------------|------------------------------------|--------|--------|------------------------------------|-------------|--------|
|                                           | 2010                               | 2009   | %      | 2010                               | 2009        | %      |
| (Dollar amounts in millions)              | GAAP                               | GAAP   | Change | As adjusted                        | As adjusted | Change |
| Income before income taxes <sup>(1)</sup> | \$ 2,068                           | \$ 844 | 145%   | \$ 2,210                           | \$ 950      | 133%   |
| Income tax expense                        | \$ 662                             | \$ 225 | 194%   | \$ 741                             | \$ 308      | 141%   |
| Effective tax rate                        | 32.0%                              | 26.7%  |        | 33.5%                              | 32.4%       |        |

<sup>(1)</sup> Net of net income (loss) attributable to non-controlling interests.

Income tax expense increased \$437 million in the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009. The effective income tax rates for the nine months ended September 30, 2010 and 2009 were 32.0% and 26.7%, respectively.

The nine months ended September 30, 2010 included the effect of third quarter 2010 tax legislation enacted in the United Kingdom, which resulted in approximately a \$30 million tax benefit revaluation of certain net deferred tax liabilities primarily related to acquired intangible assets, which has been excluded from net income attributable to BlackRock, Inc., as adjusted, as it was a non-recurring enacted tax legislation change that does not have a cash flow impact and to ensure comparability of this information to prior reporting periods. In addition, the nine months ended September 30, 2010 included the effect of favorable tax rulings and the resolution of certain outstanding tax positions in third

quarter 2010.

The nine months ended September 30, 2009 included the effect of third quarter 2009 legislation enacted primarily with respect to New York City corporate income taxes, effective January 1, 2009 which resulted in approximately a \$45 million tax benefit revaluation of net deferred tax liabilities primarily related to acquired intangible assets, which has been excluded from net income attributable to BlackRock, Inc., as adjusted, as it was a non-recurring enacted tax legislation change that does not have a cash flow impact and to ensure comparability of this information to prior reporting periods. The nine months ended September 30, 2009 also included \$25 million of tax benefits primarily related to a favorable tax ruling and the final resolution of outstanding tax matters

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)***Operating results for the nine months ended September 30, 2010, as compared with the nine months ended September 30, 2009 (continued)**Net Income Attributable to BlackRock, Inc.*

The components of net income attributable to BlackRock, Inc. and net income attributable to BlackRock, Inc., as adjusted, for the nine months ended September 30, 2010 and 2009 are as follows:

| (Dollar amounts in millions, except per share data)               | Nine Months Ended<br>September 30, |             | %<br>Change | Nine Months Ended<br>September 30, |             | %<br>Change |
|-------------------------------------------------------------------|------------------------------------|-------------|-------------|------------------------------------|-------------|-------------|
|                                                                   | 2010                               | 2009        |             | 2010                               | 2009        |             |
|                                                                   | GAAP                               | GAAP        |             | As adjusted                        | As adjusted |             |
| Operating income                                                  | \$ 2,058                           | \$ 889      | 131%        | \$ 2,205                           | \$ 1,009    | 119%        |
| Non-operating income (expense) <sup>(1)</sup>                     | 10                                 | (45)        | NM          | 5                                  | (59)        | NM          |
| Income tax expense                                                | (662)                              | (225)       | 194%        | (741)                              | (308)       | 141%        |
| Net income attributable to BlackRock, Inc.                        | \$ 1,406                           | \$ 619      | 127%        | \$ 1,469                           | \$ 642      | 129%        |
| Allocation of net income attributable to BlackRock, Inc.:         |                                    |             |             |                                    |             |             |
| Common Shares                                                     | \$ 1,386                           | \$ 602      | 130%        | \$ 1,448                           | \$ 625      | 132%        |
| Participating RSUs                                                | 20                                 | 17          | 18%         | 21                                 | 17          | 24%         |
| Net income attributable to BlackRock, Inc.                        | \$ 1,406                           | \$ 619      | 127%        | \$ 1,469                           | \$ 642      | 129%        |
| Diluted weighted-average common shares outstanding <sup>(2)</sup> | 192,280,679                        | 134,001,799 | 43%         | 192,280,679                        | 134,001,799 | 43%         |
| Components of Diluted earnings per common share:                  |                                    |             |             |                                    |             |             |
| Operating income                                                  | \$ 7.03                            | \$ 4.20     | 67%         | \$ 7.52                            | \$ 4.76     | 58%         |
| Non-operating income (expense) <sup>(1)</sup>                     | 0.03                               | (0.21)      | NM          | 0.01                               | (0.28)      | NM          |
| Income tax benefit                                                | 0.15                               | 0.51        | (71%)       |                                    | 0.18        | (100%)      |
| Diluted earnings per common share                                 | \$ 7.21                            | \$ 4.50     | 60%         | \$ 7.53                            | \$ 4.66     | 62%         |

NM Not Meaningful

## Edgar Filing: BlackRock Inc. - Form 10-Q

- (1) Net of net income (loss) attributable to non-controlling interests (redeemable and nonredeemable).
- (2) Series A, B, C, and D non-voting participating preferred stock are considered to be common stock equivalents for purposes of determining basic and diluted earnings per share calculations. Certain unvested restricted stock units are not included in this number as they are deemed participating securities in accordance with ASC 260-10.

### **GAAP**

Net income attributable to BlackRock, Inc. of \$1,406 million for the nine months ended September 30, 2010 included operating income of \$2,058 million, or \$7.03 per diluted common share, non-operating income, less net income (loss) attributable to non-controlling interests, of \$10 million, or \$0.03 per diluted common share and an income tax benefit of \$30 million, or \$0.15 per diluted common share due to tax legislation enacted in the United Kingdom. Net income attributable to BlackRock, Inc. totaled \$1,406 million, or \$7.21 per diluted common share, for the nine months ended September 30, 2010, which was an increase of \$787 million, or \$2.71 per diluted common share, compared to the nine months ended September 30, 2009. The \$4.50 earnings per diluted common share for the nine months ended September 30, 2009 included the effect of \$70 million, or \$0.51 per diluted common share, of tax benefits which included \$45 million of local income tax changes and \$25 million of tax benefits primarily related to a favorable tax ruling and the final resolution of an outstanding tax matter received during the nine months ended September 30, 2009.

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

***Operating results for the nine months ended September 30, 2010, as compared with the nine months ended September 30, 2009 (continued)***

***Net Income Attributable to BlackRock, Inc. (continued)***

Net income attributable to BlackRock, Inc. of \$1,406 million for the nine months ended September 30, 2010 included the after-tax effect of the BGI integration costs of \$59 million, the after-tax effect of the portion of certain LTIP awards, which will be funded through a capital contribution of BlackRock stock held by PNC of \$29 million, and certain compensation of former MLIM employees of \$5 million to be funded through a cash contribution by Merrill Lynch, a portion of which was received by BlackRock in third quarter 2010.

Net income attributable to BlackRock, Inc. of \$619 million for the nine months ended September 30, 2009 included the after-tax effect of the portion of certain LTIP awards, which will be funded through a capital contribution of BlackRock stock held by PNC of \$29 million, BGI transaction costs of \$21 million, restructuring charges of \$14 million and certain compensation of former MLIM employees of \$4 million to be funded through a cash contribution by Merrill Lynch, a portion of which was received by BlackRock in third quarter 2009.

***As Adjusted***

Exclusive of the items discussed above, diluted earnings per common share, as adjusted, of \$7.53 for the nine months ended September 30, 2010 increased \$2.87, or 62%, compared to the nine months ended September 30, 2009.

Net income attributable to BlackRock, Inc., as adjusted, for the nine months ended September 30, 2010 included operating income of \$2,205 million, or \$7.52 per diluted common share, non-operating income, less net income attributable to non-controlling interests, of \$5 million, or \$0.01 per diluted common share. Net income of \$642 million or \$4.66 per diluted common share attributable to BlackRock, Inc., as adjusted, for the nine months ended September 30, 2009 included the effect of \$25 million of tax benefits primarily related to a favorable tax ruling and the final resolution of an outstanding tax matter received during the nine months ended September 30, 2009. Diluted earnings per common share, as adjusted, is described in more detail in the Overview to Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

*Operating results for the three months ended September 30, 2010, as compared with the three months ended June 30, 2010*

*Revenue*

| (Dollar amounts in millions)                                                    | Three Months Ended    |                  | Variance     |             |
|---------------------------------------------------------------------------------|-----------------------|------------------|--------------|-------------|
|                                                                                 | September 30,<br>2010 | June 30,<br>2010 | Amount       | % Change    |
| <b>Investment advisory, administration fees and securities lending revenue:</b> |                       |                  |              |             |
| Equity:                                                                         |                       |                  |              |             |
| Index                                                                           | \$ 503                | \$ 521           | (\$ 18)      | (3%)        |
| Active                                                                          | 443                   | 460              | (17)         | (4%)        |
| Fixed income:                                                                   |                       |                  |              |             |
| Index                                                                           | 114                   | 99               | 15           | 15%         |
| Active                                                                          | 266                   | 257              | 9            | 4%          |
| Multi-asset class                                                               | 183                   | 175              | 8            | 5%          |
| Alternative                                                                     | 156                   | 154              | 2            | 1%          |
| Cash management                                                                 | 129                   | 126              | 3            | 2%          |
| <b>Total</b>                                                                    | <b>1,794</b>          | <b>1,792</b>     | <b>2</b>     | <b>%</b>    |
| Investment advisory performance fees:                                           |                       |                  |              |             |
| Equity                                                                          | 12                    | 18               | (6)          | (33%)       |
| Fixed income                                                                    | 10                    | 9                | 1            | 11%         |
| Multi-asset class                                                               | 3                     | 2                | 1            | 50%         |
| Alternative                                                                     | 89                    | 21               | 68           | 324%        |
| <b>Total</b>                                                                    | <b>114</b>            | <b>50</b>        | <b>64</b>    | <b>128%</b> |
| <i>BlackRock Solutions</i> and advisory                                         | 101                   | 114              | (13)         | (11%)       |
| Distribution fees                                                               | 29                    | 32               | (3)          | (9%)        |
| Other revenue                                                                   | 54                    | 44               | 10           | 23%         |
| <b>Total revenue</b>                                                            | <b>\$ 2,092</b>       | <b>\$ 2,032</b>  | <b>\$ 60</b> | <b>3%</b>   |

Total revenue for the three months ended September 30, 2010 increased \$60 million, or 3%, to \$2,092 million, compared with \$2,032 million for the three months ended June 30, 2010. The \$60 million increase was the result of a \$64 million increase in performance fees, a \$10 million increase in other revenue and a \$2 million increase in total investment advisory, administration fees and securities lending revenue, partially offset by a \$13 million decrease in *BlackRock Solutions* and advisory and a \$3 million decrease in distribution fees.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)***Operating results for the three months ended September 30, 2010, as compared with the three months ended June 30, 2010 (continued)**Revenue (continued)**Investment Advisory, Administration Fees and Securities Lending Revenue*

The increase in investment advisory, administration fees and securities lending revenues of \$2 million for the three months ended September 30, 2010, compared with the three months ended June 30, 2010, primarily related to an increase in long-term AUM and the effect of one more revenue day for the three months ended September 30, 2010, partially offset by a \$36 million decrease in securities lending revenue from \$108 million in second quarter to \$72 million in third quarter. The decrease in securities lending revenue in the third quarter was primarily the result of lower earnings on loan balances for international equity securities.

*Performance Fees*

Investment advisory performance fees were \$114 million for the three months ended September 30, 2010, as compared to \$50 million for the three months ended June 30, 2010. The \$64 million increase in performance fees included increases of \$46 million from U.K. equity hedge funds, which primarily lock in the third quarter, and \$26 million in alternative fixed income hedge funds, including an opportunistic fund, partially offset by a \$6 million decrease in performance fees from relative performance on equity products.

*BlackRock Solutions and Advisory*

*BlackRock Solutions* and advisory revenue for the three months ended September 30, 2010 was \$101 million as compared to \$114 million for the three months ended June 30, 2010. The decrease was primarily due to fewer advisory assignments, including portfolio liquidation assignments, which have AUM based fees, partially offset by an increase in *Aladdin* fees.

*Other Revenue*

| (Dollar amounts in millions)                     | Three Months Ended    |                  | Variance     |            |
|--------------------------------------------------|-----------------------|------------------|--------------|------------|
|                                                  | September 30,<br>2010 | June 30,<br>2010 | Amount       | % Change   |
| <b>Other revenue:</b>                            |                       |                  |              |            |
| Transition management service fees               | \$ 23                 | \$ 11            | \$ 12        | 109%       |
| Commissions revenue                              | 7                     | 9                | (2)          | (22%)      |
| iPath marketing fees <sup>(1)</sup>              | 7                     | 7                |              | %          |
| Equity method investment earnings <sup>(2)</sup> | 7                     | 5                | 2            | 40%        |
| Other miscellaneous revenue                      | 10                    | 12               | (2)          | (16%)      |
| <b>Total other revenue</b>                       | <b>\$ 54</b>          | <b>\$ 44</b>     | <b>\$ 10</b> | <b>23%</b> |

## Edgar Filing: BlackRock Inc. - Form 10-Q

- (1) Related to exchange traded notes issued by Barclays.
- (2) Related to operating and advisory company investments.

Other revenue of \$54 million for the three months ended September 30, 2010 increased \$10 million, or 23%, compared with the three months ended June 30, 2010. The increase in other revenue was primarily the result of a \$12 million increase in fees earned for transition management services due to an increase in transactions to execute transitions of equity mandates.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)***Operating results for the three months ended September 30, 2010, as compared with the three months ended June 30, 2010 (continued)**Expenses*

| (Dollar amounts in millions)                                                               | Three Months Ended    |                  | Variance |          |
|--------------------------------------------------------------------------------------------|-----------------------|------------------|----------|----------|
|                                                                                            | September 30,<br>2010 | June 30,<br>2010 | Amount   | % Change |
| <b>Expenses:</b>                                                                           |                       |                  |          |          |
| Employee compensation and benefits                                                         | \$ 774                | \$ 709           | \$ 65    | 9%       |
| Distribution and servicing costs                                                           | 105                   | 97               | 8        | 8%       |
| Amortization of deferred sales commissions                                                 | 26                    | 27               | (1)      | (4%)     |
| Direct fund expenses                                                                       | 124                   | 122              | 2        | 2%       |
| General and administration                                                                 | 316                   | 340              | (24)     | (7%)     |
| Amortization of intangible assets                                                          | 40                    | 40               |          | %        |
| Total expenses, GAAP                                                                       | \$ 1,385              | \$ 1,335         | \$ 50    | 4%       |
| Total expenses, GAAP                                                                       | \$ 1,385              | \$ 1,335         | \$ 50    | 4%       |
| Less non-GAAP expense adjustments:                                                         |                       |                  |          |          |
| <b>BGI integration costs</b>                                                               |                       |                  |          |          |
| Employee compensation and benefits                                                         | 3                     | 4                | (1)      | (25%)    |
| General and administration                                                                 | 3                     | 28               | (25)     | (89%)    |
| Total BGI integration costs                                                                | 6                     | 32               | (26)     | (81%)    |
| PNC LTIP funding obligation                                                                | 15                    | 14               | 1        | 7%       |
| Merrill Lynch compensation contribution                                                    | 3                     | 2                | 1        | 50%      |
| Compensation expense related to appreciation (depreciation) on deferred compensation plans | 6                     | (4)              | 10       | NM       |
| Total non-GAAP expense adjustments                                                         | 30                    | 44               | (14)     | (32%)    |
| Total expenses, as adjusted                                                                | \$ 1,355              | \$ 1,291         | \$ 64    | 5%       |

NM Not Meaningful

Total GAAP expenses increased \$50 million, to \$1,385 million for the three months ended September 30, 2010, compared to \$1,335 million for the three months ended June 30, 2010. Excluding certain items deemed non-recurring by management or transactions that ultimately will not affect the Company's book value, total expenses, as adjusted, increased \$64 million, or 5%. The increase in total expenses, as adjusted, was primarily attributable to increases in employee compensation and benefits and distribution and servicing costs.



**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)***Operating results for the three months ended September 30, 2010, as compared with the three months ended June 30, 2010 (continued)**Expenses (continued)****Employee Compensation and Benefits***

| (Dollar amounts in millions)                                                               | Three Months Ended    |                  | Variance |          |
|--------------------------------------------------------------------------------------------|-----------------------|------------------|----------|----------|
|                                                                                            | September 30,<br>2010 | June 30,<br>2010 | Amount   | % Change |
| Employee compensation and benefits, GAAP expenses:                                         | \$ 774                | \$ 709           | \$ 65    | 9%       |
| Less non-GAAP expense adjustments:                                                         |                       |                  |          |          |
| BGI integration costs                                                                      | 3                     | 4                | (1)      | (25%)    |
| PNC LTIP funding obligation                                                                | 15                    | 14               | 1        | 7%       |
| Merrill Lynch compensation contribution                                                    | 3                     | 2                | 1        | 50%      |
| Compensation expense related to appreciation (depreciation) on deferred compensation plans | 6                     | (4)              | 10       | NM       |
| Total non-GAAP expense adjustments                                                         | 27                    | 16               | 11       | 69%      |
| Employee compensation and benefits, as adjusted                                            | \$ 747                | \$ 693           | \$ 54    | 8%       |

NM Not Meaningful

Employee compensation and benefits expense increased \$65 million, or 9%, to \$774 million, for the three months ended September 30, 2010, compared to \$709 million for the three months ended June 30, 2010.

Employee compensation and benefits, as adjusted, increased \$54 million after excluding the increase of \$11 million of non-GAAP adjustments primarily related to an increase in appreciation on deferred compensation which is offset by an increase in non-operating income related to investments held for these deferred compensation plans. The \$54 million increase was attributable to a \$33 million increase in incentive compensation which included the effect of the increase in performance fees and a \$21 million increase in salaries reflecting an increase in the number of employees. Employees at September 30, 2010 totaled approximately 8,900 as compared to 8,500 at June 30, 2010.

***Distribution and Servicing Costs***

Distribution and servicing costs increased \$8 million to \$105 million for the three months ended September 30, 2010, compared to \$97 million for the three months ended June 30, 2010. These costs include payments to Bank of America/Merrill Lynch under a global distribution agreement, payments to PNC and payments to Barclays as well as other third parties, primarily associated with the distribution and servicing of client investments in certain BlackRock products. The \$8 million increase primarily related to higher levels of average cash management AUM as well as a decrease in fee waivers for cash management funds, resulting in higher levels of distribution costs.

## Edgar Filing: BlackRock Inc. - Form 10-Q

Distribution and servicing costs for the three months ended September 30, 2010 included \$65 million of costs attributable to Bank of America/Merrill Lynch and affiliates and \$1 million of costs attributable to PNC and affiliates as compared to \$59 million and \$4 million, respectively, in the three months ended June 30, 2010. Distribution and servicing costs related to other third parties, including Barclays, increased \$5 million to \$39 million for the three months ended September 30, 2010, as compared to \$34 million for the three months ended June 30, 2010.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)***Operating results for the three months ended September 30, 2010, as compared with the three months ended June 30, 2010 (continued)**Expenses (continued)**General and Administration Expenses*

|                                                               | Three Months Ended    |                  | Variance       |              |
|---------------------------------------------------------------|-----------------------|------------------|----------------|--------------|
|                                                               | September 30,<br>2010 | June 30,<br>2010 | Amount         | % Change     |
| <b>(Dollar amounts in millions)</b>                           |                       |                  |                |              |
| <b>General and administration expenses:</b>                   |                       |                  |                |              |
| Marketing and promotional                                     | \$ 77                 | \$ 89            | (\$ 12)        | (13%)        |
| Occupancy                                                     | 67                    | 84               | (17)           | (20%)        |
| Portfolio services                                            | 45                    | 42               | 3              | 7%           |
| Technology                                                    | 37                    | 42               | (5)            | (12%)        |
| Professional services                                         | 21                    | 28               | (7)            | (25%)        |
| Closed-end fund launch costs                                  | 15                    |                  | 15             | NM           |
| Other general and administration                              | 54                    | 55               | (1)            | (2%)         |
| <b>Total general and administration expenses, GAAP</b>        | <b>\$ 316</b>         | <b>\$ 340</b>    | <b>(\$ 24)</b> | <b>(7%)</b>  |
| Less BGI integration costs:                                   |                       |                  |                |              |
| Marketing and promotional                                     | \$ 2                  | \$ 15            | (\$ 13)        | (87%)        |
| Occupancy                                                     |                       | 8                | (8)            | (100%)       |
| Professional services                                         |                       | 3                | (3)            | (100%)       |
| Other general and administration                              | 1                     | 2                | (1)            | (50%)        |
| <b>Total BGI integration costs</b>                            | <b>\$ 3</b>           | <b>\$ 28</b>     | <b>(\$ 25)</b> | <b>(89%)</b> |
| <b>General and administration expenses, as adjusted:</b>      |                       |                  |                |              |
| Marketing and promotional                                     | \$ 75                 | \$ 74            | \$ 1           | 1%           |
| Occupancy                                                     | 67                    | 76               | (9)            | (12%)        |
| Portfolio services                                            | 45                    | 42               | 3              | 7%           |
| Technology                                                    | 37                    | 42               | (5)            | (12%)        |
| Professional services                                         | 21                    | 25               | (4)            | (16%)        |
| Closed-end fund launch costs                                  | 15                    |                  | 15             | NM           |
| Other general and administration                              | 53                    | 53               |                | %            |
| <b>Total general and administration expenses, as adjusted</b> | <b>\$ 313</b>         | <b>\$ 312</b>    | <b>\$ 1</b>    | <b>%</b>     |

*General and Administration Expenses, GAAP*

## Edgar Filing: BlackRock Inc. - Form 10-Q

General and administration expenses decreased \$24 million, or 7%, for the three months ended September 30, 2010 compared with the three months ended June 30, 2010.

### *BGI Integration Costs*

BGI integration costs of \$3 million for the three months ended September 30, 2010 decreased \$25 million as compared with the three months ended September 30, 2009.

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

*Operating results for the three months ended September 30, 2010, as compared with the three months ended June 30, 2010 (continued)*

*Expenses (continued)*

*General and Administration Expenses, as Adjusted*

Excluding the BGI integration expenses, general and administration expenses, as adjusted, increased \$1 million for the three months ended September 30, 2010 compared to \$312 million for the three months ended June 30, 2010.

The \$1 million increase primarily related to \$15 million of closed-end fund launch costs (excluding compensation costs) due to the Build America Bond Trust fund launch during the three months ended September 30, 2010, which generated approximately \$1.2 billion in AUM, a \$7 million decrease in foreign currency remeasurement benefits and a \$3 million increase in portfolio service costs due to an increase in transition management execution and clearing expenses, partially offset by a \$9 million reduction in occupancy costs primarily related to lease impairments to vacate certain locations recorded in the three months ended June 30, 2010, an \$8 million reduction of VAT expenses including a reduction related to prior period expenses that have been determined to be recoverable and a \$5 million decrease in technology expenses related to consulting services and software maintenance.

*Operating Income and Operating Margin*

**GAAP**

Operating income totaled \$707 million for the three months ended September 30, 2010, which was an increase of \$10 million compared with the three months ended June 30, 2010. Operating income for the three months ended September 30, 2010 included \$6 million of BGI integration costs as compared to \$32 million of BGI integration costs for the three months ended June 30, 2010. The integration expenses are not part of the on-going business and are principally comprised of compensation expense, legal fees, occupancy costs, marketing and promotional and consulting expenses.

The increase in operating income for the three months ended September 30, 2010 included the effect of a \$60 million net increase in total revenues, primarily due to increases in performance fees in U.K. equity hedge funds and alternative fixed income hedge funds, partially offset by a \$50 million increase in operating expenses, which included \$17 million of closed-end fund launch costs/commissions.

The Company's operating margin was 33.8% for the three months ended September 30, 2010 compared to 34.3% for the three months ended June 30, 2010. The decrease in operating margin for three months ended September 30, 2010 as compared to the three months ended June 30, 2010 included the revenue benefits of our diversified business model while expenses included continued investments in the business as well as a \$65 million increase in employee compensation and benefits (including \$2 million of closed-end fund launch commissions), \$15 million of closed-end fund launch costs, \$8 million in distribution and servicing costs and a \$7 million decrease in foreign currency remeasurement benefits, partially offset by a \$26 million decrease in BGI integration costs, \$9 million of lower occupancy costs primarily related to lease impairments to vacate certain locations recorded in the three months ended June 30, 2010 and an \$8 million reduction of VAT expenses related to prior period expenses that have been determined to be recoverable.

## Table of Contents

### PART I FINANCIAL INFORMATION (continued)

#### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

##### *Operating results for the three months ended September 30, 2010, as compared with the three months ended June 30, 2010 (continued)*

##### *Operating Income and Operating Margin (continued)*

##### *As Adjusted*

Operating income, as adjusted, totaled \$737 million for the three months ended September 30, 2010 which was a decrease of \$4 million compared with the three months ended June 30, 2010. The \$4 million decrease in operating income, as adjusted, for the three months ended September 30, 2010 as compared with the three months ended June 30, 2010 is primarily related to a \$64 million net increase in operating expenses which included increases of \$54 million in employee compensation and benefits (including \$2 million of closed-end fund launch commissions) and an \$8 million increase in distribution and servicing costs and \$15 million of closed-end fund launch costs, partially offset by a \$60 million net increase in total revenue, primarily related to an increase in performance fees as well as decreases in occupancy and VAT expenses.

Operating margin, as adjusted, was 38.4% and 38.8% for the three months ended September 30, 2010 and June 30, 2010, respectively. The operating margin reflects the revenue benefits of our diversified business model while expenses included continued investments in the business as well as a \$54 million increase in employee compensation and benefits, and a \$7 million decrease in foreign currency remeasurement benefits, partially offset by \$9 million of lower occupancy costs and an \$8 million reduction of VAT expenses including a reduction related to prior period expenses that have been determined to be recoverable.

Operating income, as adjusted, and operating margin, as adjusted, are described in more detail in the Overview to Management's Discussion and Analysis of Financial Condition and Results of Operations.

##### *Non-operating results for the three months ended September 30, 2010, as compared with the three months ended June 30, 2010*

##### *Non-Operating Income (Expense), Less Net Income (Loss) Attributable to Non-Controlling Interests*

Non-operating income (expense), less net income (loss) attributable to non-controlling interests for the three months ended September 30, 2010 and June 30, 2010 was as follows:

| (Dollar amounts in millions)                                                               | Three Months Ended    |                  | Variance |          |
|--------------------------------------------------------------------------------------------|-----------------------|------------------|----------|----------|
|                                                                                            | September 30,<br>2010 | June 30,<br>2010 | Amount   | % Change |
| Non-operating income (expense), GAAP basis                                                 | \$ 78                 | (\$ 75)          | \$ 153   | NM       |
| Less: Net income (loss) attributable to NCI <sup>(1)</sup>                                 | 33                    | (43)             | 76       | NM       |
| Non-operating income (expense) <sup>(2)</sup>                                              | 45                    | (32)             | 77       | NM       |
| Compensation expense related to (appreciation) depreciation on deferred compensation plans | (6)                   | 4                | (10)     | NM       |
| Non-operating (expense), as adjusted <sup>(2)</sup>                                        | \$ 39                 | (\$ 28)          | \$ 67    | NM       |

NM Not Meaningful

- (1) Includes a \$12 million gain and a \$29 million loss for the three months ended September 30, 2010 and June 30, 2010, respectively, attributable to consolidated variable interest entities.
- (2) Net of net income (loss) attributable to non-controlling interests.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)***Non-operating results for the three months ended September 30, 2010, as compared with the three months ended June 30, 2010 (continued)**Non-Operating Income (Expense), Less Net Income (Loss) Attributable to Non-Controlling Interests (continued)*

The components of non-operating income (expense), less net income (loss) attributable to non-controlling interests, for the three months ended September 30, 2010 and June 30, 2010 were as follows:

| (Dollar amounts in millions)                                                               | Three Months Ended    |                  | Variance |             |
|--------------------------------------------------------------------------------------------|-----------------------|------------------|----------|-------------|
|                                                                                            | September 30,<br>2010 | June 30,<br>2010 | Amount   | %<br>Change |
| Net gain (loss) on investments <sup>(1)</sup>                                              |                       |                  |          |             |
| Private equity                                                                             | \$ 20                 | (\$ 10)          | \$ 30    | NM          |
| Real estate                                                                                | 11                    | 2                | 9        | 450%        |
| Distressed credit/mortgage funds                                                           | 25                    | 5                | 20       | 400%        |
| Hedge funds/funds of hedge funds                                                           | 4                     | 1                | 3        | 300%        |
| Other investments <sup>(2)</sup>                                                           | 6                     | 7                | (1)      | (14%)       |
| Sub-total                                                                                  | 66                    | 5                | 61       | NM          |
| Investments related to deferred compensation plans                                         | 6                     | (4)              | 10       | NM          |
| Total net gain (loss) on investments                                                       | 72                    | 1                | 71       | NM          |
| Interest and dividend income                                                               | 10                    | 5                | 5        | 100%        |
| Interest expense                                                                           | (37)                  | (38)             | 1        | (3%)        |
| Net interest expense                                                                       | (27)                  | (33)             | 6        | (18%)       |
| Total non-operating income (expense) <sup>(1)</sup>                                        | 45                    | (32)             | 77       | NM          |
| Compensation expense related to (appreciation) depreciation on deferred compensation plans | (6)                   | 4                | (10)     | NM          |
| Non-operating income (expense), as adjusted <sup>(1)</sup>                                 | \$ 39                 | (\$ 28)          | \$ 67    | NM          |

NM Not Meaningful

<sup>(1)</sup> Net of net income (loss) attributable to non-controlling interests (redeemable and nonredeemable).

<sup>(2)</sup> Includes net gains / (losses) related to equity and fixed income investments and BlackRock's seed capital hedging program.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)***Non-operating results for the three months ended September 30, 2010, as compared with the three months ended June 30, 2010 (continued)**Non-Operating Income (Expense), Less Net Income (Loss) Attributable to Non-Controlling Interests (continued)*

Non-operating income, less net income (loss) attributable to non-controlling interests, increased \$77 million to \$45 million for the three months ended September 30, 2010, as compared to \$32 million of non-operating expenses for the three months ended June 30, 2010. The \$45 million non-operating income, net of non-controlling interests, was comprised of \$66 million of net gains primarily on co-investments and seed investments, \$6 million of positive valuations related to economic investment hedges of deferred compensation, partially offset by \$27 million of net interest expense.

The \$66 million net gain on co-investments and seed investments included net gains in distressed credit/mortgage funds of \$25 million, private equity investments of \$20 million, real estate equity/debt products of \$11 million, hedge funds/funds of hedge funds of \$4 million and other investments of \$6 million.

The \$77 million increase in non-operating income, net of net income (loss) attributable to non-controlling interests, was related to a \$61 million increase in valuation gains on co-investments and seed investments, a \$10 million increase in valuations related to hedges of deferred compensation plans and a \$6 million decrease in net interest expense. The \$61 million net increase in valuations gains on co-investments primarily related to gains of \$30 million from private equity investments, \$20 million from distressed credit/mortgage funds, \$9 million from real estate products and \$3 million from hedge funds/funds of hedge funds, partially offset by lower gains of \$1 million for other investments. The \$6 million decrease in net interest expense was due to higher dividend income related to a regulatory investment.

*Income Tax Expense*

|                                           | Three Months Ended    |                  |             | Three Months Ended    |                  |             |
|-------------------------------------------|-----------------------|------------------|-------------|-----------------------|------------------|-------------|
|                                           | September 30,<br>2010 | June 30,<br>2010 |             | September 30,<br>2010 | June 30,<br>2010 |             |
| (Dollar amounts in millions)              | GAAP                  | GAAP             | %<br>Change | As adjusted           | As adjusted      | %<br>Change |
| Income before income taxes <sup>(1)</sup> | \$ 752                | \$ 665           | 13%         | \$ 776                | \$ 713           | 9%          |
| Income tax expense                        | \$ 201                | \$ 233           | (14%)       | \$ 239                | \$ 250           | (4%)        |
| Effective tax rate                        | 26.7%                 | 35.0%            |             | 30.8%                 | 35.1%            |             |

<sup>(1)</sup> Net of net income (loss) attributable to non-controlling interests.

Income tax expense decreased \$32 million in the three months ended September 30, 2010 as compared to the three months ended June 30, 2010. The effective income tax rates for the three months ended September 30 and June 30, 2010 were 26.7% and 35.0%, respectively.

The three months ended September 30, 2010 included the effect of third quarter 2010 tax legislation enacted in the United Kingdom, which resulted in a \$30 million tax benefit revaluation of certain net deferred tax liabilities primarily related to acquired intangible assets, which has been excluded from net income attributable to BlackRock, Inc., as adjusted, as it was a non-recurring enacted tax legislation change that does not impact cash flow and to ensure comparability of this information to prior reporting periods. Excluding this favorable tax benefit, the effective income tax rate would have been approximately 30.8% in the three months ended September 30, 2010. The decline in the adjusted effective tax

## Edgar Filing: BlackRock Inc. - Form 10-Q

rate was attributable to the effect of favorable tax rulings, a portion of which is attributable to the first half of 2010, and the resolution of certain outstanding tax positions in third quarter 2010.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)***Operating results for the three months ended September 30, 2010, as compared with the three months ended June 30, 2010 (continued)**Net Income Attributable to BlackRock, Inc.*

The components of net income attributable to BlackRock, Inc. and net income attributable to BlackRock, Inc., as adjusted, for the three months ended September 30, 2010 and June 30, 2010 are as follows:

|                                                                   | Three Months Ended    |                  |             | Three Months Ended    |                  |             |
|-------------------------------------------------------------------|-----------------------|------------------|-------------|-----------------------|------------------|-------------|
|                                                                   | September 30,<br>2010 | June 30,<br>2010 |             | September 30,<br>2010 | June 30,<br>2010 |             |
| (Dollar amounts in millions,                                      |                       |                  |             |                       |                  |             |
| except per share data)                                            | GAAP                  | GAAP             | %<br>Change | As adjusted           | As adjusted      | %<br>Change |
| Operating income                                                  | \$ 707                | \$ 697           | 1%          | \$ 737                | \$ 741           | (1%)        |
| Non-operating income (expense) <sup>(1)</sup>                     | 45                    | (32)             | NM          | 39                    | (28)             | NM          |
| Income tax expense                                                | (201)                 | (233)            | (14%)       | (239)                 | (250)            | (4%)        |
| Net income attributable to BlackRock, Inc.                        | \$ 551                | \$ 432           | 28%         | \$ 537                | \$ 463           | 16%         |
| Allocation of net income attributable to BlackRock, Inc.:         |                       |                  |             |                       |                  |             |
| Common Shares                                                     | \$ 544                | \$ 426           | 28%         | \$ 530                | \$ 456           | 16%         |
| Participating RSUs                                                | 7                     | 6                | 17%         | 7                     | 7                | %           |
| Net income attributable to BlackRock, Inc.                        | \$ 551                | \$ 432           | 28%         | \$ 537                | \$ 463           | 16%         |
| Diluted weighted-average common shares outstanding <sup>(2)</sup> | 192,326,841           | 192,569,539      | %           | 192,326,841           | 192,569,539      | %           |
| Components of Diluted earnings per common share:                  |                       |                  |             |                       |                  |             |
| Operating income                                                  | \$ 2.52               | \$ 2.32          | 9%          | \$ 2.61               | \$ 2.46          | 6%          |
| Non-operating income (expense) <sup>(1)</sup>                     | 0.16                  | (0.11)           | NM          | 0.14                  | (0.09)           | NM          |
| Income tax benefit                                                | 0.15                  |                  | NM          |                       |                  | NM          |
| Diluted earnings per common share                                 | \$ 2.83               | \$ 2.21          | 28%         | \$ 2.75               | \$ 2.37          | 16%         |

NM Not Meaningful

<sup>(1)</sup> Net of net income (loss) attributable to non-controlling interests (redeemable and nonredeemable).

## Edgar Filing: BlackRock Inc. - Form 10-Q

- <sup>(2)</sup> Series B and C non-voting participating preferred stock are considered to be common stock equivalents for purposes of determining basic and diluted earnings per share calculations. Certain unvested restricted stock units are not included in this number as they are deemed participating securities in accordance with ASC 260-10.

### **GAAP**

Net income attributable to BlackRock, Inc. for the three months ended September 30, 2010 included operating income of \$707 million, or \$2.52 per diluted common share, non-operating income, less net income attributable to non-controlling interests, of \$45 million, or \$0.16 per diluted common share and an income tax benefit of \$30 million, or \$0.15 per diluted common share, due to tax legislation enacted in the United Kingdom. Net income attributable to BlackRock, Inc. totaled \$551 million, or \$2.83 per diluted common share, for the three months ended September 30, 2010, which was an increase of \$119 million, or \$0.62 per diluted common share, compared to the three months ended June 30, 2010.

---

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

*Operating results for the three months ended September 30, 2010, as compared with the three months ended June 30, 2010 (continued)*

*Net Income Attributable to BlackRock, Inc. (continued)*

Net income attributable to BlackRock, Inc. of \$551 million for the three months ended September 30, 2010 included the after-tax effect of the portion of certain LTIP awards, which will be funded through a capital contribution of BlackRock stock held by PNC of \$10 million, the after-tax effect of the BGI integration costs of \$4 million, and certain compensation of former MLIM employees of \$2 million to be funded through a cash contribution by Merrill Lynch, a portion of which was received by BlackRock in third quarter 2010.

Net income attributable to BlackRock, Inc. of \$432 million for the three months ended June 30, 2010 included the after-tax effect of the BGI integration costs of \$21 million, the after-tax effect of the portion of certain LTIP awards, which will be funded through a capital contribution of BlackRock stock held by PNC of \$9 million, and certain compensation of former MLIM employees of \$1 million to be funded through a cash contribution by Merrill Lynch, a portion of which was received by BlackRock in third quarter 2010.

*As Adjusted*

Exclusive of the items discussed above, diluted earnings per common share, as adjusted, of \$2.75 for the three months ended September 30, 2010 increased \$0.38, or 16%, compared to the three months ended June 30, 2010.

Net income attributable to BlackRock, Inc., as adjusted, for the three months ended September 30, 2010 included operating income of \$737 million, or \$2.61 per diluted common share, non-operating income, less net income attributable to non-controlling interests, of \$39 million, or \$0.14 per diluted common share. Diluted earnings per common share, as adjusted, is described in more detail in the Overview to Management's Discussion and Analysis of Financial Condition and Results of Operations.

***Liquidity and Capital Resources***

*BlackRock Cash Flows Excluding the Impact of Consolidated Sponsored Investment Funds and VIEs*

In accordance with GAAP, certain BlackRock sponsored investment funds and collateralized loan obligations (CLOs) are consolidated into the financial statements of BlackRock, notwithstanding the fact that BlackRock may only have a minority equity interest, if any, in these funds or CLOs. As a result, BlackRock's condensed consolidated statements of cash flows include the cash flows of consolidated sponsored investment funds and CLOs. The Company uses an adjusted cash flow statement, which excludes the impact of consolidated sponsored investment funds and CLOs, as a supplemental non-GAAP measure to assess liquidity and capital requirements. The Company believes that its cash flows, excluding the impact of the consolidated sponsored investment funds and CLOs, provide investors with useful information on the cash flows of BlackRock relating to its ability to fund additional operating, investing and financing activities. BlackRock's management does not advocate that investors consider such non-GAAP measures in isolation from, or as a substitute for its cash flow presented in accordance with GAAP.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)*****Liquidity and Capital Resources (continued)******BlackRock Cash Flows Excluding the Impact of Consolidated Sponsored Investment Funds and VIEs (continued)***

The following table presents a reconciliation of the Company's condensed consolidated statements of cash flows presented on a GAAP basis to the Company's condensed consolidated statements of cash flows, excluding the impact of the cash flows of consolidated sponsored investment funds and consolidated VIEs:

|                                                              | Nine Months Ended September 30, 2010 |                                                                 |                                           |                                                                                 |
|--------------------------------------------------------------|--------------------------------------|-----------------------------------------------------------------|-------------------------------------------|---------------------------------------------------------------------------------|
|                                                              | GAAP Basis                           | Impact on Cash Flows of Consolidated Sponsored Investment Funds | Impact on Cash Flows of Consolidated VIEs | Cash Flows Excluding Impact of Consolidated Sponsored Investment Funds and VIEs |
| Cash flows from operating activities                         | \$ 1,415                             | (\$56)                                                          | (\$4)                                     | \$ 1,475                                                                        |
| Cash flows from investing activities                         | (480)                                | (20)                                                            |                                           | (460)                                                                           |
| Cash flows from financing activities                         | (3,004)                              | 93                                                              | (5)                                       | (3,092)                                                                         |
| Effect of exchange rate changes on cash and cash equivalents | (3)                                  |                                                                 |                                           | (3)                                                                             |
| Net change in cash and cash equivalents                      | (2,072)                              | 17                                                              | (9)                                       | (2,080)                                                                         |
| Cash and cash equivalents, beginning of period               | 4,708                                | 75                                                              | 9                                         | 4,624                                                                           |
| Cash and cash equivalents, end of period                     | \$ 2,636                             | \$ 92                                                           | \$                                        | \$ 2,544                                                                        |

Cash and cash equivalents, excluding cash held by consolidated sponsored investment funds and consolidated VIEs at September 30, 2010 decreased \$2,080 million from December 31, 2009, resulting from \$1,475 million of cash inflows from operating activities, \$3,092 million of cash outflows from financing activities, \$460 million of cash outflows from investing activities and a \$3 million decrease due to the effect of foreign exchange rate changes on cash and cash equivalents.

---

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

*Liquidity and Capital Resources (continued)*

*BlackRock Cash Flows Excluding the Impact of Consolidated Sponsored Investment Funds and VIEs (continued)*

***Operating Activities***

Sources of BlackRock's operating cash primarily include investment advisory, administration fees and securities lending revenue, revenues from *BlackRock Solutions* and advisory products and services and mutual fund distribution fees. BlackRock uses its cash to pay compensation and benefits, distribution and servicing costs, direct fund expenses, general and administration expenses, interest and principal on the Company's borrowings, income taxes and dividends on BlackRock's capital stock and to purchase co-investments and seed investments, and pay for capital expenditures.

Net cash inflows from operating activities, excluding the impact of consolidated sponsored investment funds and VIEs, for the nine months ended September 30, 2010 primarily include the receipt of investment advisory and administration fees, securities lending revenue and other revenue offset by the payment of operating expenses incurred in the normal course of business. Net cash inflows for the nine months ended September 30, 2010 included the effect of cash payments related to year end incentive compensation, including the payments for BGI employee compensation accruals assumed in the BGI Transaction and repayments to Barclays of approximately \$292 million to settle certain non-interest bearing notes assumed in the BGI Transaction.

***Investing Activities***

Cash outflows from investing activities, excluding the impact of consolidated sponsored investment funds and VIEs, for the nine months ended September 30, 2010 were \$460 million and primarily included \$522 million of purchases of investments, including \$315 million of Federal Reserve Bank stock, and \$96 million of purchases of property and equipment, partially offset by \$131 million of net proceeds from sales and maturities of investments, \$39 million of return of capital from equity method investees and \$16 million of acquisition related payments.

***Financing Activities***

Cash outflows from financing activities, excluding the impact of consolidated sponsored investment funds and VIEs, for the nine months ended September 30, 2010 were \$3,092 million primarily included repayments of short-term borrowings and convertible debt of \$2,134 million and \$176 million, respectively, \$582 million of payments for cash dividends and \$264 million related to repurchases of common stock, including \$140 million of stock repurchases under the repurchase plan approved in July 2010 and \$124 million to satisfy tax withholding obligations of employees related to vesting of certain restricted stock awards. Cash outflows from financing activities were partially offset by cash inflows related to \$43 million excess tax benefits from vested stock-based compensation and a \$10 million Merrill Lynch cash capital contribution in third quarter 2010.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****Liquidity and Capital Resources (continued)****Capital Resources**

The Company manages its financial condition and funding to maintain appropriate liquidity for the business. Capital resources at September 30, 2010 and December 31, 2009 were as follows:

|                                                                                          | September<br>30,<br>2010 | December<br>31,<br>2009 | Variance   |          |
|------------------------------------------------------------------------------------------|--------------------------|-------------------------|------------|----------|
| (Dollar amounts in millions)                                                             |                          |                         | Amount     | % Change |
| Cash and cash equivalents                                                                | \$ 2,636                 | \$ 4,708                | (\$ 2,072) | (44%)    |
| Cash and cash equivalents held by consolidated sponsored investment funds <sup>(1)</sup> | (92)                     | (75)                    | (17)       | (23%)    |
| Subtotal                                                                                 | 2,544                    | 4,633                   | (2,089)    | (45%)    |
| 2007 credit facility undrawn <sup>(2)</sup>                                              | 2,266                    | 2,171                   | 95         | 4%       |
| Commercial paper <sup>(3)</sup>                                                          |                          | (2,034)                 | 2,034      | 100%     |
| Total liquidity                                                                          | \$ 4,810                 | \$ 4,770                | \$ 40      | 1%       |
| Required regulatory capital <sup>(4)</sup>                                               | \$ 885                   | \$ 857                  | \$ 28      | 3%       |

(1) The Company may not be able to access such cash to use in its operating activities.

(2) Excludes \$134 million and \$129 million of undrawn amounts at September 30, 2010 and December 31, 2009, respectively related to Lehman Commercial Paper, Inc.

(3) The outstanding commercial paper notes that are supported by the 2007 credit facility reduce the availability of the facility.

(4) A portion of the required regulatory capital is partially met with cash and cash equivalents.

The \$40 million increase in total liquidity during the nine months ended September 30, 2010 included the effects of the following: (i) cash payments of 2009 year end incentive awards, including the payments for BGI employee compensation accrual assumed in the BGI Transaction, (ii) the purchase of \$315 million of Federal Reserve Bank stock, (iii) the settlement of approximately \$292 million of certain non-interest bearing notes assumed in the BGI Transaction and (iv) \$176 million of repayments related to convertible debt.

In addition, a significant portion of the Company's \$1,359 million of net economic investments are illiquid in nature and, as such, may not be readily convertible to cash.

**Operating Lease - Drapers Gardens**

In January 2010, the Company entered into an agreement with Maurant & Co Trustees Limited and Maurant Property Trustees Limited as Trustees of the Drapers Gardens Unit Trust, for the lease of approximately 292,418 square feet of office and ancillary (including retail) space located at Drapers Gardens, 12 Throgmorton Avenue, London, EC2, United Kingdom.

## Edgar Filing: BlackRock Inc. - Form 10-Q

The lease began on February 17, 2010 (the Effective Date ) and will continue for 25 years, with the option to renew for an additional five-year term. The lease provides for total annual base rental payments of approximately \$22 million, which is subject to increase on each fifth anniversary of the beginning of the lease. The lease included an initial rent free period for 36 months and 22 days following the Effective Date.

### *Purchase Obligations   Drapers Gardens*

In connection with the Drapers Gardens lease described above, the Company entered into a purchase obligation for construction services of approximately £43 million. The Company incurred £3 million of construction services during the nine months ended September 30, 2010. Substantially all of the remaining obligation of £40 million (or approximately \$63 million based on the September 30, 2010 exchange rate of \$1.58 per £1) is expected to be incurred over the next twelve months.

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

***Liquidity and Capital Resources (continued)***

***Investment/Loan Commitments***

At September 30, 2010, the Company had \$241 million of various capital commitments to fund sponsored investment funds, including funds of private equity funds, real estate funds and distressed credit funds. This amount excludes additional commitments made by consolidated funds of funds to underlying third party funds as third party non-controlling interest holders have the legal obligation to fund the respective commitments of such funds of funds. Generally, the timing of the funding of these commitments is unknown and are callable at any time prior to the expiration of the commitment. These unfunded commitments are not recorded on the Company's condensed consolidated statements of financial condition. The Company intends to make additional capital commitments from time to time to fund additional investment products for, and with, its clients.

Prior to March 31, 2010, the Company was committed to provide financing of up to \$60 million to Anthracite Capital, Inc. ( "Anthracite" ), a specialty commercial real estate finance company that was managed by a subsidiary of BlackRock. The financing is collateralized by a pledge by Anthracite of its ownership interest in a real estate debt investment fund, which is also managed by a subsidiary of BlackRock. At September 30, 2010, \$33.5 million of financing was outstanding and remains outstanding as of November 2010, which is past its final maturity date of March 5, 2010. At September 30, 2010, the carrying value of the collateral was estimated to be \$8 million, which resulted in an additional \$4.5 million reduction in amounts due from related parties on the Company's condensed consolidated statement of financial condition and an equal amount recorded in general and administrative expenses on the Company's condensed consolidated statements of income in the nine months ended September 30, 2010. The Company has no obligation to loan additional amounts to Anthracite under this facility. Anthracite filed a voluntary petition for relief under Chapter 7 of Title 11 of the U.S. Code in the U.S. Bankruptcy Court for the Southern District of New York on March 15, 2010. The management agreement between the Company and Anthracite has expired. Recovery of any amount of the financing provided by the Company in excess of the value of the collateral is not anticipated. The Company continues to evaluate the collectability of the outstanding borrowings by reviewing the carrying value of the net assets of the collateral, which fluctuates each period.

***Short-term Borrowings***

***2007 Credit Facility***

In August 2007, the Company entered into a five-year, \$2.5 billion unsecured revolving credit facility (the "2007 facility" ). The 2007 facility requires the Company not to exceed a maximum leverage ratio (ratio of net debt to earnings before interest, taxes, depreciation and amortization, where net debt equals total debt less domestic unrestricted cash) of 3 to 1, which was satisfied with a ratio of less than 1 to 1 at September 30, 2010. At September 30, 2010, the Company had \$100 million outstanding under the 2007 facility with an interest rate of 0.48% and a maturity date during November 2010. Lehman Commercial Paper, Inc. has a \$140 million participation under the 2007 facility; however, BlackRock does not expect that Lehman Commercial Paper, Inc. will honor its commitment to fund additional amounts. Bank of America, a related party, has a \$140 million participation under the 2007 facility.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)*****Liquidity and Capital Resources (continued)******Commercial Paper Program***

On October 14, 2009, BlackRock established a commercial paper program (the "CP Program") under which the Company may issue unsecured commercial paper notes (the "CP Notes") on a private placement basis up to a maximum aggregate amount outstanding at any time of \$3 billion. The initial proceeds of the commercial paper issuances were used to finance a portion of the BGI Transaction. Subsidiaries of Bank of America and Barclays, both related parties, as well as other third parties, act as dealers under the CP Program. At September 30, 2010 the CP Program was supported by the 2007 facility.

The Company began to issue CP Notes under the CP Program on November 4, 2009. As of September 30, 2010, BlackRock did not have any outstanding CP Notes. The Company may issue additional CP Notes throughout the remainder of the year.

***Japan Commitment-line***

In September 2010, BlackRock Japan Co., Ltd., a wholly-owned subsidiary of the Company, renewed its five billion Japanese yen commitment-line agreement (the "Japan Commitment-line") for a term of one year. The Japan Commitment-line is intended to provide liquidity and flexibility for operating requirements in Japan. At September 30, 2010, the Company had no borrowings outstanding under the Japan Commitment-line.

***Convertible Debentures***

In February 2005, the Company issued \$250 million aggregate principal amount of convertible debentures due in 2035 and bearing interest at a rate of 2.625% per annum. Beginning in February 2009, the convertible debentures became convertible at the option of the holders at any time and on, and after, February 20, 2010 the convertible debentures became callable by the Company at any time following not more than 60 but not less than 30 days notice. During the nine months ended September 30, 2010, holders of \$176 million of debentures converted their holdings into cash and approximately 942 thousand shares. At September 30, 2010, \$67 million in convertible debentures were outstanding.

As of September 30, 2010, principal repayment and interest requirements, assuming the convertible debentures are fully repaid in 2010, are \$67 million for the remainder of 2010.

***Long-term Borrowings***

At September 30, 2010, the principal amount of long-term borrowings was \$3.2 billion. During the nine months ended September 30, 2010, the Company paid approximately \$92 million related to interest on long-term borrowings. Principal repayments and interest requirements are as follows:

(Dollar amounts in millions)

| Year              | Principal | Interest | Total Payments |
|-------------------|-----------|----------|----------------|
| Remainder of 2010 | \$        | \$ 48    | \$ 48          |

# Edgar Filing: BlackRock Inc. - Form 10-Q

|            |          |        |          |
|------------|----------|--------|----------|
| 2011       |          | 140    | 140      |
| 2012       | 500      | 140    | 640      |
| 2013       |          | 129    | 129      |
| 2014       | 1,000    | 129    | 1,129    |
| 2015       |          | 94     | 94       |
| Thereafter | 1,700    | 288    | 1,988    |
| Total      | \$ 3,200 | \$ 968 | \$ 4,168 |

---

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

***Liquidity and Capital Resources (continued)***

***Other 2010 Cash Uses***

***Settlement of Acquisition Related Liabilities with Barclays***

In general, as certain acquired BGI receivables are collected, the Company is required to pay Barclays approximately \$342 million, which was recorded as of December 31, 2009 in due to related parties on the condensed consolidated statement of financial condition, to settle certain non-interest bearing notes assumed in the BGI Transaction. As of September 30, 2010, the Company had repaid approximately \$292 million.

***Federal Reserve Bank stock***

BlackRock Institutional Trust Company, N.A. (BTC), a wholly-owned subsidiary of the Company, purchased \$315 million of additional Federal Reserve Bank stock during the nine months ended September 30, 2010 pursuant to its regulatory requirements. Additional purchases of Federal Reserve Bank stock, pursuant to BTC's regulatory requirements, may be required; however, such amounts currently are not expected to be material.

***SSR Transaction***

In connection with the SSR Transaction, which closed in January 2005, the Company made a final contingent payment in August 2010 of approximately \$8 million, based on the Company's retained AUM associated with the MetLife defined benefit and defined contribution plans.

***Approval to Repurchase up to 5,100,000 shares***

In July 2010, BlackRock announced that its Board of Directors approved the repurchase of up to 5,100,000 shares to neutralize the dilutive effects of restricted stock units and options that have been granted to employees and which will become dilutive over the next several years. The shares are to be repurchased with management discretion on the timing of the repurchases. BlackRock's pre-existing repurchase program established in 2006 has been terminated effective with the new authorization. As of September 30, 2010, the Company had repurchased 896,102 shares in open market transactions for approximately \$140 million.

***Contingent Payments Related to Quellos Transaction***

In connection with the Quellos Transaction, Quellos is entitled to receive two contingent payments, subject to achieving certain investment advisory base and performance fee measures through December 31, 2010, totaling up to an additional \$969 million in a combination of cash and stock.

During second quarter 2009, the Company determined the amount of the first contingent payment to be \$219 million, of which \$11 million was previously paid in cash during 2008. Of the remaining \$208 million, during second quarter 2009, \$156 million was paid in cash and \$52 million was paid in common stock, or approximately 330,000 shares based on a price of \$157.33 per share.

The second contingent payment, of up to \$595 million, is payable in cash in 2011. Quellos also may be entitled to a catch-up payment in 2011 if certain investment advisory base fee measures are met through 2010 as the value of the first contingent payment was less than \$374 million. A portion of the second contingent payment, not to exceed \$90 million, may be paid to Quellos based on factors including the continued

## Edgar Filing: BlackRock Inc. - Form 10-Q

employment of certain employees with BlackRock. Therefore, this portion, not to exceed \$90 million, would be recorded as employee compensation.

As of September 30, 2010, the Company did not anticipate that the base and performance fee measures through December 31, 2010 will be achieved, therefore, the remaining contingent payments are not expected to occur.

---

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

*Liquidity and Capital Resources (continued)*

*Barclays Support of Certain Securities Lending Related Cash Funds*

Barclays has provided capital support agreements to support certain securities lending related cash management products acquired by BlackRock in the BGI Transaction. Pursuant to the terms of the capital support agreements, Barclays agreed to cover losses on covered securities within the products in the aggregate of up to \$2.2 billion from December 1, 2009 through December 1, 2013 or until certain criteria are met. BlackRock and Barclays have procedures in place to determine loss events on covered securities within the products and to ensure support payments from Barclays. At September 30, 2010, Barclays' remaining maximum potential obligation in the aggregate under the capital support agreements was \$1.9 billion. At September 30, 2010, BlackRock concluded that although these funds were variable interest entities, it was not the primary beneficiary of these funds.

*Net Capital Requirements*

The Company is required to maintain net capital in certain regulated subsidiaries within a number of jurisdictions, which is partially maintained by retaining cash and cash equivalents in those jurisdictions. As a result, such subsidiaries of the Company may be restricted in their ability to transfer cash between different jurisdictions and to their parents. Additionally, transfers of cash between international jurisdictions, including repatriation to the United States, may have adverse tax consequences that could discourage such transfers.

BTC is chartered as a national bank that does not accept client deposits and whose powers are limited to trust activities. BTC provides investment management services, including investment advisory and securities lending agency services to institutional investors and other clients. BTC is subject to various regulatory capital and liquid asset requirements administered by Federal banking agencies.

At September 30, 2010, the Company was required to maintain approximately \$885 million in net capital in certain regulated subsidiaries, including BTC, and is in compliance with all applicable regulatory minimum net capital requirements.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)*****Critical Accounting Policies***

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ significantly from those estimates. In addition to Consolidation of Variable Interest Entities ( VIEs ) and Fair Value Measurements, discussed below, see Note 2, Significant Accounting Policies, in the Company's condensed consolidated financial statements contained in Part I, Item 1 of this filing and the Company's Significant Accounting Policies in Management's Discussion and Analysis of Financial Condition and Results of Operations in BlackRock's 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 10, 2010 for details on Significant Accounting Policies.

***Consolidation of Variable Interest Entities***

In June 2009, the FASB issued ASU 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* ( ASU 2009-17 ), which became effective for BlackRock on January 1, 2010. In February 2010 the FASB issued ASU 2010-10, *Amendments to Statement 167 for Certain Investment Funds* ( ASU 2010-10 ). This ASU defers the application of Statement of Financial Accounting Standards ( SFAS ) No. 167, *Amendments to FASB Interpretation No. 46(R)*, for a reporting enterprise's interest in an entity if certain conditions are met. In the normal course of business, the Company is the manager of various types of sponsored investment vehicles, including collateralized debt/loan obligations ( CDOs or CLOs ) and sponsored investment funds, which may be considered VIEs. At September 30, 2010, the Company consolidated four VIEs, including three CLOs and one sponsored private equity fund. See Note 2, Significant Accounting Policies, in the Company's condensed consolidated financial statements contained in Part I, Item 1 of this filing for further information regarding consolidation of variable interest entities.

***CLOs***

As of September 30, 2010, BlackRock was the manager of over 20 CLOs/CDOs and other securitization entities, including three CLOs in which BlackRock, in accordance with ASU 2009-17, was determined to be the primary beneficiary, which resulted in consolidation of these VIEs in the Company's condensed consolidated financial statements. At September 30, 2010, the Company had \$83 million, \$1,255 million, \$1,237 million, \$7 million and \$94 million in cash and cash equivalents, bank loans and other investments, borrowings, other liabilities and appropriated retained earnings, respectively, on its condensed consolidated statement of financial condition related to these consolidated CLOs. The changes in the assets and liabilities of these CLOs will have no impact on net income attributable to BlackRock, Inc.

***Sponsored Private Equity Fund***

As of September 30, 2010, BlackRock was determined to be the primary beneficiary of one sponsored private equity investment fund of funds, in which it had a non-substantive investment and was deemed to absorb the majority of the variability due to its de-facto third party relationships with other partners in the fund, which limited the ability of the partners to transfer or sell their interests without BlackRock's consent as the general partner of the fund. At September 30, 2010, the Company had recorded \$8 million, \$38 million and \$46 million in cash and cash equivalents, private equity investments and nonredeemable non-controlling interests of consolidated VIEs, respectively, on its condensed consolidated statement of financial condition related to this VIE. The Company has no risk of loss with its involvement with this VIE.

## **Table of Contents**

### **PART I FINANCIAL INFORMATION (continued)**

#### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

##### ***Critical Accounting Policies (continued)***

##### ***Fair Value Measurements***

BlackRock adopted the applicable provisions of ASC 820-10, *Fair Value Measurements and Disclosures* (ASC 820-10), as of January 1, 2008, which require, among other things, disclosures about assets and liabilities that are measured and reported at fair value. The provisions of ASC 820-10 establish a hierarchy that prioritizes inputs to valuation techniques used to measure fair value and requires companies to disclose the fair value of their financial instruments according to a fair value hierarchy (i.e., Level 1, 2 and 3 inputs, as defined). The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. Additionally, companies are required to provide disclosure regarding instruments in the Level 3 category (which have inputs to the valuation techniques that are unobservable and require significant management judgment), including a reconciliation of the beginning and ending balances separately for each major category of assets and liabilities.

Level 3 inputs include the most currently available information, including capital account balances for its partnership interests in various alternative investments and returns of certain market indices. BlackRock's \$727 million of Level 3 investments, or 48% of total GAAP investments, at September 30, 2010 primarily include co-investments in private equity fund of funds and private equity funds, funds of hedge funds as well as alternative hedge funds that invest in distressed credit and mortgage securities and real estate equity products. The various partnerships are investment companies, which record their underlying investments at fair value based on fair value policies established by management of the underlying fund, which could include BlackRock employees. Fair value policies at the underlying fund generally utilize pricing information from third party sources, however, in some instances current valuation information, for illiquid securities or securities in markets that are not active, may not be available from any third party source or fund management may conclude that the valuations that are available from third party sources are not reliable. In these instances, fund management may perform model-based analytical valuations that may be used to value these investments.

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument. See Note 2, Significant Accounting Policies, in the Company's condensed consolidated financial statements contained in Part I, Item 1 of this filing for further information regarding fair value measurements.

##### ***Goodwill and Intangible Assets***

The value of contracts acquired in a business acquisition to manage assets in proprietary open- and closed-end investment funds as well as collective trust funds without a specified termination date and trade names is classified as an indefinite-lived intangible asset. The assignment of indefinite lives to such investment fund contracts is based upon the assumption that there is no foreseeable limit on the contract period to manage these funds due to the likelihood of continued renewal at little or no cost. Goodwill represents the cost of a business acquisition in excess of the fair value of the net assets acquired. In accordance with the applicable provisions of ASC 350, *Intangibles—Goodwill and Other* (ASC 350), indefinite-lived intangible assets and goodwill are not amortized. The Company performed its annual impairment assessment review, as required by ASC 350, for goodwill and indefinite and finite lived intangible assets, on BlackRock's annual impairment test date of July 31st.

##### ***Goodwill***

BlackRock assessed its goodwill for impairment on July 31st and considered such factors as the book value and the market capitalization of the Company. At July 31, 2010, the impairment test that was performed indicated no impairment charge was required. The Company continues to monitor its book value per share as compared to closing prices of its common stock for potential indicators of impairment. As of September 30, 2010 the Company's common stock closed at \$170.25, which exceeded its book value, after excluding appropriated retained earnings, of

approximately \$133.02 per share.

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

*Critical Accounting Policies (continued)*

*Goodwill and Intangible Assets (continued)*

*Indefinite-lived and finite-lived intangibles*

BlackRock assessed its indefinite-lived management contract and trade names for impairment on July 31st, considering such factors as AUM, product margins, tax rates and discount rates to determine whether the values of these asset were impaired and whether the indefinite-life classification was still appropriate. As of July 31, 2010 the Company determined that the impairment tests performed indicated that no impairment charges were required and the classification was still appropriate.

In addition, for finite-lived intangibles management determined that no circumstances existed which would result in an impairment charge or a change in the remaining useful life of any of the finite-lived intangible assets.

*Performance Fees / Carried Interest*

The Company receives performance fees or an incentive allocation from alternative investment products and certain separately managed accounts. These performance fees are earned upon exceeding specified relative or absolute investment return thresholds. Such fees are recorded upon completion of the measurement period which varies by product or account.

The Company receives carried interest from certain alternative investments upon exceeding performance thresholds. BlackRock may be required to return all, or part, of such carried interest depending upon future performance of these investments. BlackRock records carried interest subject to such claw-back provisions as performance fees on its condensed consolidated statements of income upon the earlier of the termination of the alternative investment fund or when the likelihood of claw-back is mathematically improbable. The Company records a deferred carried interest liability to the extent it receives cash or capital allocations prior to meeting the revenue recognition criteria. At September 30, 2010 and December 31, 2009, the Company had \$22 million and \$13 million, respectively, of deferred carried interest recorded in other liabilities on the condensed consolidated statements of financial condition.

---

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

***AUM Market Price Risk***

BlackRock's investment management revenues are comprised of fees based on a percentage of the value of AUM and, in some cases, performance fees expressed as a percentage of the returns realized on AUM. At September 30, 2010, the majority of our investment advisory and administration fees were based on average or period end AUM of the applicable investment funds or separate accounts. Movements in equity market prices, interest rates/credit spreads, foreign exchange rates, or all three could cause the value of AUM to decline, which would result in lower investment advisory and administration fees.

***Corporate Investments Portfolio Risks***

As a leading investment management firm, BlackRock devotes significant resources across all of its operations to identifying, measuring, monitoring, managing and analyzing market and operating risks, including the management and oversight of its own investment portfolio. The Board of Directors of the Company has adopted guidelines for the review of investments to be made by the Company, requiring, among other things, that all investments be reviewed by the Company's Capital Committee, which consists of senior officers of the Company, and that certain investments may be referred to the Audit Committee or the Board of Directors, depending on the circumstances, for approval.

In the normal course of its business, BlackRock is exposed to equity market price risk, interest rate/credit spread risk and foreign exchange rate risk associated with its corporate investments.

BlackRock has investments primarily in sponsored investment products that invest in a variety of asset classes including real estate, private equity and hedge funds. Investments generally are made for co-investment purposes, to establish a performance track record, to hedge exposure to certain deferred compensation plans or for regulatory purposes. Currently, the Company has a seed capital hedging program in which it enters into total return swaps to hedge exposure to certain equity investments. At September 30, 2010, the outstanding total return swaps had an aggregate notional value of approximately \$24 million.

**Table of Contents****PART I FINANCIAL INFORMATION (continued)****Item 3. Quantitative and Qualitative Disclosures About Market Risk (continued)***Corporate Investments Portfolio Risks (continued)*

At September 30, 2010, approximately \$470 million of BlackRock's total investments were maintained in sponsored investment funds that are deemed to be controlled by BlackRock in accordance with GAAP and therefore are consolidated even though BlackRock may not own a majority of such funds. Excluding the impact of the Federal Reserve Bank stock, investments made to hedge exposure to certain deferred compensation plans and certain equity investments that are hedged via the seed capital hedging program, the Company's net economic exposure to its investment portfolio is as follows:

| (Dollar amounts in millions)                                | September 30, | December 31, | Variance |          |
|-------------------------------------------------------------|---------------|--------------|----------|----------|
|                                                             | 2010          | 2009         | Amount   | % Change |
| Total investments, GAAP                                     | \$ 1,512      | \$ 1,049     | \$ 463   | 44%      |
| Investments held by consolidated sponsored investment funds | (470)         | (463)        | (7)      | (2%)     |
| Net exposure to consolidated investment funds               | 317           | 258          | 59       | 23%      |
| Total net economic investments                              | 1,359         | 844          | 515      | 61%      |
| Federal Reserve Bank stock                                  | (325)         | (10)         | (315)    | NM       |
| Deferred compensation investments                           | (71)          | (71)         |          | %        |
| Hedged investments                                          | (24)          | (36)         | 12       | 33%      |
| Total net economic investment exposure                      | \$ 939        | \$ 727       | \$ 212   | 29%      |

NM Not Meaningful

The net economic investment exposure of the portfolio is presented in either the market price or the interest rate/credit spread risk disclosures below:

*Market Price Risk*

At September 30, 2010, the Company's net exposure to market price risk in its investment portfolio was approximately \$555 million of the Company's net economic investment exposure. Investments that are subject to market price risk include private equity and real estate investments, hedge funds and fund of funds, as well as mutual funds. The Company estimates that a 10% adverse change in market prices would result in a decrease of approximately \$55.5 million in the carrying value of such investments.

*Interest Rate/Credit Spread Risk*

At September 30, 2010, the Company was exposed to interest-rate risk and credit spread risk as a result of approximately \$384 million of investments in debt securities and sponsored investment products that invest primarily in debt securities. Management considered a hypothetical

## Edgar Filing: BlackRock Inc. - Form 10-Q

100 basis point fluctuation in interest rates or credit spreads and estimates that the impact of such a fluctuation on these investments, in the aggregate, would result in a decrease, or increase, of approximately \$6 million in the carrying value of such investments.

### *Foreign Exchange Rate Risk*

As discussed above, the Company invests in sponsored investment products that invest in a variety of asset classes. The carrying value of the net economic investment exposure denominated in foreign currencies, primarily the euro, pound sterling, South Korean won and Australian dollars, was \$90 million. A 10% adverse change in foreign exchange rates would result in approximately an \$9.0 million decline in the carrying value of such investments.

**Table of Contents**

**PART I FINANCIAL INFORMATION (continued)**

**Item 4. Controls and Procedures**

***Disclosure Controls and Procedures***

Under the direction of BlackRock's Chief Executive Officer and Chief Financial Officer, BlackRock evaluated the effectiveness of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d - 15(e) under the Exchange Act) at September 30, 2010. Based on this evaluation, BlackRock's Chief Executive Officer and Chief Financial Officer have concluded that BlackRock's disclosure controls and procedures were effective at September 30, 2010.

***Internal Control over Financial Reporting***

Other than the integration of certain information technology systems and processes of the acquired BGI business to those of BlackRock, there have been no changes in internal control over financial reporting during the quarter ended September 30, 2010 that have materially affected or are reasonably likely to materially affect, such internal control over financial reporting. BlackRock is continuing to evaluate its internal controls as well as the internal controls of the acquired BGI business as BlackRock integrates the BGI business into the existing BlackRock business.

**Table of Contents****PART II OTHER INFORMATION****Item 1. Legal Proceedings**

See Note 12, Commitments and Contingencies, to the Company's condensed consolidated financial statements contained in Part I, Item 1 of this filing.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

During the three months ended September 30, 2010, the Company made the following purchases of its common stock, which are registered pursuant to Section 12(b) of the Exchange Act.

|                                              | <b>Total Number of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid per Share</b> | <b>Total Number of<br/>Shares<br/>Purchased as<br/>Part of<br/>Publicly<br/>Announced Plans<br/>Of Programs</b> | <b>Maximum<br/>Number of<br/>Shares that May<br/>Yet Be<br/>Purchased<br/>Under the<br/>Plans<br/>or Programs<sup>(1)</sup></b> |
|----------------------------------------------|-------------------------------------------------|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| July 1, 2010 through July 31, 2010           | 393,037 <sup>(2)</sup>                          | \$ 155.90                                   | 392,000                                                                                                         | 4,708,000                                                                                                                       |
| August 1, 2010 through August 31, 2010       | 534,553 <sup>(2)</sup>                          | \$ 158.97                                   | 504,102                                                                                                         | 4,203,898                                                                                                                       |
| September 1, 2010 through September 30, 2010 | 340 <sup>(2)</sup>                              | \$ 168.60                                   |                                                                                                                 | 4,203,898                                                                                                                       |
| Total                                        | 927,930                                         | \$ 157.68                                   | 896,102                                                                                                         | 4,203,898                                                                                                                       |

<sup>(1)</sup> In July 2010 the Company announced a 5.1 million share repurchase program with no stated expiration date.

<sup>(2)</sup> Includes purchases made by the Company primarily to satisfy income tax withholding obligations of employees and members of our Board of Directors related to the vesting of certain restricted stock or restricted stock unit awards. All such purchases were made outside of the publicly announced share repurchase program.

**Table of Contents**

**PART II OTHER INFORMATION (continued)**

**Item 6. Exhibits**

| <b>Exhibit<br/>No.</b> | <b>Description</b>                                                               |
|------------------------|----------------------------------------------------------------------------------|
| 12.1                   | Computation of Ratio of Earnings to Fixed Charges                                |
| 31.1                   | Section 302 Certification of Chief Executive Officer                             |
| 31.2                   | Section 302 Certification of Chief Financial Officer                             |
| 32.1                   | Section 906 Certification of Chief Executive Officer and Chief Financial Officer |
| 101.INS                | XBRL Instance Document                                                           |
| 101.SCH                | XBRL Taxonomy Extension Schema Document                                          |
| 101.CAL                | XBRL Taxonomy Extension Calculation Linkbase Document                            |
| 101.DEF                | XBRL Taxonomy Extension Definition Linkbase Document                             |
| 101.LAB                | XBRL Taxonomy Extension Label Linkbase Document                                  |
| 101.PRE                | XBRL Taxonomy Extension Presentation Linkbase Document                           |

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**BLACKROCK, INC.**  
(Registrant)

Date: November 8, 2010

By: /s/ ANN MARIE PETACH  
**Ann Marie Petach**  
**Managing Director & Chief Financial Officer**

123

---

**Table of Contents**

**EXHIBIT INDEX**

| <b>Exhibit<br/>No.</b> | <b>Description</b>                                                               |
|------------------------|----------------------------------------------------------------------------------|
| 12.1                   | Computation of Ratio of Earnings to Fixed Charges                                |
| 31.1                   | Section 302 Certification of Chief Executive Officer                             |
| 31.2                   | Section 302 Certification of Chief Financial Officer                             |
| 32.1                   | Section 906 Certification of Chief Executive Officer and Chief Financial Officer |
| 101.INS                | XBRL Instance Document                                                           |
| 101.SCH                | XBRL Taxonomy Extension Schema Document                                          |
| 101.CAL                | XBRL Taxonomy Extension Calculation Linkbase Document                            |
| 101.DEF                | XBRL Taxonomy Extension Definition Linkbase Document                             |
| 101.LAB                | XBRL Taxonomy Extension Label Linkbase Document                                  |
| 101.PRE                | XBRL Taxonomy Extension Presentation Linkbase Document                           |