Blackstone Group L.P.
Form 10-Q
August 07, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012**

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO**

Commission File Number: 001-33551

The Blackstone Group L.P.

(Exact name of Registrant as specified in its charter)

Delaware	**20-8875684**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

345 Park Avenue

New York, New York 10154

(Address of principal executive offices)(Zip Code)

(212) 583-5000

(Registrant s telephone number, including area code)

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 x 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 x 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 x	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 x

The number of the Registrant s voting common units representing limited partner interests outstanding as of July 31, 2012 was 417,258,208. The number of the Registrant s non-voting common units representing limited partner interests outstanding as of July 31, 2012 was 101,334,234.

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Forward-Looking Statements

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as outlook, believes, expects, potential, continues, may, wil should, seeks, approximately, predicts, intends, plans, estimates, anticipates or the negative version of these words or other compara Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled Risk Factors in our annual report on Form 10-K for the year ended December 31, 2011 and in this report, as such factors may be updated from time to time in our periodic filings with the United States Securities and Exchange Commission (SEC), which are accessible on the SEC s website at www.sec.gov. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. The forward-looking statements speak only as of the date of this report, and we undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

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

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

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

(a) the fair value of the investments held by our carry funds and our side-by-side investments, plus the capital that we are entitled to call from investors in those funds and side-by-side investments pursuant to the terms of their respective capital commitments, plus the fair value of co-investments managed by us,

(b) the net asset value of our funds of hedge funds, hedge funds, closed-end mutual funds and registered investment companies,

(c) the fair value of assets we manage pursuant to separately managed accounts, and

(d) the amount of capital raised for our CLOs.

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

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

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

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

(c) the remaining invested capital of co-investments managed by us on which we receive fees,

(d)

the net asset value of our funds of hedge funds, hedge funds, certain credit-oriented closed-end registered investment companies, and our closed-end mutual funds,

(e) the fair value of assets we manage pursuant to separately managed accounts,

(f) the gross amount of underlying assets of our CLOs at cost, and

(g) the gross amount of assets (including leverage) for certain of our credit-oriented closed-end registered investment companies.

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

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Financial Condition (Unaudited)

(Dollars in Thousands, Except Unit Data)

	June 30, 2012	December 31, 2011
Assets		
Cash and Cash Equivalents	$ 412,545	$ 754,744
Cash Held by Blackstone Funds and Other	858,607	724,762
Investments (including assets pledged of $115,354 and $101,298 at June 30, 2012 and December 31, 2011, respectively)	19,351,458	15,128,299
Accounts Receivable	586,416	406,140
Reverse Repurchase Agreements	88,524	139,485
Due from Affiliates	800,063	860,514
Intangible Assets, Net	652,874	595,488
Goodwill	1,703,602	1,703,602
Other Assets	458,646	337,396
Deferred Tax Assets	1,229,835	1,258,699
Total Assets	$ 26,142,570	$ 21,909,129
Liabilities and Partners Capital		
Loans Payable	$ 12,110,532	$ 8,867,568
Due to Affiliates	1,763,742	1,811,468
Accrued Compensation and Benefits	977,003	903,260
Securities Sold, Not Yet Purchased	88,153	143,825
Repurchase Agreements	115,987	101,849
Accounts Payable, Accrued Expenses and Other Liabilities	823,413	828,873
Total Liabilities	15,878,830	12,656,843
Commitments and Contingencies		
Redeemable Non-Controlling Interests in Consolidated Entities	1,258,295	1,091,833
Partners Capital		
Partners Capital (common units: 519,754,704 issued and outstanding as of June 30, 2012; 489,430,907 issued and outstanding as of December 31, 2011)	4,413,322	4,281,841
Appropriated Partners Capital	966,931	386,864
Accumulated Other Comprehensive Income	1,932	1,958
Non-Controlling Interests in Consolidated Entities	1,143,290	1,029,270
Non-Controlling Interests in Blackstone Holdings	2,479,970	2,460,520
Total Partners Capital	9,005,445	8,160,453
Total Liabilities and Partners Capital	$ 26,142,570	$ 21,909,129

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See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Financial Condition (Unaudited)

(Dollars in Thousands)

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

	June 30, 2012	December 31, 2011
Assets		
Cash Held by Blackstone Funds and Other	$ 742,387	$ 598,441
Investments	12,597,840	8,961,960
Accounts Receivable	58,453	33,405
Due from Affiliates	36,289	36,502
Other Assets	55,244	12,031
Total Assets	$ 13,490,213	$ 9,642,339
Liabilities		
Loans Payable	$ 11,045,251	$ 7,801,136
Due to Affiliates	225,103	311,909
Accounts Payable, Accrued Expenses and Other	311,964	244,488
Total Liabilities	$ 11,582,318	$ 8,357,533

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Operations (Unaudited)

(Dollars in Thousands, Except Unit and Per Unit Data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues				
Management and Advisory Fees, Net	$ 488,048	$ 498,040	$ 959,724	$ 910,778
Performance Fees				
Realized				
Carried Interest	55,929	42,750	69,489	136,153
Incentive Fees	11,631	19,013	16,910	21,813
Unrealized				
Carried Interest	84,290	611,158	383,086	1,043,305
Incentive Fees	(16,436)	(670)	50,699	79,584
Total Performance Fees	135,414	672,251	520,184	1,280,855
Investment Income (Loss)				
Realized	5,758	19,303	22,093	32,086
Unrealized	(10,519)	108,711	62,307	216,106
Total Investment Income (Loss)	(4,761)	128,014	84,400	248,192
Interest and Dividend Revenue	9,267	8,848	16,903	18,338
Other	(765)	1,128	(1,972)	3,387
Total Revenues	627,203	1,308,281	1,579,239	2,461,550
Expenses				
Compensation and Benefits Compensation	533,367	699,432	1,028,622	1,358,915
Performance Fee Compensation				
Realized				
Carried Interest	7,898	18,676	15,836	32,243
Incentive Fees	5,576	9,036	9,828	10,012
Unrealized				
Carried Interest	36,815	123,714	121,359	249,670
Incentive Fees	(9,595)	(5,616)	3,183	30,953
Total Compensation and Benefits	574,061	845,242	1,178,828	1,681,793
General, Administrative and Other	135,737	126,118	278,503	255,504
Interest Expense	13,773	14,185	28,291	27,988
Fund Expenses	16,248	(714)	37,990	10,410
Total Expenses	739,819	984,831	1,523,612	1,975,695
Other Income (Loss)				
Net Gains (Losses) from Fund Investment Activities	248,230	(74,654)	536,372	(119,845)
Income Before Provision for Taxes	135,614	248,796	591,999	366,010
Provision for Taxes	41,337	64,199	80,090	103,049

Net Income		94,277		184,597		511,909		262,961
Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities		(17,666)		205		36,594		22,942
Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities		239,934		(92,753)		437,576		(186,546)
Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings		(53,027)		190,908		54,378		297,624
Net Income (Loss) Attributable to The Blackstone Group L.P.	$	(74,964)	$	86,237	$	(16,639)	$	128,941
Net Income (Loss) Per Common Unit Basic and Diluted	$	(0.14)	$	0.18	$	(0.03)	$	0.28
Weighted-Average Common Units Outstanding Basic		528,778,977		476,289,647		517,882,253		462,094,878
Weighted-Average Common Units Outstanding Diluted		528,778,977		483,643,646		517,882,253		468,618,734
Revenues Earned from Affiliates								
Management and Advisory Fees	$	56,133	$	118,916	$	104,117	$	188,954

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in Thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Net Income	$ 94,277	$ 184,597	$ 511,909	$ 262,961
Other Comprehensive Income (Loss), Net of Tax Currency Translation Adjustment	(21,255)	16,985	(23,429)	21,588
Comprehensive Income	73,022	201,582	488,480	284,549
Less:				
Comprehensive Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	(17,666)	205	36,594	22,942
Comprehensive Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities	220,044	(75,297)	414,173	(163,286)
Comprehensive Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings	(53,027)	190,908	54,378	297,624
Comprehensive Income (Loss) Attributable to The Blackstone Group L.P.	$ (76,329)	$ 85,766	$ (16,665)	$ 127,269

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Changes in Partners Capital (Unaudited)

(Dollars in Thousands, Except Unit Data)

	The Blackstone Group L.P.							
	Common Units	**Partners Capital**	**Appro- priated Partners Capital**	**Accumulated Other Comprehensive Income**	**Non-Controlling Interests in Consolidated Entities**	**Non-Controlling Interests in Blackstone Holdings**	**Total Partners Capital**	**Redeemable Non- Controlling Interests in Consolidated Entities**
Balance at December 31, 2011	489,430,907	$ 4,281,841	$ 386,864	$ 1,958	$ 1,029,270	$ 2,460,520	$ 8,160,453	$ 1,091,833
Transition and Acquisition Adjustments Relating to Consolidation of CLO Entities			233,386		155		233,541	
Net Income (Loss)		(16,639)			437,576	54,378	475,315	36,594
Allocation of Income of Consolidated CLO Entities			370,084		(370,084)			
Currency Translation Adjustment				(26)	(23,403)		(23,429)	
Allocation of Currency Translation Adjustment of Consolidated Collateralized Loan Obligations			(23,403)		23,403			
Capital Contributions					97,832		97,832	210,447
Capital Distributions		(163,964)			(47,843)	(226,326)	(438,133)	(100,728)
Transfer of Non-Controlling Interests in Consolidated Entities					(3,616)	(943)	(4,559)	
Purchase of Interests from Certain Non-Controlling Interest Holders		(33)					(33)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non- Controlling Interest Holders		12,743					12,743	
Equity-Based Compensation		234,224				274,730	508,954	
Relinquished in Deconsolidation and Liquidation of Partnership								20,149
Net Delivery of Vested Common Units	8,175,645	(17,032)				(207)	(17,239)	
Change in The Blackstone Group L.P. s Ownership Interest		(9,467)				9,467		
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	22,148,152	91,649				(91,649)		

Balance at June 30, 2012	519,754,704	$ 4,413,322	$ 966,931	$ 1,932	$ 1,143,290	$ 2,479,970	$ 9,005,445	$ 1,258,295

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See notes to condensed consolidated financial statements

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Changes in Partners Capital (Unaudited)

(Dollars in Thousands, Except Unit Data)

	The Blackstone Group L.P.							
	Common Units	**Partners Capital**	**Appro-priated Partners Capital**	**Accumulated Other Compre-hensive Income**	**Non-Controlling Interests in Consolidated Entities**	**Non-Controlling Interests in Blackstone Holdings**	**Total Partners Capital**	**Redeemable Non-Controlling Interests in Consolidated Entities**
Balance at December 31, 2010	416,092,022	$ 3,888,211	$ 470,583	$ 4,302	$ 812,354	$ 2,418,517	$ 7,593,967	$ 659,390
Transition and Acquisition Adjustments Relating to Consolidation of CLO Entities			86,016		114		86,130	
Net Income (Loss)		128,941			(186,546)	297,624	240,019	22,942
Allocation of Income of Consolidated CLO Entities			(368,101)		368,101			
Currency Translation Adjustment				(1,672)	23,260		21,588	
Allocation of Currency Translation Adjustment of Consolidated Collateralized Loan Obligations			23,260		(23,260)			
Capital Contributions					123,599		123,599	363,476
Capital Distributions					(94,690)		(94,690)	(120,136)
Transfer of Non-Controlling Interests in Consolidated Entities					1,600	(1,600)		
Purchase of Interests from Certain Non-Controlling Interest Holders		(2,239)					(2,239)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non- Controlling Interest Holders		49,555					49,555	
Dividend		(196,384)				(285,857)	(482,241)	
Equity-Based Compensation		352,022				498,273	850,295	
Relinquished in Deconsolidation and Liquidation of Partnership								966
Net Delivery of Vested Common Units	6,574,038	(30,920)					(30,920)	
Repurchase of Common Units and Blackstone Holdings Partnership Units						(469)	(469)	
Change in The Blackstone Group L.P. s Ownership Interest		(6,045)				6,045		
	55,683,133	208,257				(208,257)		

Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units								
Balance at June 30, 2011	478,349,193	$ 4,391,398	$ 211,758	$ 2,630	$ 1,024,532	$ 2,724,276	$ 8,354,594	$ 926,638

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

	Six Months Ended June 30,	
	2012	**2011**
Operating Activities		
Net Income	$ 511,909	$ 262,961
Adjustments to Reconcile Net Income to Net Cash Provided by (Used in) Operating Activities:		
Blackstone Funds Related:		
Unrealized Depreciation (Appreciation) on Investments Allocable to Non-Controlling Interests in Consolidated Entities	(520,599)	7,598
Net Realized Gains on Investments	(97,353)	(296,433)
Changes in Unrealized Gains on Investments Allocable to The Blackstone Group L.P.	(31,230)	(206,735)
Unrealized Depreciation (Appreciation) on Hedge Activities	22,599	(7,278)
Non-Cash Performance Fees	(332,432)	(857,921)
Non-Cash Performance Fee Compensation	150,206	322,878
Equity-Based Compensation Expense	467,005	834,923
Amortization of Intangibles	84,835	82,425
Other Non-Cash Amounts Included in Net Income	24,379	39,807
Cash Flows Due to Changes in Operating Assets and Liabilities:		
Cash Held by Blackstone Funds and Other	152,335	166,464
Cash Relinquished with Deconsolidation and Liquidation of Partnership	20,148	966
Accounts Receivable	(130,775)	3,059
Reverse Repurchase Agreements	50,961	87,450
Due from Affiliates	(20,202)	60,662
Other Assets	(8,051)	68,269
Accrued Compensation and Benefits	31,071	(132,816)
Securities Sold, Not Yet Purchased	(50,143)	(43,302)
Accounts Payable, Accrued Expenses and Other Liabilities	(425,377)	(235,626)
Repurchase Agreements	14,138	14,527
Due to Affiliates	(27,892)	(111,175)
Treasury Cash Management Strategies:		
Investments Purchased	(1,382,392)	(1,755,013)
Cash Proceeds from Sale of Investments	1,356,654	1,733,108
Blackstone Funds Related:		
Investments Purchased	(3,593,721)	(4,378,272)
Cash Proceeds from Sale or Pay Down of Investments	4,080,259	4,712,168
Net Cash Provided by Operating Activities	346,332	372,694
Investing Activities		
Purchase of Furniture, Equipment and Leasehold Improvements	(20,948)	(17,170)
Net Cash Paid for Acquisitions, Net of Cash Acquired	(156,972)	(23,247)
Changes in Restricted Cash	(176)	332
Net Cash Used in Investing Activities	(178,096)	(40,085)

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See notes to condensed consolidated financial statements

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Financing Activities		
Distributions to Non-Controlling Interest Holders in Consolidated Entities	$ (141,769)	$ (214,952)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	297,528	488,094
Purchase of Interests from Certain Non-Controlling Interest Holders	(32)	(2,239)
Net Settlement of Vested Common Units and Repurchase of Common and Holdings Units	(17,239)	(31,390)
Proceeds from Loans Payable	4,899	3,111
Repayment of Loans Payable	(10,115)	(22,445)
Distributions to Unitholders	(390,290)	(482,241)
Blackstone Funds Related:		
Proceeds from Loans Payable	3,981	404
Repayment of Loans Payable	(257,283)	(224,777)
Net Cash Used in Financing Activities	(510,320)	(486,435)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(115)	8
Net Decrease in Cash and Cash Equivalents	(342,199)	(153,818)
Cash and Cash Equivalents, Beginning of Period	754,744	588,621
Cash and Cash Equivalents, End of Period	$ 412,545	$ 434,803
Supplemental Disclosure of Cash Flows Information		
Payments for Interest	$ 42,853	$ 1,970
Payments for Income Taxes	$ 14,752	$ 26,698
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Net Activities Related to Capital Transactions of Consolidated Blackstone Funds	$ (4,377)	$ 5,153
Net Assets Related to the Consolidation of CLO Vehicles	$ 233,541	$ 86,130
In-kind Redemption of Capital	$ (2,017)	$
In-kind Contribution of Capital	$ 2,017	$
Transfer of Interests to Non-Controlling Interest Holders	$ (3,615)	$ 1,600
Change in The Blackstone Group L.P. s Ownership Interest	$ (9,467)	$ (6,045)
Net Settlement of Vested Common Units	$ 91,690	$ 102,894
Conversion of Blackstone Holdings Units to Common Units	$ 91,649	$ 208,257

Exchange of Founders and Non-Controlling Interest Holders Interests in Blackstone Holdings:		
Deferred Tax Asset	$ (76,569)	$ (271,000)
Due to Affiliates	$ 63,826	$ 221,445
Partners Capital	$ 12,743	$ 49,555

See notes to condensed consolidated financial statements.

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements

(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

1. ORGANIZATION

The Blackstone Group L.P., together with its subsidiaries, (Blackstone or the Partnership) is a leading global manager of private capital and provider of financial advisory services. The alternative asset management business includes the management of private equity funds, real estate funds, funds of hedge funds, credit-oriented funds, collateralized loan obligation (CLO) vehicles, separately managed accounts, and registered investment companies (collectively referred to as the Blackstone Funds). Blackstone also provides various financial advisory services, including financial advisory, restructuring and reorganization advisory and fund placement services. Blackstone s business is organized into five segments: private equity, real estate, hedge fund solutions, credit businesses, and financial advisory.

The Partnership was formed as a Delaware limited partnership on March 12, 2007. The Partnership is managed and operated by its general partner, Blackstone Group Management L.L.C., which is in turn wholly-owned and controlled by one of Blackstone s founders, Stephen A. Schwarzman (the Founder), and Blackstone s other senior managing directors.

The activities of the Partnership are conducted through its holding partnerships: Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P. (collectively, Blackstone Holdings , Blackstone Holdings Partnerships or the Holding Partnerships). On June 18, 2007, in preparation for an initial public offering (IPO), the predecessor owners (Predecessor Owners) of the Blackstone business completed a reorganization (the Reorganization) whereby, with certain limited exceptions, the operating entities of the predecessor organization and the intellectual property rights associated with the Blackstone name were contributed (Contributed Businesses) to five holding partnerships (Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and Blackstone Holdings V L.P.) either directly or indirectly via a sale to certain wholly-owned subsidiaries of the Partnership and then a contribution to the Holding Partnerships. The Partnership, through its wholly-owned subsidiaries, is the sole general partner in each of these Holding Partnerships. The reorganization was accounted for as an exchange of entities under common control for the component of interests contributed by the Founders and the other senior managing directors (collectively, the Control Group) and as an acquisition of non-controlling interests using the purchase method of accounting for all the predecessor owners other than the Control Group.

On January 1, 2009, the number of Holding Partnerships was reduced from five to four through the transfer of assets and liabilities of Blackstone Holdings III L.P. to Blackstone Holdings IV L.P. In connection therewith, Blackstone Holdings IV L.P. was renamed Blackstone Holdings III L.P. and Blackstone Holdings V L.P. was renamed Blackstone Holdings IV L.P. Blackstone Holdings refers to the five holding partnerships prior to the January 2009 reorganization and the four holding partnerships subsequent to the January 2009 reorganization.

Generally, holders of the limited partner interests in the four Holding Partnerships may, up to four times each year, exchange their limited partnership interests (Partnership Units) for Blackstone Common Units, on a one-to-one basis, exchanging one Partnership Unit in each of the four Holding Partnerships for one Blackstone Common Unit.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Partnership have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Form 10-Q. The condensed consolidated financial

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Notes to Condensed Consolidated Financial Statements Continued

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statements, including these notes, are unaudited and exclude some of the disclosures required in audited financial statements. Management believes it has made all necessary adjustments (consisting of only normal recurring items) so that the condensed consolidated financial statements are presented fairly and that estimates made in preparing its condensed consolidated financial statements are reasonable and prudent. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Partnership s Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission.

The condensed consolidated financial statements include the accounts of the Partnership, its wholly-owned or majority-owned subsidiaries, the consolidated entities which are considered to be variable interest entities and for which the Partnership is considered the primary beneficiary, and certain partnerships or similar entities which are not considered variable interest entities but in which the general partner is presumed to have control.

All intercompany balances and transactions have been eliminated in consolidation.

Restructurings within consolidated CLOs are treated as investment purchases or sales, as applicable, in the Condensed Consolidated Statements of Cash Flows.

The December 31, 2011 Condensed Consolidated Statement of Financial Condition reflects an increase of $506.2 million to reflect the cumulative effect of a reclassification to Redeemable Non-Controlling Interests in Consolidated Entities. This amount had previously been classified within Non-Controlling Interests in Consolidated Entities but should properly be, and now has been, classified within Redeemable Non-Controlling Interests in Consolidated Entities. In addition, the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2011 reflect an increase to Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities of $0.3 million and $1.1 million, respectively, with a corresponding decrease to Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities to correctly classify the portion of Net Gains (Losses) from Fund Investment Activities attributable to Redeemable Non-Controlling Interests in Consolidated Entities. These immaterial restatements had no impact on Net Income (Loss) Attributable to The Blackstone Group L.P., Net Income (Loss) per Common Unit-Basic or Diluted, or the Condensed Consolidated Statements of Cash Flows.

Certain reclassifications have been made to prior year amounts to conform to the current year presentation as follows:

As of June 30, 2012, Blackstone elected to separately present Carried Interest and Incentive Fees in each of the Realized and Unrealized components of Performance Fee Revenue and Performance Fee Compensation in the Condensed Consolidated Statements of Operations. Previously, these amounts were not separately reported. This presentation had no impact on the respective financial statement captions.

Consolidation

The Partnership consolidates all entities that it controls through a majority voting interest or otherwise, including those Blackstone Funds in which the general partner is presumed to have control. Although the Partnership has a non-controlling interest in the Blackstone Holdings partnerships, the limited partners do not have the right to dissolve the partnerships or have substantive kick out rights or participating rights that would overcome the presumption of control by the Partnership. Accordingly, the Partnership consolidates Blackstone Holdings and records non-controlling interests to reflect the economic interests of the limited partners of Blackstone Holdings.

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Income (Loss) attributable to Blackstone Holdings, excluding certain costs and expenses borne directly by Blackstone Holdings, is calculated based on the average number of Blackstone Holdings partnership units held by the Founder, other senior managing directors and employees.

In addition, the Partnership consolidates all variable interest entities (VIE) in which it is the primary beneficiary. An enterprise is determined to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a VIE that most significantly impact the entity s economic performance and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The consolidation guidance requires an analysis to (a) determine whether an entity in which the Partnership holds a variable interest is a VIE and (b) whether the Partnership s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., management and performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment. VIEs qualify for the deferral of the consolidation guidance if all of the following conditions have been met:

(a) The entity has all of the attributes of an investment company as defined under American Institute of Certified Public Accountants Accounting and Auditing Guide, *Investment Companies* (Investment Company Guide), or does not have all the attributes of an investment company but it is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with the Investment Company Guide,

(b) The reporting entity does not have explicit or implicit obligations to fund any losses of the entity that could potentially be significant to the entity, and

(c) The entity is not a securitization or asset-backed financing entity or an entity that was formerly considered a qualifying special purpose entity.

Where the VIEs have qualified for the deferral of the current consolidation guidance, the analysis is based on previous consolidation guidance. This guidance requires an analysis to determine (a) whether an entity in which the Partnership holds a variable interest is a variable interest entity and (b) whether the Partnership s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., management and performance related fees), would be expected to absorb a majority of the variability of the entity. Under both guidelines, the Partnership determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a variable interest entity and reconsiders that conclusion continuously. In evaluating whether the Partnership is the primary beneficiary, Blackstone evaluates its economic interests in the entity held either directly by the Partnership and its affiliates or indirectly through employees. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that the Partnership is not the primary beneficiary, a quantitative analysis may also be performed. Investments and redemptions (either by the Partnership, affiliates of the Partnership or third parties) or amendments to the governing documents of the respective Blackstone Funds could affect an entity s status as a VIE or the determination of the primary beneficiary. At each reporting date, the Partnership assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

Assets of consolidated variable interest entities that can only be used to settle obligations of the consolidated VIE and liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of Blackstone are presented in a separate section in the Condensed Consolidated Statements of Financial Condition.

Blackstone s other disclosures regarding VIEs are discussed in Note 9.   Variable Interest Entities .

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Fair Value of Financial Instruments

GAAP establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily available quoted prices in active markets generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Financial instruments measured and reported at fair value are classified and disclosed based on the observability of inputs used in the determination of fair values, as follows:

Level I Quoted prices are available in active markets for identical financial instruments as of the reporting date. The type of financial instruments in Level I include listed equities, listed derivatives and mutual funds with quoted prices. The Partnership does not adjust the quoted price for these investments, even in situations where Blackstone holds a large position and a sale could reasonably impact the quoted price.

Level II Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and loans, government and agency securities, less liquid and restricted equity securities, certain over-the-counter derivatives where the fair value is based on observable inputs, and certain fund of hedge funds and proprietary investments in which Blackstone has the ability to redeem its investment at net asset value at, or within three months of, the reporting date.

Level III Pricing inputs are unobservable for the financial instruments and includes situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category generally include general and limited partnership interests in private equity and real estate funds, credit-oriented funds, distressed debt and non-investment grade residual interests in securitizations, corporate bonds and loans held within CLO vehicles, certain over the counter derivatives where the fair value is based on unobservable inputs and certain funds of hedge funds which use net asset value per share to determine fair value in which Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date. Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date if an investee fund manager has the ability to limit the amount of redemptions, and/or the ability to side-pocket investments, irrespective of whether such ability has been exercised. Senior and subordinate notes issued by CLO vehicles may also be classified within Level III of the fair value hierarchy.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Partnership 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.

Transfers between levels of the fair value hierarchy are recognized at the beginning of the reporting period.

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Level II Valuation Techniques

Financial instruments classified within Level II of the fair value hierarchy comprise debt instruments, including corporate loans and bonds held by Blackstone s consolidated CLO vehicles, those held within Blackstone s Treasury Cash Management Strategies and debt securities sold, not yet purchased and interests in investment funds. Certain equity securities and derivative instruments valued using observable inputs are also classified as Level II.

The valuation techniques used to value financial instruments classified within Level II of the fair value hierarchy are as follows:

Debt Instruments and Equity Securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments. The valuation of certain equity securities is based on an observable price for an identical security adjusted for the effect of a restriction.

Investment Funds held by the consolidated Blackstone Funds are valued using net asset value per share as described in Level III Valuation Techniques Funds of Hedge Funds. Certain investments in investment funds are classified within Level II of the fair value hierarchy as the investment can be redeemed at, or within three months of, the reporting date.

Freestanding Derivatives and Derivative Instruments Designated as Fair Value Hedges are valued using contractual cash flows and observable inputs comprising yield curves, foreign currency rates and credit spreads.

Level III Valuation Techniques

In the absence of observable market prices, Blackstone values its investments using valuation methodologies applied on a consistent basis. For some investments little market activity may exist; management s determination of fair value is then based on the best information available in the circumstances, and may incorporate management s own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Investments for which market prices are not observable include private investments in the equity of operating companies, real estate properties, certain funds of hedge funds and credit-oriented investments.

Private Equity Investments The fair values of private equity investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization (EBITDA), the discounted cash flow method, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are unaudited at the time received. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (e.g., multiplying a key performance metric of the investee company such as EBITDA by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Private equity investments may also be valued at cost for a period of time after an acquisition as the best indicator of fair value.

Real Estate Investments The fair values of real estate investments are determined by considering projected operating cash flows, sales of comparable assets, if any, and replacement costs among other measures. The methods used to estimate the fair value of real estate investments include the discounted cash flow method

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and/or capitalization rates (cap rates) analysis. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (e.g., multiplying a key performance metric of the investee company or asset, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Additionally, where applicable, projected distributable cash flow through debt maturity will also be considered in support of the investment s carrying value.

Funds of Hedge Funds Blackstone Funds direct investments in funds of hedge funds (Investee Funds) are valued at net asset value (NAV) per share of the Investee Fund. If the Partnership determines, based on its own due diligence and investment procedures, that NAV per share does not represent fair value, the Partnership will estimate the fair value in good faith and in a manner that it reasonably chooses, in accordance with its valuation policies.

Certain investments of Blackstone and of the consolidated Blackstone funds of hedge funds and credit-oriented funds measure their investments in underlying funds at fair value using NAV per share without adjustment. The terms of the investee s investment generally provide for minimum holding periods or lock-ups, the institution of gates on redemptions or the suspension of redemptions or an ability to side-pocket investments, at the discretion of the investee s fund manager, and as a result, investments may not be redeemable at, or within three months of, the reporting date. A side-pocket is used by hedge funds and funds of hedge funds to separate investments that may lack a readily ascertainable value, are illiquid or are subject to liquidity restriction. Redemptions are generally not permitted until the investments within a side pocket are liquidated or it is deemed that the conditions existing at the time that required the investment to be included in the side pocket no longer exist. As the timing of either of these events is uncertain, the timing at which the Partnership may redeem an investment held in a side-pocket cannot be estimated. Investments for which fair value is measured using NAV per share are reflected within the fair value hierarchy based on the observability of pricing inputs as described above. Further disclosure on instruments for which fair value is measured using NAV per share is presented in Note 5. Net Asset Value as Fair Value .

Credit-Oriented Investments The fair values of credit-oriented investments are generally determined on the basis of prices between market participants provided by reputable dealers or pricing services. In some instances, Blackstone may utilize other valuation techniques, including the discounted cash flow method.

Credit-Oriented Liabilities Credit-oriented liabilities comprise senior and subordinate loans issued by Blackstone s consolidated CLO vehicles. Such liabilities are valued using a discounted cash flow methodology.

Level III Valuation Process

Investments classified within Level III of the fair value hierarchy are valued on a quarterly basis, taking into consideration any changes in Blackstone s weighted average cost of capital assumptions, discounted cash flow projections and exit multiple assumptions, as well as any changes in economic and other relevant conditions and valuation models are updated accordingly. The valuation process also includes a review by an independent valuation party, at least annually for all investments, and quarterly for certain investments, to corroborate the values determined by management. The valuations of Blackstone s investments are reviewed quarterly by a valuation committee which is chaired by Blackstone s Vice Chairman and includes senior heads of each of Blackstone s businesses, as well as representatives of legal and finance. Each quarter, the valuations of Blackstone s investments are also reviewed by the Audit Committee in a meeting attended by the chairman of the valuation committee as well as the senior heads of each of Blackstone s businesses. The valuations are further tested by comparison to actual sales prices obtained on disposition of the investments.

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Investments, at Fair Value

The Blackstone Funds are accounted for as investment companies under the Investment Company Guide, and reflect their investments, including majority-owned and controlled investments (the Portfolio Companies), at fair value. Blackstone has retained the specialized accounting for the consolidated Blackstone Funds. Thus, such consolidated funds investments are reflected in Investments on the Condensed Consolidated Statements of Financial Condition at fair value, with unrealized gains and losses resulting from changes in fair value reflected as a component of Net Gains (Losses) from Fund Investment Activities in the Condensed Consolidated Statements of Operations. Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price).

Blackstone s principal investments are presented at fair value with unrealized appreciation or depreciation and realized gains and losses recognized in the Condensed Consolidated Statements of Operations within Investment Income (Loss).

For certain instruments, the Partnership has elected the fair value option. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. The Partnership has applied the fair value option for certain loans and receivables and certain investments in private debt and equity securities that otherwise would not have been carried at fair value with gains and losses recorded in net income. Fair valuing these investments is consistent with how the Partnership accounts for its other principal investments. Loans extended to third parties are recorded within Accounts Receivable within the Condensed Consolidated Statements of Financial Condition. Debt and equity securities for which the fair value option has been elected are recorded within Investments. The methodology for measuring the fair value of such investments is consistent with the methodology applied to private equity, real estate, credit-oriented and funds of hedge funds investments. Changes in the fair value of such instruments are recognized in Investment Income (Loss) in the Condensed Consolidated Statements of Operations. Interest income on interest bearing loans and receivables and debt securities on which the fair value option has been elected is based on stated coupon rates adjusted for the accretion of purchase discounts and the amortization of purchase premiums. This interest income is recorded within Interest and Dividend Revenue.

In addition, the Partnership has elected the fair value option for the assets and liabilities of CLO vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of variable interest entity consolidation guidance. The Partnership has also elected the fair value option for CLO vehicles consolidated as a result of the acquisitions of CLO management contracts. The adjustment resulting from the difference between the fair value of assets and liabilities for each of these events is presented as a transition and acquisition adjustment to Appropriated Partners Capital. The recognition of the initial difference between the fair value of assets and liabilities of CLO vehicles consolidated as a result of the acquisition of management contracts subsequent to the initial adoption of revised accounting guidance effective January 1, 2010, as an adjustment to Appropriated Partners Capital, is currently under review by the Emerging Issues Task Force (EITF). Assets of the consolidated CLOs are presented within Investments within the Condensed Consolidated Statements of Financial Condition and Liabilities within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by non-consolidated affiliates. The methodology for measuring the fair value of such assets and liabilities is consistent with the methodology applied to private equity, real estate, and credit-oriented investments. Changes in the fair value of consolidated CLO assets and liabilities and related interest, dividend and other income subsequent to adoption and acquisition are presented within Net Gains (Losses) from Fund Investment Activities. Amounts attributable to Non-Controlling Interests in Consolidated Entities have a corresponding adjustment to Appropriated Partners Capital.

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Further disclosure on instruments for which the fair value option has been elected is presented in Note 7. Fair Value Option to the Condensed Consolidated Financial Statements.

Security and loan transactions are recorded on a trade date basis.

Equity Method Investments

Investments where the Partnership is deemed to exert significant influence, but not control, are accounted for using the equity method of accounting. Under the equity method of accounting, the Partnership s share of earnings (losses) from equity method investments is included in Investment Income (Loss) in the Condensed Consolidated Statements of Operations. The carrying amounts of equity method investments are reflected in Investments in the Condensed Consolidated Statements of Financial Condition. As the underlying investments of the Partnership s equity method investments in Blackstone Funds are reported at fair value, the carrying value of the Partnership s equity method investments represents fair value.

Repurchase and Reverse Repurchase Agreements

Securities purchased under agreement to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements), comprising primarily U.S. and non-U.S. government and agency securities, asset-backed securities and corporate debt, represent collateralized financing transactions. Such transactions are recorded in the Condensed Consolidated Statements of Financial Condition at their contractual amounts and include accrued interest.

The Partnership manages credit exposure arising from repurchase agreements and reverse repurchase agreements by, in appropriate circumstances, entering into master netting agreements and collateral arrangements with counterparties that provide the Partnership, in the event of a counterparty default, the right to liquidate collateral and the right to offset a counterparty s rights and obligations.

The Partnership takes possession of securities purchased under reverse repurchase agreements and is permitted to repledge, deliver or otherwise use such securities. The Partnership also pledges its financial instruments to counterparties to collateralize repurchase agreements. Financial instruments pledged that can be repledged, delivered or otherwise used by the counterparty are recorded in Investments on the Condensed Consolidated Statements of Financial Condition.

Securities Sold, Not Yet Purchased

Securities Sold, Not Yet Purchased consist of equity and debt securities that the Partnership has borrowed and sold. The Partnership is required to cover its short sale in the future by purchasing the security at prevailing market prices and delivering it to the counterparty from which it borrowed the security. The Partnership is exposed to loss in the event that the price at which a security may have to be purchased to cover a short sale exceeds the price at which the borrowed security was sold short.

Securities Sold, Not Yet Purchased are recorded at fair value in the Condensed Consolidated Statements of Financial Condition.

Derivative Instruments

The Partnership recognizes all derivatives as assets or liabilities on its Condensed Consolidated Statements of Financial Condition at fair value. On the date the Partnership enters into a derivative contract, it designates and documents each derivative contract as one of the following: (a) a hedge of a recognized asset or liability (fair

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value hedge), (b) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge), (c) a hedge of a net investment in a foreign operation, or (d) a derivative instrument not designated as a hedging instrument (freestanding derivative). For a fair value hedge, Blackstone records changes in the fair value of the derivative and, to the extent that it is highly effective, changes in the fair value of the hedged asset or liability attributable to the hedged risk, in current period earnings in General, Administrative and Other in the Condensed Consolidated Statements of Operations. Changes in the fair value of derivatives designated as hedging instruments caused by factors other than changes in the risk being hedged, which are excluded from the assessment of hedge effectiveness, are recognized in current period earnings.

The Partnership formally documents at inception its hedge relationships, including identification of the hedging instruments and the hedged items, its risk management objectives, strategy for undertaking the hedge transaction and the Partnership s evaluation of effectiveness of its hedged transaction. At least monthly, the Partnership also formally assesses whether the derivative it designated in each hedging relationship is expected to be, and has been, highly effective in offsetting changes in estimated fair values or cash flows of the hedged items using either the regression analysis or the dollar offset method. If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued. The fair value of the derivative instrument is reflected within Other Assets in the Condensed Consolidated Statements of Financial Condition.

For freestanding derivative contracts, the Partnership presents changes in fair value in current period earnings. Changes in the fair value of derivative instruments held by consolidated Blackstone Funds are reflected in Net Gains (Losses) from Funds Investment Activities or, where derivative instruments are held by the Partnership, within Investment Income (Loss), in the Condensed Consolidated Statements of Operations. The fair value of freestanding derivative assets are recorded within Investments and freestanding derivative liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Condensed Consolidated Statements of Financial Condition.

Blackstone s other disclosures regarding derivative financial instruments are discussed in Note 6. Derivative Financial Instruments .

Affiliates

Blackstone considers its Founder, senior managing directors, employees, the Blackstone Funds and the Portfolio Companies to be affiliates.

Distributions

Distributions are reflected in the condensed consolidated financial statements when paid.

Recent Accounting Developments

In April 2011, the Financial Accounting Standards Board (FASB) amended existing guidance for agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity. The amendments removed from the assessment of effective control (a) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee and (b) the collateral maintenance implementation guidance related to that criterion. The guidance was effective for the first interim or annual period beginning on or after December 15, 2011. Blackstone enters into repurchase agreements that are currently accounted for as collateralized financing transactions. Adoption did not have a material impact on the Partnership s financial statements.

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In May 2011, the FASB issued amended guidance on fair value measurements to achieve common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards. The amended guidance specified that the concepts of highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets and are not relevant when measuring the fair value of financial assets or of liabilities. The amendments included requirements specific to measuring the fair value of those instruments, such as equity interests used as consideration in a business combination. An entity should measure the fair value of its own equity instrument from the perspective of a market participant that holds the instrument as an asset. With respect to financial instruments that are managed as part of a portfolio, an exception to fair value requirements was provided. That exception permits a reporting entity to measure the fair value of such financial assets and financial liabilities at the price that would be received to sell a net asset position for a particular risk or to transfer a net liability position for a particular risk in an orderly transaction between market participants at the measurement date. The amendments also clarified that premiums and discounts should only be applied if market participants would do so when pricing the asset or liability. Premiums and discounts related to the size of an entity s holding (e.g., a blockage factor) rather than as a characteristic of the asset or liability (e.g., a control premium) is not permitted in a fair value measurement.

The guidance also required enhanced disclosures about fair value measurements, including, among other things, (a) for fair value measurements categorized within Level III of the fair value hierarchy, (1) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, (2) the valuation process used by the reporting entity, and (3) a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, if any, and (b) the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position but for which the fair value is required to be disclosed (for example, a financial instrument that is measured at amortized cost in the statement of financial position but for which fair value is disclosed). The guidance also amended disclosure requirements for significant transfers between Level I and Level II and now requires disclosure of all transfers between Levels I and II in the fair value hierarchy.

The amended guidance was effective for interim and annual periods beginning after December 15, 2011. As the impact of the guidance is primarily limited to enhanced disclosures, adoption did not have a material impact on the Partnership s financial statements.

In June 2011, the FASB issued amended guidance on the presentation of comprehensive income. The amendments provided an entity with an option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity was required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. In addition, an entity was required to present on the face of the financial statements reclassification adjustments for items that were reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income were presented. The guidance was effective for fiscal years, and interim periods within those years beginning after December 15, 2011 and was to be applied on a retrospective basis. As the amendments are limited to presentation only, adoption did not have a material impact on the Partnership s financial statements.

In December 2011, the FASB issued a deferral of the effective date for certain disclosures relating to the comprehensive income, specifically with respect to the presentation of reclassifications of items out of accumulated other comprehensive income. The deferral was effective for fiscal years, and interim periods within those years, beginning after December 15, 2011.

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In September 2011, the FASB issued enhanced guidance on testing goodwill for impairment. The amended guidance provides an entity with the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. Under the amended guidance, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The amended guidance includes examples of events or circumstances that an entity must consider in evaluating whether it is more likely than not that the fair value of reporting units is less than its carrying amount. The amended guidance no longer permits the carry forward of detailed calculations of a reporting unit s fair value from a prior year. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The amended guidance is not expected to have a material impact on the Partnership s financial statements.

In December 2011, the FASB issued guidance to enhance disclosures about financial instruments and derivative instruments that are either (a) offset or (b) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset. Under the amended guidance, an entity is required to disclose quantitative information relating to recognized assets and liabilities that are offset or subject to an enforceable master netting arrangement or similar agreement, including (a) the gross amounts of those recognized assets and liabilities, (b) the amounts offset to determine the net amount presented in the statement of financial position, and (c) the net amount presented in the statement of financial position. With respect to amounts subject to an enforceable master netting arrangement or similar agreement which are not offset, disclosure is required of (a) the amounts related to recognized financial instruments and other derivative instruments, (b) the amount related to financial collateral (including cash collateral), and (c) the overall net amount after considering amounts that have not been offset. The guidance is effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods and retrospective application is required. As the amendments are limited to disclosure only, adoption is not expected to have a material impact on the Partnership s financial statements.

3. ACQUISITIONS, GOODWILL AND INTANGIBLE ASSETS

Acquisition of Harbourmaster

On January 5, 2012, Blackstone completed the acquisition of all of the outstanding share capital of Harbourmaster Capital (Holdings) Limited (Harbourmaster), an Island of Jersey entity, in accordance with the sale and purchase agreement entered into on October 6, 2011. The fair value of consideration transferred, comprised entirely of cash, was 181.4 million ($232.0 million). Harbourmaster is a European secured bank loan manager based in Dublin, Ireland. Harbourmaster manages various credit products including CLO vehicles.

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The following is a summary of the estimated fair values of assets acquired and liabilities assumed for the Harbourmaster acquisition:

Purchase Price Cash	$ 232,044
Fair Value of Assets Acquired and Liabilities Assumed	
Assets	
Cash	$ 75,072
Investments in CLOs	9,305
Accounts Receivable	9,329
Other Assets	17,651
Intangible Assets	142,221
	253,578
Liabilities Assumed	
Accounts Payable, Accrued Expenses and Other Liabilities	21,534
Net Assets Acquired	$ 232,044

Harbourmaster s results from the date of acquisition have been included in the Credit Businesses segment.

The Partnership incurred $2.1 million of acquisition-related costs which were expensed as incurred and are reflected within the General, Administrative and Other in the Condensed Consolidated Statement of Operations.

The Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2012 includes the results of Harbourmaster since the date of acquisition, January 5, 2012, through June 30, 2012. Supplemental information on an unaudited pro forma basis, as if the Harbourmaster acquisition had been consummated as of January 1, 2011 is as follows:

	Three Months Ended June 30, 2011 (Unaudited)	Six Months Ended June 30, 2011 (Unaudited)
Total Revenues	$ 1,315,307	$ 2,486,586
Net Income Attributable to The Blackstone Group L.P.	$ 92,904	$ 143,721
Net Income Per Common Unit Basic	$ 0.20	$ 0.31
Net Income Per Common Unit Diluted	$ 0.19	$ 0.31

The results for the period from January 1, 2012 to the acquisition date of January 5, 2012 are not material and, as a result, pro forma unaudited supplemental information has not been provided for the 2012 periods as the amounts are materially consistent with the amounts recognized in the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2012.

The unaudited pro forma supplemental information is based on estimates and assumptions, which the Partnership believes are reasonable. These results are not necessarily indicative of the Partnership s Condensed Consolidated Financial Condition or Statements of Operations in future periods or the results that actually would have been realized had the Partnership and Harbourmaster been a combined entity during the periods presented.

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Goodwill and Intangible Assets

Goodwill has been allocated to each of the Partnership s five segments as follows: Private Equity ($694.5 million), Real Estate ($421.7 million), Hedge Fund Solutions ($172.1 million), Credit Businesses ($346.4 million) and Financial Advisory ($68.9 million).

The carrying value of goodwill was $1.7 billion as of June 30, 2012 and December 31, 2011. As of June 30, 2012 and December 31, 2011, the fair value of the Partnership s operating segments substantially exceeded their respective carrying values.

Intangible Assets, Net consists of the following:

	June 30, 2012	December 31, 2011
Finite-Lived Intangible Assets / Contractual Rights	$ 1,536,244	$ 1,394,023
Accumulated Amortization	(883,370)	(798,535)
Intangible Assets, Net	$ 652,874	$ 595,488

Amortization expense associated with Blackstone s intangible assets was $36.7 million and $84.8 million for the three and six month periods ended June 30, 2012, respectively, and $41.6 million and $82.4 million for the three and six month periods ended June 30, 2011, respectively.

Amortization of Intangible Assets held at June 30, 2012 is expected to be $139.3 million, $88.2 million, $83.3 million, $77.1 million, and $72.8 million for each of the years ending December 31, 2012, 2013, 2014, 2015, and 2016, respectively. Blackstone s intangible assets as of June 30, 2012 are expected to amortize over a weighted-average period of 8.8 years.

4. INVESTMENTS

Investment

Investments consist of the following:

	June 30, 2012	December 31, 2011
Investments of Consolidated Blackstone Funds	$ 14,057,705	$ 10,306,795
Equity Method Investments	2,253,086	2,218,103
Blackstone s Treasury Cash Management Strategies	738,886	685,859
Performance Fees	2,271,290	1,889,152
Other Investments	30,491	28,390
	$ 19,351,458	$ 15,128,299

Blackstone s share of Investments of Consolidated Blackstone Funds totaled $486.1 million and $449.6 million at June 30, 2012 and December 31, 2011, respectively.

At June 30, 2012 and December 31, 2011, consideration was given as to whether any individual investment, including derivative instruments, had a fair value which exceeded 5% of Blackstone s net assets. At June 30, 2012 and December 31, 2011, no investment exceeded the 5% threshold.

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Investments of Consolidated Blackstone Funds

The following table presents the realized and net change in unrealized gains (losses) on investments held by the consolidated Blackstone Funds:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Realized Gains (Losses)	$ (54,791)	$ 36,654	$ (10,441)	$ 106,755
Net Change in Unrealized Gains (Losses)	232,484	(142,941)	388,169	(277,831)
	$ 177,693	$ (106,287)	$ 377,728	$ (171,076)

The following reconciles the Realized and Net Change in Unrealized Gains (Losses) from Blackstone Funds presented above to Other Income (Loss) Net Gains (Losses) from Fund Investment Activities in the Condensed Consolidated Statements of Operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Realized and Net Change in Unrealized Gains (Losses) from Blackstone Funds	$ 177,693	$ (106,287)	$ 377,728	$ (171,076)
Interest and Dividend Revenue Attributable to Consolidated Blackstone Funds	70,537	31,633	158,644	51,231
Other Income Net Gains (Losses) from Fund Investment Activities	$ 248,230	$ (74,654)	$ 536,372	$ (119,845)

Equity Method Investments

The Partnership recognized net gains related to its equity method investments of $44.0 million and $183.6 million for the six months ended June 30, 2012 and 2011, respectively.

Blackstone s equity method investments include its investments in private equity funds, real estate funds, funds of hedge funds and credit-oriented funds and other proprietary investments, which are not consolidated but in which the Partnership exerts significant influence.

Blackstone evaluates each of its equity method investments to determine if any were significant as defined by guidance from the United States Securities and Exchange Commission. As of and for the three months ended June 30, 2012, no individual equity method investment held by Blackstone met the significance criteria. As such, Blackstone is not required to present summarized financial information for any of its equity method investments.

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Blackstone s Treasury Cash Management Strategies

The portion of Blackstone s Treasury cash management strategies included in Investments represents the Partnership s liquid investments in government, other investment and non-investment grade securities and other investments. These strategies are primarily managed by third-party institutions. The following table presents the realized and net change in unrealized gains (losses) on investments held by Blackstone s Treasury cash management strategies:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Realized Gains	$ 2,167	$ 1,321	$ 10	$ 1,020
Net Change in Unrealized Gains (Losses)	5,245	1,592	826	2,221
	$ 7,412	$ 2,913	$ 836	$ 3,241

Performance Fees

Performance Fees allocated to the general partner in respect of performance of certain Carry Funds, funds of hedge funds and credit-oriented funds were as follows:

	Private Equity	Real Estate	Hedge Fund Solutions	Credit Businesses	Total
Performance Fees, December 31, 2011	$ 620,359	$ 943,859	$ 1,858	$ 323,076	$ 1,889,152
Performance Fees Allocated as a Result of Changes in Fund Fair Values	(14,305)	388,089	10,375	104,978	489,137
Foreign Exchange Loss		(3,094)			(3,094)
Fund Cash Distributions	(3,349)	(19,110)	(3,843)	(77,603)	(103,905)
Performance Fees, June 30, 2012	$ 602,705	$ 1,309,744	$ 8,390	$ 350,451	$ 2,271,290

Other Investments

Other Investments consist primarily of investment securities held by Blackstone for its own account. The following table presents Blackstone s realized and net change in unrealized gains (losses) in other investments:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Realized Gains	$ 541	$ 399	$ 796	$ 399
Net Change in Unrealized Gains (Losses)	(2,547)	343	190	1,292
	$ (2,006)	$ 742	$ 986	$ 1,691

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5. NET ASSET VALUE AS FAIR VALUE

A summary of fair value by strategy type alongside the consolidated funds of hedge funds remaining unfunded commitments and ability to redeem such investments as of June 30, 2012 is presented below:

Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Diversified Instruments	$ 145,694	$ 7,724	(a)	(a)
Credit Driven	163,176	1,980	(b)	(b)
Event Driven	99,340		(c)	(c)
Equity	287,075		(d)	(d)
Commodities	46,116		(e)	(e)
	$ 741,401	$ 9,704		

(a) Diversified Instruments include investments in hedge funds that invest across multiple strategies. Investments representing 43% of the value of the investments in this category may not be redeemed at, or within three months of, the reporting date. The remaining 57% of investments within this category represent investments in hedge funds that are in the process of liquidating. Distributions from these funds will be received as underlying investments are liquidated. The time at which this redemption restriction may lapse cannot be estimated.

(b) The Credit Driven category includes investments in hedge funds that invest primarily in domestic and international bonds. Investments representing 65% of the value of the investments in this category may not be redeemed at, or within three months of, the reporting date. Investments representing 18% of the value in the credit driven category are subject to redemption restrictions at the discretion of the investee fund manager who may choose (but may not have exercised such ability) to side-pocket such investments. The remaining 17% of investments within this category are redeemable as of the reporting date.

(c) The Event Driven category includes investments in hedge funds whose primary investing strategy is to identify certain event-driven investments. Withdrawals are not permitted in this category. Distributions will be received as the underlying investments are liquidated.

(d) The Equity category includes investments in hedge funds that invest primarily in domestic and international equity securities. Investments representing 85% of the total value of investments in this category may not be redeemed at, or within three months of, the reporting date. The remaining 15% are subject to redemption restrictions at the discretion of the investee fund manager who may choose (but may not have elected such ability) to side-pocket such investments. As of the reporting date, the investee fund manager had not elected to side-pocket Blackstone s investments.

(e) The Commodities category includes investments in commodities-focused hedge funds that primarily invest in futures and physical-based commodity driven strategies. Withdrawals are not permitted in this category. Distributions will be received as the underlying investments are liquidated.

6. DERIVATIVE FINANCIAL INSTRUMENTS

Blackstone enters into derivative contracts in order to hedge its interest rate risk exposure against the effects of interest rate changes. Additionally, Blackstone and the Blackstone Funds enter into derivative contracts in the normal course of business to achieve certain other risk management objectives and for general investment purposes. As a result of the use of derivative contracts, Blackstone and the consolidated Blackstone Funds are exposed to the risk that counterparties will fail to fulfill their contractual obligations. To mitigate such

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counterparty risk, Blackstone and the consolidated Blackstone Funds enter into contracts with certain major financial institutions, all of which have investment grade ratings. Counterparty credit risk is evaluated in determining the fair value of derivative instruments.

Fair Value Hedges

In June 2012, Blackstone removed the fair value designation of its interest rate swaps that were used to hedge a portion of the interest rate risk on the Partnership s fixed rate borrowings. The impact to the Condensed Consolidated Statements of Operations for the period up through the date of de-designation is reflected within Fair Value Hedges in the table below. Changes in the fair value of the interest rate swaps subsequent to the date of de-designation are reflected within Freestanding Derivatives within Interest Rate Contracts in the table below.

Freestanding Derivatives

Freestanding derivatives are instruments that Blackstone and certain of the consolidated Blackstone Funds have entered into as part of their overall risk management and investment strategies. These derivative contracts are not designated as hedging instruments for accounting purposes. Such contracts may include foreign exchange contracts, equity swaps, options, futures and other derivative contracts.

The table below summarizes the aggregate notional amount and fair value of the derivative financial instruments. The notional amount represents the absolute value amount of all outstanding derivative contracts.

	June 30, 2012				December 31, 2011			
	Assets		Liabilities		Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
Fair Value Hedges								
Interest Rate Swaps	$	$	$	$	$ 450,000	$ 67,668	$	$
Freestanding Derivatives								
Blackstone Other								
Interest Rate Contracts	905,450	52,009	770,950	2,565	221,350	768	502,200	1,291
Foreign Currency Contracts	4,167	173	7,275	125	22,698	1,016	7,293	103
Credit Default Swaps			600	110				
Investments of Consolidated Blackstone Funds								
Foreign Currency Contracts	310,558	38,247	362,534	31,133	177,453	22,016	159,409	7,687
Interest Rate Contracts	176,495	8,203	176,400	4,103	95,482	7,270	191,400	10,867
Freestanding Derivatives	1,396,670	98,632	1,317,759	38,036	516,983	31,070	860,302	19,948
Total	$ 1,396,670	$ 98,632	$ 1,317,759	$ 38,036	$ 966,983	$ 98,738	$ 860,302	$ 19,948

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The table below summarizes the impact to the Condensed Consolidated Statements of Operations from derivative financial instruments:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Fair Value Hedges Interest Rate Swaps				
Hedge Ineffectiveness	$ 1,342	$ 1,164	$ 548	$ 597
Excluded from Assessment of Effectiveness	$ 4,950	$ 7,049	$ (938)	$ (374)
Realized Gain	22,941		22,941	
Freestanding Derivatives				
Realized Gains (Losses)				
Interest Rate Contracts	$ (2,687)	$ (1,538)	$ (2,551)	$ (536)
Foreign Currency Contracts	1,070	(591)	2,795	(1,291)
Other	7	56	7	(22)
Total	$ (1,610)	$ (2,073)	$ 251	$ (1,849)
Net Change in Unrealized Gain (Loss)				
Interest Rate Contracts	$ 1,022	$ 3,087	$ 7,619	$ 1,907
Foreign Currency Contracts	(14,386)	4,536	(665)	4,266
Credit Default Swaps	(45)		(41)	
Other		(21)		(19)
Total	$ (13,409)	$ 7,602	$ 6,913	$ 6,154

Since the inception of the above mentioned hedge designation, Blackstone recognized a $64.2 million increase in the fair value of the hedged borrowing. This basis adjustment will be accreted using the effective interest method through August 15, 2019, the remaining term of the hedged borrowing.

As of June 30, 2012 and December 31, 2011, the Partnership had not designated any derivatives as cash flow hedges or hedges of net investments in foreign operations.

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7. FAIR VALUE OPTION

The following table summarizes the financial instruments for which the fair value option has been elected:

	As of June 30, 2012	As of December 31, 2011
Assets		
Loans and Receivables	$ 104,207	$ 8,555
Assets of Consolidated CLO Vehicles		
Corporate Loans	11,427,207	7,901,020
Corporate Bonds	228,741	153,653
Other	70,564	77,295
	$ 11,830,719	$ 8,140,523
Liabilities		
Liabilities of Consolidated CLO Vehicles		
Senior Secured Notes	$ 10,534,253	$ 7,449,766
Subordinated Notes	701,648	630,236
	$ 11,235,901	$ 8,080,002

The following table presents the realized and net change in unrealized gains (losses) on financial instruments on which the fair value option was elected:

	Three Months Ended June 30,			
	2012		2011	
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
Assets				
Loans and Receivables	$	$ (402)	$	$ (287)
Assets of Consolidated CLO Vehicles				
Corporate Loans	(63,992)	12,481	22,880	(83,940)
Corporate Bonds	311	(3,386)	102	(1,293)
Other	1,419	6,626		(1,247)
	$ (62,262)	$ 15,319	$ 22,982	$ (86,767)
Liabilities				
Liabilities of Consolidated CLO Vehicles				

Senior Secured Notes	$ 1	$ (21,509)	$ (2,319)	$ (92,519)
Subordinated Notes		42,247		(43,647)
	$ 1	$ 20,738	$ (2,319)	$ (136,166)

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	Six Months Ended June 30, 2012		2011	
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
Assets				
Loans and Receivables	$	$ (396)	$	$ (287)
Assets of Consolidated CLO Vehicles				
Corporate Loans	(24,718)	301,712	65,112	(33,721)
Corporate Bonds	718	9,295	2,149	(1,322)
Other	1,539	10,107	480	4,128
	$ (22,461)	$ 320,718	$ 67,741	$ (31,202)
Liabilities				
Liabilities of Consolidated CLO Vehicles				
Senior Secured Notes	$ (43)	$ (114,712)	$ (7,714)	$ (332,477)
Subordinated Notes		7,764		(67,704)
	$ (43)	$ (106,948)	$ (7,714)	$ (400,181)

The following table presents information for those financial instruments for which the fair value option was elected:

	As of June 30, 2012	For Financial Assets Past Due (a)		As of December 31, 2011	For Financial Assets Past Due (a)	
	Excess (Deficiency) of Fair Value Over Principal	Fair Value	Excess (Deficiency) of Fair Value Over Principal	Excess (Deficiency) of Fair Value Over Principal	Fair Value	Excess (Deficiency) of Fair Value Over Principal
Loans and Receivables	$ 1,738	$	$	$ (162)	$	$
Assets of Consolidated CLO Vehicles						
Corporate Loans	(837,123)	61,771	(71,836)	(674,496)	17,574	(29,384)
Corporate Bonds	(7,505)			(9,360)	7,560	(2,656)
	$ (842,890)	$ 61,771	$ (71,836)	$ (684,018)	$ 25,134	$ (32,040)

(a) Past due Corporate Loans and Corporate Bonds within CLO assets are classified as past due if contractual payments are more than one day past due.

As of June 30, 2012 and December 31, 2011, no Loans and Receivables for which the fair value option was elected were past due or in non-accrual status.

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8. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The following tables summarize the valuation of the Partnership s financial assets and liabilities by the fair value hierarchy as of June 30, 2012 and December 31, 2011, respectively:

	June 30, 2012			
	Level I	Level II	Level III	Total
Assets				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	$	$ 3,590	$ 713,287	$ 716,877
Equity Securities	83,439	28,506	212,309	324,254
Partnership and LLC Interests	183	490	547,915	548,588
Debt Instruments		720,111	21,363	741,474
Assets of Consolidated CLO Vehicles				
Corporate Loans		10,426,445	1,000,762	11,427,207
Corporate Bonds		191,512	37,229	228,741
Freestanding Derivatives Foreign Currency Contracts		38,247		38,247
Freestanding Derivatives Interest Rate Contracts		8,203		8,203
Other	328	16,495	7,291	24,114
Total Investments of Consolidated Blackstone Funds	83,950	11,433,599	2,540,156	14,057,705
Blackstone s Treasury Cash Management Strategies	281,089	457,597	200	738,886
Money Market Funds	135,663			135,663
Freestanding Derivatives				
Interest Rate Contracts	609	51,400		52,009
Foreign Currency Contracts		173		173
Loans and Receivables			104,207	104,207
Other Investments	2,977	6,352	21,162	30,491
	$ 504,288	$ 11,949,121	$ 2,665,725	$ 15,119,134
Liabilities				
Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes	$	$	$ 10,534,253	$ 10,534,253
Subordinated Notes			701,648	701,648
Freestanding Derivatives Foreign Currency Contracts		31,133		31,133
Freestanding Derivatives Interest Rate Contracts		4,103		4,103
Freestanding Derivatives				
Interest Rate Contracts	235	2,330		2,565
Foreign Currency Contracts		125		125
Credit Default Swaps		110		110
Securities Sold, Not Yet Purchased		88,153		88,153
	$ 235	$ 125,954	$ 11,235,901	$ 11,362,090

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	December 31, 2011			
	Level I	Level II	Level III	Total
Assets				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	$	$ 5,119	$ 723,951	$ 729,070
Equity Securities	113,007	608	232,172	345,787
Partnership and LLC Interests			492,911	492,911
Debt Instruments		594,276	12,783	607,059
Assets of Consolidated CLO Vehicles				
Corporate Loans		7,259,204	635,944	7,895,148
Corporate Bonds		150,653	3,000	153,653
Freestanding Derivatives Foreign Currency Contracts		22,016		22,016
Freestanding Derivatives Interest Rate Contracts		7,270		7,270
Other	28,900	21,973	3,008	53,881
Total Investments of Consolidated Blackstone Funds	141,907	8,061,119	2,103,769	10,306,795
Blackstone s Treasury Cash Management Strategies	176,297	509,362	200	685,859
Money Market Funds	257,423			257,423
Freestanding Derivatives				
Interest Rate Contracts	159	609		768
Foreign Currency Contracts		1,016		1,016
Derivative Instruments Used as Fair Value Hedges		67,668		67,668
Loans and Receivables			8,555	8,555
Other Investments	8,066	360	19,964	28,390
	$ 583,852	$ 8,640,134	$ 2,132,488	$ 11,356,474
Liabilities				
Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes	$	$	$ 7,449,766	$ 7,449,766
Subordinated Notes			630,236	630,236
Freestanding Derivatives Foreign Currency Contracts		7,687		7,687
Freestanding Derivatives Interest Rate Contracts		10,867		10,867
Freestanding Derivatives				
Interest Rate Contracts	1,105	186		1,291
Foreign Currency Contracts		103		103
Securities Sold, Not Yet Purchased		143,825		143,825
	$ 1,105	$ 162,668	$ 8,080,002	$ 8,243,775

(a) Pursuant to GAAP consolidation guidance, the Partnership is required to consolidate all VIEs in which it has been identified as the primary beneficiary, including its investments in CLO vehicles and other funds in which a consolidated entity of the Partnership, as the general partner of the fund, is presumed to have control. While the Partnership is required to consolidate certain funds, including CLO vehicles, for GAAP purposes, the Partnership has no ability to utilize the assets of these funds and there is no recourse to the Partnership for their liabilities since these are client assets and liabilities.

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Notes to Condensed Consolidated Financial Statements Continued

(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

The following table summarizes the fair value transfers between Level I and Level II:

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Transfers from Level I into Level II (a)	$ 15,924	$ 45,440
Transfers from Level II into Level I (b)	$ 529	$ 801

(a) Transfers out of Level I represent those financial instruments for which restrictions exist and adjustments were made to an otherwise observable price to reflect fair value at the reporting date.

(b) Transfers into Level I represent those financial instruments for which an unadjusted quoted price in an active market became available for the identical asset.

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of June 30, 2012. The disclosure below excludes financial instruments for which fair value is based on unobservable but non-quantitative inputs. Such items include financial instruments for which the determination of fair value is based on prices from prior transactions or third party pricing information without adjustment and financial instruments for which fair value is determined by net asset value.

	Fair Value at June 30, 2012	Valuation Techniques	Unobservable Inputs	Ranges
Financial Assets				
Equity Securities	$ 124,105	Discounted Cash Flows	Discount Rate	8.1% - 25.0%
			Revenue CAGR	1.6% - 83.4%
			Exit Multiple	5.8x - 17.0x
	1,931	Market Comparable Companies	Book Value Multiple	0.8x
			EBITDA Multiple	6.5x - 8.3x
Partnership and LLC Interests	533,520	Discounted Cash Flows	Discount Rate	3.1% - 22.5%
			Revenue CAGR	-5.6% - 62.0%
			Exit Multiple	4.5x - 14.8x
			Exit Capitalization Rate	1.0% - 9.5%
Debt Instruments	8,499	Discounted Cash Flows	Discount Rate	10.7% - 48.0%
			Exit Capitalization Rate	7.5%

			Default Rate	2.0%
			Recovery Rate	70.0%
			Recovery Lag	12 months
			Pre-payment Rate	20.0%
			Reinvestment Rate	3.2%
	772	Market Comparable Companies	EBITDA Multiple	3.5x - 8.3x
Assets of Consolidated CLO Vehicles	128,694	Discounted Cash Flows	Discount Rate	6.0% - 18.0%
	86,555	Market Comparable Companies	EBITDA Multiple	2.0x - 10.6x
			Liquidity Discount	1.0% - 25.0%
Loans and Receivables	104,207	Discounted Cash Flows	Discount Rate	6.8% - 23.3%
Financial Liabilities				
CLOs	$ 11,235,901	Discounted Cash Flows	Default Rate	2.0% - 5.0%
			Recovery Rate	30.0% - 70.0%
			Recovery Lag	12 months
			Pre-payment Rate	5.0% - 20.0%
			Reinvestment Rate	3.2%
			Discount Rate	1.1% - 80.0%

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CAGR	Compound annual growth rate.
EBITDA	Earnings before interest, taxes, depreciation and amortization.
Exit Multiple	Ranges include the last twelve months EBITDA, forward EBITDA and price/earnings exit multiples.

The significant unobservable inputs used in the fair value measurement of the assets and obligations of consolidated CLO vehicles are discount rates, default rates, recovery rates, recovery lag, pre-payment rates and reinvestment rates. Increases (decreases) in any of the discount rates, default rates, recovery lag and pre-payment rates in isolation would result in a lower (higher) fair value measurement. Increases (decreases) in any of the recovery rates and reinvestment rates in isolation would result in a higher (lower) fair value measurement. Generally, a change in the assumption used for default rates may be accompanied by a directionally similar change in the assumption used for recovery lag and a directionally opposite change in the assumption used for recovery rates and pre-payment rates.

The significant unobservable inputs used in the fair value measurement of equity securities, partnership and LLC interests, debt instruments, assets of consolidated CLO vehicles and loans and receivables are discount rates, exit capitalization rates, exit multiples, book value multiples, EBITDA multiples, liquidity discount and revenue compound annual growth rates. Increases (decreases) in any of discount rates and exit capitalization rates in isolation can result in a lower (higher) fair value measurement. Increases (decreases) in any of exit multiples, book value mulitples and revenue compound annual growth rates in isolation can result in a higher (lower) fair value measurement.

Since December 31, 2011, there have been no changes in valuation techniques within Level II and Level III that have had a material impact on the valuation of financial instruments.

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The following tables summarize the changes in financial assets and liabilities measured at fair value for which the Partnership has used Level III inputs to determine fair value and does not include gains or losses that were reported in Level III in prior years or for instruments that were transferred out of Level III prior to the end of the current reporting period. Total realized and unrealized gains and losses recorded for Level III investments are reported in Investment Income (Loss) and Net Gains from Fund Investment Activities in the Condensed Consolidated Statements of Operations.

	Level III Financial Assets at Fair Value Three Months Ended June 30,							
	2012				2011			
	Investments of Consolidated Funds	Loans and Receivables	Other Investments	Total	Investments of Consolidated Funds	Loans and Receivables	Other Investments	Total
Balance, Beginning of Period	$ 2,390,276	$ 105,004	$ 21,791	$ 2,517,071	$ 1,741,692	$ 14,034	$ 20,970	$ 1,776,696
Transfer In Due to Consolidation and Acquisition (a)					9,570			9,570
Transfer Out Due to Deconsolidation	(1,599)			(1,599)				
Transfer In to Level III (b)	171,916			171,916	4,607			4,607
Transfer Out of Level III (b)	(59,315)			(59,315)	(112,780)			(112,780)
Purchases	232,684	39,657	100	272,441	308,430	119,861	117,200	545,491
Sales	(173,516)	(41,872)	(541)	(215,929)	(154,861)	(7,719)	(531)	(163,111)
Settlements		(186)		(186)	4,933	(71)		4,862
Realized Gains (Losses), Net	(12,264)		541	(11,723)	(3,764)		531	(3,233)
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	(8,026)	1,604	(529)	(6,951)	40,026	1,003	543	41,572
Balance, End of Period	$ 2,540,156	$ 104,207	$ 21,362	$ 2,665,725	$ 1,837,853	$ 127,108	$ 138,713	$ 2,103,674

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	Level III Financial Assets at Fair Value Six Months Ended June 30, 2012				2011			
	Investments of Consolidated Funds	Loans and Receivables	Other Investments	Total	Investments of Consolidated Funds	Loans and Receivables	Other Investments	Total
Balance, Beginning of Period	$ 2,103,769	$ 8,555	$ 20,164	$ 2,132,488	$ 1,602,371	$ 131,290	$ 19,672	$ 1,753,333
Transfer In Due to Consolidation and Acquisition (a)	122,565			122,565	9,570			9,570
Transfer Out Due to Deconsolidation	(1,599)			(1,599)				
Transfer In to Level III (b)	253,608			253,608	11,162			11,162
Transfer Out of Level III (b)	(103,280)			(103,280)	(134,243)			(134,243)
Purchases	320,312	142,908	100	463,320	436,529	126,090	117,200	679,819
Sales	(229,623)	(49,251)	(541)	(279,415)	(217,826)	(129,900)	(531)	(348,257)
Settlements		(46)		(46)		(1,441)		(1,441)
Realized Gains (Losses), Net	(9,093)		639	(8,454)	4,087		531	4,618
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	83,497	2,041	1,000	86,538	126,203	1,069	1,841	129,113
Balance, End of Period	$ 2,540,156	$ 104,207	$ 21,362	$ 2,665,725	$ 1,837,853	$ 127,108	$ 138,713	$ 2,103,674

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(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

	Level III Financial Liabilities at Fair Value Three Months Ended June 30,					
	2012			2011		
	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total
Balance, Beginning of Period	$ 10,984,018	$ 857,772	$ 11,841,790	$ 6,023,892	$ 567,436	$ 6,591,328
Transfer In Due to Consolidation and Acquisition (a)				1,829,899	95,567	1,925,466
Issuances	227		227	204		204
Settlements	(140,736)	(238)	(140,974)	(73,830)	(228)	(74,058)
Realized Gains (Losses), Net	(1)		(1)	2,319		2,319
Changes in Unrealized Gains (Losses) Included in Earnings Related to Liabilities Still Held at the Reporting Date	(309,255)	(155,886)	(465,141)	77,043	43,874	120,917
Balance, End of Period	$ 10,534,253	$ 701,648	$ 11,235,901	$ 7,859,527	$ 706,649	$ 8,566,176

	Level III Financial Liabilities at Fair Value Six Months Ended June 30,					
	2012			2011		
	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total
Balance, Beginning of Period	$ 7,449,766	$ 630,236	$ 8,080,002	$ 5,877,957	$ 555,632	$ 6,433,589
Transfer In Due to Consolidation and Acquisition (a)	3,419,084	149,225	3,568,309	1,829,899	95,567	1,925,466
Issuances	4,620	838	5,458	404		404
Settlements	(272,609)	(2,984)	(275,593)	(235,273)	(12,481)	(247,754)
Realized Gains (Losses), Net	43		43	7,715		7,715
Changes in Unrealized Gains (Losses) Included in Earnings Related to Liabilities Still Held at the Reporting Date	(66,651)	(75,667)	(142,318)	378,825	67,931	446,756
Balance, End of Period	$ 10,534,253	$ 701,648	$ 11,235,901	$ 7,859,527	$ 706,649	$ 8,566,176

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(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

(a) Represents the transfer into Level III of financial assets and liabilities held by CLO vehicles as a result of the acquisition of management contracts on May 16, 2011 and the Harbourmaster acquisition on January 5, 2012.
(b) Transfers in and out of Level III financial assets and liabilities were due to changes in the observability of inputs used in the valuation of such assets and liabilities.

9. VARIABLE INTEREST ENTITIES

Pursuant to GAAP consolidation guidance, the Partnership consolidates certain VIEs in which it is determined that the Partnership is the primary beneficiary either directly or indirectly, through a consolidated entity or affiliate. VIEs include certain private equity, real estate, credit-oriented or funds of hedge funds entities and CLO vehicles. The purpose of such VIEs is to provide strategy specific investment opportunities for investors in exchange for management and performance based fees. The investment strategies of the Blackstone Funds differ by product; however, the fundamental risks of the Blackstone Funds have similar characteristics, including loss of invested capital and loss of management fees and performance based fees. In Blackstone s role as general partner or investment adviser, it generally considers itself the sponsor of the applicable Blackstone Fund. The Partnership does not provide performance guarantees and has no other financial obligation to provide funding to consolidated VIEs other than its own capital commitments.

The assets of consolidated variable interest entities may only be used to settle obligations of these consolidated Blackstone Funds. In addition, there is no recourse to the Partnership for the consolidated VIEs liabilities including the liabilities of the consolidated CLO vehicles.

The Partnership holds variable interests in certain VIEs which are not consolidated as it is determined that the Partnership is not the primary beneficiary. The Partnership s involvement with such entities is in the form of direct equity interests and fee arrangements. The maximum exposure to loss represents the loss of assets recognized by Blackstone relating to non-consolidated entities, any amounts due to non-consolidated entities and any clawback obligation relating to previously distributed Carried Interest. The assets and liabilities recognized in the Partnership s Condensed Consolidated Statements of Financial Condition related to the Partnership s interest in these non-consolidated VIEs and the Partnership s maximum exposure to loss relating to non-consolidated VIEs were as follows:

	June 30, 2012	December 31, 2011
Investments	$ 296,796	$ 238,503
Receivables	80,148	94,050
Total VIE Assets	376,944	332,553
VIE Liabilities	1,142	48
Potential Clawback Obligation	30,803	14,876
Maximum Exposure to Loss	$ 408,889	$ 347,477

10. REVERSE REPURCHASE AND REPURCHASE AGREEMENTS

At June 30, 2012, the Partnership received securities, primarily U.S. and non-U.S. government and agency securities, asset-backed securities and corporate debt, with a fair value of $88.1 million and cash as collateral for reverse repurchase agreements that could be repledged, delivered or otherwise used. Securities with a fair value

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of $88.1 million were repledged, delivered or used to settle Securities Sold, Not Yet Purchased. The Partnership also pledged securities with a carrying value of $115.4 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

11. BORROWINGS

On July 13, 2012, an indirect subsidiary of Blackstone entered into an amendment to the $1.02 billion revolving credit facility (the Credit Facility) with Citibank, N.A., as Administrative Agent. The amendment increased the borrowing capacity from $1.02 billion to $1.1 billion and extended the maturity date of the Credit Facility from April 8, 2016 to July 13, 2017. As of June 30, 2012, Blackstone had no outstanding borrowings under the Credit Facility.

The carrying value and fair value of the Blackstone issued notes as of June 30, 2012 and December 31, 2011 were:

	June 30, 2012		December 31, 2011	
	Carrying Value	Fair Value (a)	Carrying Value	Fair Value (a)
Blackstone Issued 5.875%, $400 Million Par, Notes Due 3/15/2021	$ 398,310	$ 418,480	$ 398,237	$ 404,160
Blackstone Issued 6.625%, $600 Million Par, Notes Due 8/15/2019	$ 660,149	$ 655,260	$ 653,467	$ 640,440

(a) Fair value is determined by broker quote and these notes would be classified as Level II within the fair value hierarchy.

Included within Loans Payable and Due to Affiliates are amounts due to holders of debt securities issued by Blackstone s consolidated CLO vehicles. At June 30, 2012 and December 31, 2011, the Partnership s borrowings through consolidated CLO vehicles consisted of the following:

	June 30, 2012			December 31, 2011		
	Borrowing Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years	Borrowing Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years
Senior Secured Notes	$ 11,927,078	1.66%	4.7	$ 8,250,418	1.96%	4.3
Subordinated Notes	1,424,900	(a)	5.5	1,117,571	(a)	7.2
	$ 13,351,978			$ 9,367,989		

(a) The Subordinated Notes do not have contractual interest rates but instead receive distributions from the excess cash flows of the CLO vehicles.

Included within Senior Secured Notes and Subordinated Notes as of June 30, 2012 are amounts due to non-consolidated affiliates of $22.0 million and $317.2 million, respectively. The fair value of Senior Secured and Subordinated Notes as of June 30, 2012 was $10.5 billion and $701.6 million, respectively, of which $15.7 million and $191.1 million represents the amounts due to affiliates.

Included within Senior Secured Notes and Subordinated Notes as of December 31, 2011 are amounts due to non-consolidated affiliates of $101.8 million and $323.6 million, respectively. The fair value of Senior Secured and Subordinated Notes as of December 31, 2011 was $7.4 billion and $630.2 million, respectively, of which $86.9 million and $205.4 million represents the amounts due to affiliates.

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The Loans Payable of the consolidated CLO vehicles are collateralized by assets held by each respective CLO vehicle and assets of one vehicle may not be used to satisfy the liabilities of another. As of June 30, 2012 and December 31, 2011, the fair value of the consolidated CLO assets was $12.5 billion and $8.7 billion, respectively. This collateral consisted of Cash, Corporate Loans, Corporate Bonds and other securities.

Scheduled principal payments for borrowings as of June 30, 2012 were as follows:

	Operating Borrowings	Blackstone Fund Facilities / CLO Vehicles	Total Borrowings
2012	$ 594	$ 7,606	$ 8,200
2013	1,188	85,192	86,380
2014	5,040	289,770	294,810
2015		624,007	624,007
Thereafter	1,000,000	12,362,341	13,362,341
Total	$ 1,006,822	$ 13,368,916	$ 14,375,738