

Blackstone Group L.P.  
Form 10-Q  
November 02, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM                      TO**  
**Commission File Number: 001-33551**

**The Blackstone Group L.P.**

(Exact name of Registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of

**20-8875684**  
(I.R.S. Employer

incorporation or organization)

**345 Park Avenue**

Identification No.)

**New York, New York 10154**

(Address of principal executive offices)(Zip Code)

**(212) 583-5000**

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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

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This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as outlook, believes, expects, potential, continues, may, will, should, seeks, approximately, predicts, intends, plans, estimates, anticipates or the negative version of these words or other comparative words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled Risk Factors in our annual report on Form 10-K for the year ended December 31, 2011 and in this report, as such factors may be updated from time to time in our periodic filings.

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with the United States Securities and Exchange Commission ( SEC ), which are accessible on the SEC 's website at [www.sec.gov](http://www.sec.gov). These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. The forward-looking statements speak only as of the date of this report, and we undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

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

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

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

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

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

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

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

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- (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,

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

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

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

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

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

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

continued

See notes to condensed consolidated financial statements.



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

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

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

See notes to condensed consolidated financial statements.

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

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

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

See notes to condensed consolidated financial statements.

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

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

See notes to condensed consolidated financial statements.

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

(Dollars in Thousands, Except Unit Data)

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

continued

See notes to condensed consolidated financial statements.

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

(Dollars in Thousands, Except Unit Data)

	The Blackstone Group L.P.							
	Common Units	Partners Capital	Appro- priated Partners Capital	Accumulated Other Compre- hensive Income	Non- Controlling Interests in Consolidated Entities	Non- Controlling Interests in Blackstone Holdings	Total Partners Capital	Redeemable Non- Controlling Interests in Consolidated Entities
<b>Balance at December 31, 2010</b>	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			74,969		114		75,083	
Net Loss		(145,626)			(448,753)	(104,455)	(698,834)	(24,980)
Allocation of Income of Consolidated CLO Entities			(613,386)		613,386			
Currency Translation Adjustment				(2,457)	17,723		15,266	
Allocation of Currency Translation Adjustment of Consolidated CLOs			17,723		(17,723)			
Capital Contributions					207,802		207,802	535,312
Capital Distributions		(245,157)			(129,475)	(347,379)	(722,011)	(165,280)
Transfer of Non-Controlling Interests in Consolidated Entities					1,924	(1,924)		
Purchase of Interests from Certain Non-Controlling Interest Holders		(2,099)					(2,099)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		53,864					53,864	
Equity-Based Compensation		454,490				624,769	1,079,259	
Relinquished in Deconsolidation and Liquidation of Partnership								(666)
Net Delivery of Vested Common Units	6,825,182	(33,345)					(33,345)	
Repurchase of Common Units and Blackstone Holdings Partnership Units						(469)	(469)	
Change in The Blackstone Group L.P.'s Ownership Interest		(6,245)				6,245		
Conversion of Blackstone Holdings Partnership Units to Blackstone Common	59,094,154	217,275				(217,275)		

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### Units

<b>Balance at September 30, 2011</b>	482,011,358	\$ 4,181,368	\$ (50,111)	\$ 1,845	\$ 1,057,352	\$ 2,378,029	\$ 7,568,483	\$ 1,003,776
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See notes to condensed consolidated financial statements.



**Table of Contents****THE BLACKSTONE GROUP L.P.****Condensed Consolidated Statements of Cash Flows (Unaudited)**

(Dollars in Thousands)

	Nine Months Ended September 30,	
	2012	2011
<b>Operating Activities</b>		
Net Income (Loss)	\$ 708,411	\$ (723,814)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Blackstone Funds Related:		
Unrealized Depreciation (Appreciation) on Investments Allocable to Non-Controlling Interests in Consolidated Entities	(546,221)	603,613
Net Realized Gains on Investments	(215,711)	(468,588)
Changes in Unrealized Gains on Investments Allocable to The Blackstone Group L.P.	(107,763)	(66,607)
Unrealized Depreciation (Appreciation) on Hedge Activities	22,599	(1,544)
Non-Cash Performance Fees	(704,852)	(492,930)
Non-Cash Performance Fee Compensation	349,802	221,985
Equity-Based Compensation Expense	690,617	1,075,012
Amortization of Intangibles	115,432	124,764
Other Non-Cash Amounts Included in Net Income (Loss)	91,612	(4,559)
Cash Flows Due to Changes in Operating Assets and Liabilities:		
Cash Held by Blackstone Funds and Other	212,350	215,051
Cash Relinquished with Deconsolidation and Liquidation of Partnership	(46,330)	(666)
Accounts Receivable	2,286	87,655
Reverse Repurchase Agreements	33,904	(13,506)
Due from Affiliates	(86,496)	24,359
Other Assets	62,117	53,585
Accrued Compensation and Benefits	167,451	(15,460)
Securities Sold, Not Yet Purchased	(33,413)	75,907
Accounts Payable, Accrued Expenses and Other Liabilities	(465,817)	(233,579)
Repurchase Agreements	(32,397)	147,920
Due to Affiliates	(13,665)	(111,613)
Treasury Cash Management Strategies:		
Investments Purchased	(2,306,256)	(2,428,326)
Cash Proceeds from Sale of Investments	1,767,080	2,256,425
Blackstone Funds Related:		
Investments Purchased	(4,894,341)	(4,639,948)
Cash Proceeds from Sale or Pay Down of Investments	5,585,951	5,073,303
Net Cash Provided by Operating Activities	356,350	758,439
<b>Investing Activities</b>		
Purchase of Furniture, Equipment and Leasehold Improvements	(26,973)	(25,963)
Net Cash Paid for Acquisitions, Net of Cash Acquired	(156,972)	(23,744)
Changes in Restricted Cash	2,341	331
Net Cash Used in Investing Activities	(181,604)	(49,376)
<b>Financing Activities</b>		
Distributions to Non-Controlling Interest Holders in Consolidated Entities	(167,473)	(294,755)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	586,073	742,940

See notes to condensed consolidated financial statements.

**Table of Contents****THE BLACKSTONE GROUP L.P.****Condensed Consolidated Statements of Cash Flows (Unaudited)**

(Dollars in Thousands)

	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
Purchase of Interests from Certain Non-Controlling Interest Holders	\$ (48)	\$ (2,099)
Net Settlement of Vested Common Units and Repurchase of Common and Holdings Units	(20,762)	(33,814)
Proceeds from Loans Payable	632,710	16,977
Repayment and Repurchase of Loans Payable	(27,347)	(27,981)
Distributions to Unitholders	(502,399)	(592,536)
Blackstone Funds Related:		
Proceeds from Loans Payable	16,284	342,183
Repayment of Loans Payable	(613,000)	(855,601)
<b>Net Cash Used in Financing Activities</b>	<b>(95,962)</b>	<b>(704,686)</b>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(13)	(16)
<b>Net Increase in Cash and Cash Equivalents</b>	<b>78,771</b>	<b>4,361</b>
Cash and Cash Equivalents, Beginning of Period	754,744	588,621
Cash and Cash Equivalents, End of Period	\$ 833,515	\$ 592,982
<b>Supplemental Disclosure of Cash Flows Information</b>		
Payments for Interest	\$ 78,750	\$ 2,399
Payments for Income Taxes	\$ 23,105	\$ 40,147
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities</b>		
Non-Cash Contributions from Non-Controlling Interest Holders	\$ 6,803	\$
Non-Cash Distributions to Non-Controlling Interest Holders	\$ (6,803)	\$
Net Activities Related to Capital Transactions of Consolidated Blackstone Funds	\$ (5,370)	\$ (2,817)
Net Assets Related to the Consolidation of CLO Vehicles	\$ 233,541	\$ 73,984
In-kind Redemption of Capital	\$ (2,017)	\$ (2,433)
In-kind Contribution of Capital	\$ 2,017	\$ 2,433
Notes Issuance Costs	\$ 4,788	\$
Transfer of Interests to Non-Controlling Interest Holders	\$ (4,444)	\$ 1,924
Change in The Blackstone Group L.P.'s Ownership Interest	\$ (1,475)	\$ (6,245)
Net Settlement of Vested Common Units	\$ 100,041	\$ 107,365

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Conversion of Blackstone Holdings Units to Common Units	\$ 112,726	\$ 217,275
Exchange of Founders and Non-Controlling Interest Holders Interests in Blackstone Holdings:		
Deferred Tax Asset	\$ (89,464)	\$ (288,229)
Due to Affiliates	\$ 73,051	\$ 234,365
Partners Capital	\$ 16,413	\$ 53,864

See notes to condensed consolidated financial statements.

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**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 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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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

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 nine months ended September 30, 2011 reflect a decrease to Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities of \$3.1 million and \$2.1 million, respectively, with a corresponding increase 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 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. 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.

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### **THE BLACKSTONE GROUP L.P.**

#### **Notes to Condensed Consolidated Financial Statements Continued**

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

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 .

#### **Fair Value of Financial Instruments**

GAAP establishes a hierarchical 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





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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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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.

***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



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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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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 and/or capitalization rates (cap rates) analysis. Valuations may be derived by reference to observable valuation

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**Notes to Condensed Consolidated Financial Statements Continued**

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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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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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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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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

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

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### **THE BLACKSTONE GROUP L.P.**

#### **Notes to Condensed Consolidated Financial Statements Continued**

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

documents each derivative contract as one of the following: (a) a hedge of a recognized asset or liability ( fair 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

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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

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.

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.



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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)**

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.

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 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 nine months ended September 30, 2012 includes the results of Harbourmaster since the date of acquisition, January 5, 2012, through September 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 September 30, 2011 (Unaudited)	Nine Months Ended September 30, 2011 (Unaudited)
Total Revenues	\$ (130,078)	\$ 2,356,508
Net Loss Attributable to The Blackstone Group L.P.	\$ (273,019)	\$ (129,298)
Net Loss Per Common Unit Basic and Diluted	\$ (0.56)	\$ (0.27)

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 nine months ended September 30, 2012.

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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 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 (\$346.4 million) and Financial Advisory (\$68.9 million).

The carrying value of goodwill was \$1.7 billion as of September 30, 2012 and December 31, 2011. As of September 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:

	<b>September 30, 2012</b>	<b>December 31, 2011</b>
Finite-Lived Intangible Assets / Contractual Rights	\$ 1,536,247	\$ 1,394,023
Accumulated Amortization	(913,967)	(798,535)
<b>Intangible Assets, Net</b>	<b>\$ 622,280</b>	<b>\$ 595,488</b>

Amortization expense associated with Blackstone's intangible assets was \$30.6 million and \$115.4 million for the three and nine month periods ended September 30, 2012, respectively, and \$42.4 million and \$124.8 million for the three and nine month periods ended September 30, 2011, respectively.

Amortization of Intangible Assets held at September 30, 2012 is expected to be \$139.2 million, \$88.2 million, \$83.4 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 September 30, 2012 are expected to amortize over a weighted-average period of 8.8 years.

**4. INVESTMENTS****Investments**

Investments consist of the following:

	<b>September 30, 2012</b>	<b>December 31, 2011</b>
Investments of Consolidated Blackstone Funds	\$ 14,323,698	\$ 10,306,795
Equity Method Investments	2,430,452	2,218,103
Blackstone's Treasury Cash Management Strategies	1,290,512	685,859
Performance Fees	2,689,680	1,889,152
Other Investments	32,358	28,390
	<b>\$ 20,766,700</b>	<b>\$ 15,128,299</b>

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Blackstone's share of Investments of Consolidated Blackstone Funds totaled \$497.7 million and \$449.6 million at September 30, 2012 and December 31, 2011, respectively.

At September 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 September 30, 2012 and December 31, 2011, no investment exceeded the 5% threshold.

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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)

#### 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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Realized Gains (Losses)	\$ 6,162	\$ 121,297	\$ (4,279)	\$ 228,052
Net Change in Unrealized Gains (Losses)	(152,801)	(496,696)	235,368	(774,527)
	\$ (146,639)	\$ (375,399)	\$ 231,089	\$ (546,475)

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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Realized and Net Change in Unrealized Gains (Losses) from Blackstone Funds	\$ (146,639)	\$ (375,399)	\$ 231,089	\$ (546,475)
Interest and Dividend Revenue Attributable to Consolidated Blackstone Funds	10,679	46,000	169,323	97,231
Other Income (Loss) Net Gains (Losses) from Fund Investment Activities	\$ (135,960)	\$ (329,399)	\$ 400,412	\$ (449,244)

#### Equity Method Investments

The Partnership recognized net gains related to its equity method investments of \$125.4 million and \$97.2 million for the nine months ended September 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.

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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 nine months ended September 30, 2012, no individual equity method investment held by Blackstone met the significance criteria. As of and for the nine months ended September 30, 2011, one individual equity method investment held by Blackstone met the significance criteria. The summarized financial information for this investment is shown below for the nine months ended September 30, 2012 and 2011:

	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
Statements of Income		
Interest Income	\$	\$ 251
Other Income	21,860	34,401
Interest Expense	(112)	(315)
Other Expenses	(1,812)	(1,410)
Net Realized and Unrealized Gain from Investments	440,531	537,432
Net Income	\$ 460,467	\$ 570,359

**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:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Realized Gains	\$ 3,228	\$ 6,002	\$ 3,238	\$ 7,022
Net Change in Unrealized Gains (Losses)	6,525	(746)	7,351	1,475
	\$ 9,753	\$ 5,256	\$ 10,589	\$ 8,497

**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:

	<b>Private Equity</b>	<b>Real Estate</b>	<b>Hedge Fund Solutions</b>	<b>Credit</b>	<b>Total</b>
Performance Fees, December 31, 2011	\$ 620,359	\$ 943,859	\$ 1,858	\$ 323,076	\$ 1,889,152

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Performance Fees Allocated as a Result of Changes in Fund					
Fair Values	141,008	651,294	20,793	216,838	1,029,933
Foreign Exchange Gain		1,219			1,219
Fund Cash Distributions	(63,132)	(85,718)	(3,843)	(77,931)	(230,624)
Performance Fees, September 30, 2012	\$ 698,235	\$ 1,510,654	\$ 18,808	\$ 461,983	\$ 2,689,680



**Table of Contents****THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements Continued****(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)****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:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Realized Gains	\$ 111	\$ 421	\$ 907	\$ 820
Net Change in Unrealized Gains (Losses)	(912)	(22,292)	(722)	(21,000)
	\$ (801)	\$ (21,871)	\$ 185	\$ (20,180)

**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 September 30, 2012 is presented below:

<b>Strategy</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency (if currently eligible)</b>	<b>Redemption Notice Period</b>
Diversified Instruments	\$ 140,500	\$ 7,746	(a)	(a)
Credit Driven	201,607	1,980	(b)	(b)
Event Driven	99,767		(c)	(c)
Equity	337,015		(d)	(d)
Commodities	50,487		(e)	(e)
	\$ 829,376	\$ 9,726		

- (a) Diversified Instruments include investments in hedge funds that invest across multiple strategies. Investments representing 47% of the value of the investments in this category may not be redeemed at, or within three months of, the reporting date. The remaining 53% 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 73% of the value of the investments in this category may not be redeemed at, or within three months of, the reporting date. Investments representing 13% 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 14% of investments within this category are redeemable as of the reporting date.

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- (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 87% of the total value of investments in this category may not be redeemed at, or within three months of, the reporting date. The remaining 13% 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.

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

- (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 and the Blackstone Funds enter into derivative contracts in the normal course of business to achieve certain risk management objectives and for general investment purposes. Additionally, Blackstone may enter into derivative contracts in order to hedge its interest rate risk exposure against the effects of interest rate changes. 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 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.

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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.

	September 30, 2012				December 31, 2011			
	Assets		Liabilities		Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
<b>Fair Value Hedges</b>								
Interest Rate Swaps	\$	\$	\$	\$	\$ 450,000	\$ 67,668	\$	\$
<b>Freestanding Derivatives</b>								
Blackstone Other								
Interest Rate Contracts	580,100	51,075	758,170	6,780	221,350	768	502,200	1,291
Foreign Currency Contracts	7,453	95	11,453	572	22,698	1,016	7,293	103
Credit Default Swaps			600	114				
Investments of Consolidated Blackstone Funds								
Foreign Currency Contracts	325,308	36,137	355,176	26,439	177,453	22,016	159,409	7,687
Interest Rate Contracts	162,414	6,744	107,500	1,473	95,482	7,270	191,400	10,867
Freestanding Derivatives	1,075,275	94,051	1,232,899	35,378	516,983	31,070	860,302	19,948
Total	\$ 1,075,275	\$ 94,051	\$ 1,232,899	\$ 35,378	\$ 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:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Fair Value Hedges Interest Rate Swaps</b>				
Hedge Ineffectiveness	\$	\$ 4,191	\$ 548	\$ 4,788
Excluded from Assessment of Effectiveness	\$	\$ (10,490)	\$ (938)	\$ (10,864)
Realized Gain	\$	\$	\$ 22,941	\$
<b>Freestanding Derivatives</b>				
Realized Gains (Losses)				
Interest Rate Contracts	\$ (189)	\$ (2,558)	\$ (2,740)	\$ (3,578)
Foreign Currency Contracts	(1,438)	944	1,357	137
Other	8	(43)	15	(65)
Total	\$ (1,619)	\$ (1,657)	\$ (1,368)	\$ (3,506)
<b>Net Change in Unrealized Gain (Loss)</b>				
Interest Rate Contracts	\$ 1,946	\$ 3,822	\$ 9,565	\$ 6,007
Foreign Currency Contracts	(11,027)	(19,075)	(11,692)	(15,087)
Credit Default Swaps	(5)	42	(46)	42
Other		(83)		(101)
Total	\$ (9,086)	\$ (15,294)	\$ (2,173)	\$ (9,139)

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 September 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 September 30, 2012	As of December 31, 2011
<b>Assets</b>		
Loans and Receivables	\$ 7,295	\$ 8,555
Assets of Consolidated CLO Vehicles		
Corporate Loans	11,463,170	7,901,020
Corporate Bonds	195,047	153,653
Other	18,895	77,295
	<b>\$ 11,684,407</b>	<b>\$ 8,140,523</b>
<b>Liabilities</b>		
Liabilities of Consolidated CLO Vehicles		
Senior Secured Notes	\$ 10,612,502	\$ 7,449,766
Subordinated Notes	811,324	630,236
	<b>\$ 11,423,826</b>	<b>\$ 8,080,002</b>

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 September 30,			
	2012	2011		
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
<b>Assets</b>				
Loans and Receivables	\$ (308)	\$ 30	\$	\$ 50
Assets of Consolidated CLO Vehicles				
Corporate Loans	(2,522)	163,390	16,928	(453,095)
Corporate Bonds	(268)	708	65	(11,129)
Other	886	1,382	10,996	(16,205)
	<b>\$ (2,212)</b>	<b>\$ 165,510</b>	<b>\$ 27,989</b>	<b>\$ (480,379)</b>
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles				
Senior Secured Notes	\$ 60	\$ (289,500)	\$ 1,915	\$ 222,379
Subordinated Notes		(104,325)	(4,694)	(32,581)

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\$	60	\$	(393,825)	\$	(2,779)	\$	189,798
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(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

	Nine Months Ended September 30,			
	2012	2011	2012	2011
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
<b>Assets</b>				
Loans and Receivables	\$ (308)	\$ (366)	\$	\$ (237)
Assets of Consolidated CLO Vehicles				
Corporate Loans	(27,240)	465,102	82,040	(486,816)
Corporate Bonds	450	10,003	2,214	(12,452)
Other	2,425	11,489	11,476	(12,077)
	\$ (24,673)	\$ 486,228	\$ 95,730	\$ (511,582)
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles				
Senior Secured Notes	\$ 17	\$ (335,598)	\$ (5,798)	\$ (110,097)
Subordinated Notes		(38,920)	(4,694)	(100,285)
	\$ 17	\$ (374,518)	\$ (10,492)	\$ (210,382)

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

	As of September 30, 2012			As of December 31, 2011		
	For Financial Assets Past Due (a)			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	\$ (145)	\$	\$	\$ (162)	\$	\$
Assets of Consolidated						
CLO Vehicles						
Corporate Loans	(692,464)	20,240	(124,427)	(674,496)	17,574	(29,384)
Corporate Bonds	(4,880)			(9,360)	7,560	(2,656)
	\$ (697,489)	\$ 20,240	\$ (124,427)	\$ (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.



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

**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 September 30, 2012 and December 31, 2011, respectively:

	September 30, 2012			
	Level I	Level II	Level III	Total
<b>Assets</b>				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	\$	\$ 1,645	\$ 801,956	\$ 803,601
Equity Securities	90,711	35,576	219,322	345,609
Partnership and LLC Interests	212	418	582,970	583,600
Debt Instruments		853,587	17,308	870,895
Assets of Consolidated CLO Vehicles				
Corporate Loans		10,185,224	1,277,946	11,463,170
Corporate Bonds		175,047	20,000	195,047
Freestanding Derivatives Foreign Currency Contracts		36,137		36,137
Freestanding Derivatives Interest Rate Contracts		6,744		6,744
Other		2,241	16,654	18,895
Total Investments of Consolidated Blackstone Funds	90,923	11,296,619	2,936,156	14,323,698
Blackstone's Treasury Cash Management Strategies	670,137	619,175	1,200	1,290,512
Money Market Funds	155,062			155,062
Freestanding Derivatives				
Interest Rate Contracts	391	50,684		51,075
Foreign Currency Contracts		95		95
Loans and Receivables			7,295	7,295
Other Investments	2,483	6,662	23,213	32,358
	\$ 918,996	\$ 11,973,235	\$ 2,967,864	\$ 15,860,095
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes	\$	\$	\$ 10,612,502	\$ 10,612,502
Subordinated Notes			811,324	811,324
Freestanding Derivatives Foreign Currency Contracts		26,439		26,439
Freestanding Derivatives Interest Rate Contracts		1,473		1,473
Freestanding Derivatives				
Interest Rate Contracts	1,066	5,714		6,780
Foreign Currency Contracts		572		572
Credit Default Swaps		114		114
Securities Sold, Not Yet Purchased		105,164		105,164
	\$ 1,066	\$ 139,476	\$ 11,423,826	\$ 11,564,368



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	December 31, 2011			
	Level I	Level II	Level III	Total
<b>Assets</b>				
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
<b>Liabilities</b>				
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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The following table summarizes the fair value transfers between Level I and Level II:

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
Transfers from Level I into Level II (a)	\$ 288	\$ 45,440
Transfers from Level II into Level I (b)	\$ 45	\$ 846

- (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 September 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 September 30, 2012	Valuation Techniques	Unobservable Inputs	Ranges
<b>Financial Assets</b>				
Equity Securities	\$ 134,254	Discounted Cash Flows	Discount Rate Revenue CAGR Exit Multiple	6.8% - 25.0% 1.6% - 83.4% 5.8x - 17.0x
	1,904	Market Comparable Companies	Book Value Multiple EBITDA Multiple	0.8x 4.8x - 9.8x
Partnership and LLC Interests	558,757	Discounted Cash Flows	Discount Rate  Revenue CAGR Exit Multiple Exit Capitalization Rate	3.1% - 22.5%  -0.2% - 62.0% 4.5x - 15.4x 5.3% - 11.0%
Debt Instruments	11,719	Discounted Cash Flows	Discount Rate Revenue CAGR Exit Capitalization Rate Default Rate	8.0% - 45.0% 3.2%

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			Recovery Rate	6.4% - 7.5%
			Recovery Lag	
			Pre-payment Rate	2.0%
			Reinvestment Rate	
				70.0%
				12 months
				20.0%
				3.5%
	836	Market Comparable Companies	EBITDA Multiple	3.8x - 8.3x
Assets of Consolidated CLO Vehicles	135,462	Discounted Cash Flows	Discount Rate	6.0% - 18.0%
	67,435	Market Comparable Companies	EBITDA Multiple	4.0x - 11.0x
			Liquidity Discount	1.0% - 25.0%
Loans and Receivables	7,295	Discounted Cash Flows	Discount Rate	6.8% - 26.0%

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### THE BLACKSTONE GROUP L.P.

#### Notes to Condensed Consolidated Financial Statements Continued

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

	Fair Value at September 30, 2012	Valuation Techniques	Unobservable Inputs	Ranges
<b>Financial Liabilities</b>				
CLOs	\$ 11,423,826	Discounted Cash Flows	Default Rate Recovery Rate Recovery Lag Pre-payment Rate Reinvestment Rate Discount Rate	2.0% - 5.0%  30.0% - 70.0%  12 months  5.0% - 20.0%  3.5%  1.3% - 55.0%

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 multiples 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.

	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	\$ 2,540,156	\$ 104,207	\$ 21,362	\$ 2,665,725	\$ 1,837,853	\$ 127,108	\$ 138,713	\$ 2,103,674
Transfer In Due to Consolidation and Acquisition (a)	1,036		2,180	3,216	13,506			13,506
Transfer In to Level III (b)	436,233			436,233	120,184			120,184
Transfer Out of Level III (b)	(159,482)			(159,482)	(13,153)			(13,153)
Purchases	209,642	5,956	1,350	216,948	135,916	58,153		194,069
Sales	(181,324)	(100,728)	(99)	(282,151)	(178,082)	(120,315)	(118,175)	(416,572)
Settlements		(79)		(79)		(92)		(92)
Realized Gains (Losses), Net	13,671	(308)	99	13,462	39,601		947	40,548
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	76,224	(1,753)	(479)	73,992	(137,420)	332	(2,170)	(139,258)
Balance, End of Period	\$ 2,936,156	\$ 7,295	\$ 24,413	\$ 2,967,864	\$ 1,818,405	\$ 65,186	\$ 19,315	\$ 1,902,906

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## THE BLACKSTONE GROUP L.P.

### Notes to Condensed Consolidated Financial Statements Continued

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

	2012				2011			
	Investments of Consolidated Funds	Loans and Receivables	Other Investments	Total	Investments of Consolidated Funds	Loans and Receivables	Other Investments	Total
Level III Financial Assets at Fair Value Nine Months Ended September 30,								
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)	123,601		2,180	125,781	23,076			23,076
Transfer Out Due to Deconsolidation	(1,599)			(1,599)				
Transfer In to Level III (b)	575,238			575,238	126,398			126,398
Transfer Out of Level III (b)	(135,729)			(135,729)	(129,330)			(129,330)
Purchases	564,076	148,864	1,450	714,390	526,796	184,243	117,200	828,239
Sales	(464,193)	(149,979)	(639)	(614,811)	(350,261)	(250,214)	(118,706)	(719,181)
Settlements		(46)		(46)		(1,391)		(1,391)
Realized Gains (Losses), Net	(5,772)	(308)	738	(5,342)	43,598		1,706	45,304
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	176,765	209	520	177,494	(24,243)	1,258	(557)	(23,542)
Balance, End of Period	\$ 2,936,156	\$ 7,295	\$ 24,413	\$ 2,967,864	\$ 1,818,405	\$ 65,186	\$ 19,315	\$ 1,902,906

	Level III Financial Liabilities at Fair Value Three Months Ended September 30,					
	2012			2011		
	Collateralized Loan Obligations	Collateralized Loan Obligations		Collateralized Loan Obligations	Collateralized Loan Obligations	
	Senior Notes	Subordinated Notes	Total	Senior Notes	Subordinated Notes	Total
Balance, Beginning of Period	\$ 10,534,253	\$ 701,648	\$ 11,235,901	\$ 7,859,527	\$ 706,649	\$ 8,566,176
Transfer In Due to Consolidation and Acquisition (a)				625,480	57,170	682,650
Issuances	10,844	1,459	12,303	360,007	42,026	402,033
Settlements	(338,222)	(572)	(338,794)	(640,049)	(31,033)	(671,082)
Realized (Gains) Losses, Net	(60)		(60)	(1,915)	4,694	2,779
Changes in Unrealized (Gains) Losses Included in Earnings Related to Liabilities Still Held at the Reporting Date	405,687	108,789	514,476	(333,798)	11,456	(322,342)

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Balance, End of Period	\$ 10,612,502	\$ 811,324	\$ 11,423,826	\$ 7,869,252	\$ 790,962	\$ 8,660,214
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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 Nine Months Ended September 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	2,455,379	152,736	2,608,115
Issuances	14,073	2,211	16,284	360,411	42,026	402,437
Settlements	(609,440)	(3,470)	(612,910)	(875,322)	(43,513)	(918,835)
Realized (Gains) Losses, Net	(17)		(17)	5,798	4,694	10,492
Changes in Unrealized (Gains) Losses Included in Earnings Related to Liabilities Still Held at the Reporting Date	339,036	33,122	372,158	45,029	79,387	124,416
Balance, End of Period	\$ 10,612,502	\$ 811,324	\$ 11,423,826	\$ 7,869,252	\$ 790,962	\$ 8,660,214

- (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



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interest in these non-consolidated VIEs and the Partnership's maximum exposure to loss relating to non-consolidated VIEs were as follows:

	September 30, 2012	December 31, 2011
Investments	\$ 374,846	\$ 238,503
Receivables	76,303	94,050
Total VIE Assets	451,149	332,553
VIE Liabilities	1,208	48
Potential Clawback Obligation	31,399	14,876
Maximum Exposure to Loss	\$ 483,756	\$ 347,477

**10. REVERSE REPURCHASE AND REPURCHASE AGREEMENTS**

At September 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 \$105.1 million and cash as collateral for reverse repurchase agreements that could be repledged, delivered or otherwise used. Securities with a fair value of \$105.1 million were repledged, delivered or used to settle Securities Sold, Not Yet Purchased. The Partnership also pledged securities with a carrying value of \$69.2 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 September 30, 2012, Blackstone had no outstanding borrowings under the Credit Facility.

On August 17, 2012, Blackstone Holdings Finance Co. L.L.C. (the "Issuer"), an indirect subsidiary of the Partnership, issued \$400 million aggregate principal amount of Senior Notes maturing February 15, 2023 (the "2023 Notes") and \$250 million aggregate principal amount of Senior Notes maturing August 15, 2042 (the "2042 Notes"). The 2023 Notes have an interest rate of 4.75% per annum and the 2042 Notes have an interest rate of 6.25% per annum, each accruing from August 17, 2012. Interest is payable semiannually in arrears on February 15 and August 15 of each year, commencing February 15, 2013. The Notes are unsecured and unsubordinated obligations of the Issuer. The Notes are fully and unconditionally guaranteed, jointly and severally, by the Partnership, Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P. (the "Guarantors"). The guarantees are unsecured and unsubordinated obligations of the Guarantors. Transaction costs related to the issuance of the Notes have been capitalized and are being amortized over the life of the Notes.

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## THE BLACKSTONE GROUP L.P.

### Notes to Condensed Consolidated Financial Statements Continued

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

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

	September 30, 2012		December 31, 2011	
	Carrying Value	Fair Value (a)	Carrying Value	Fair Value (a)
Blackstone Issued 6.625%, \$600 Million Par, Notes Due 8/15/2019	\$ 642,017	\$ 678,893	\$ 653,467	\$ 640,440
Blackstone Issued 5.875%, \$400 Million Par, Notes Due 3/15/2021	\$ 398,347	\$ 449,240	\$ 398,237	\$ 404,160
Blackstone Issued 4.750%, \$400 Million Par, Notes Due 2/15/2023	\$ 392,487	\$ 417,160	\$	\$
Blackstone Issued 6.250%, \$250 Million Par, Notes Due 8/15/2042	\$ 239,590	\$ 263,800	\$	\$

(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 September 30, 2012 and December 31, 2011, the Partnership's borrowings through consolidated CLO vehicles consisted of the following:

	September 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	\$ 11,688,440	1.44%	4.7	\$ 8,250,418	1.96%	4.3
Subordinated Notes	1,437,035	(a)	3.7	1,117,571	(a)	7.2
	\$ 13,125,475			\$ 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 September 30, 2012 are amounts due to non-consolidated affiliates of \$22.0 million and \$317.6 million, respectively. The fair value of Senior Secured and Subordinated Notes as of September 30, 2012 was \$10.6 billion and \$811.3 million, respectively, of which \$17.1 million and \$226.7 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.

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 September 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.





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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

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

	<b>Operating Borrowings</b>	<b>Blackstone Fund Facilities / CLO Vehicles</b>	<b>Total Borrowings</b>
2012	\$ 297	\$ 7,904	\$ 8,201
2013	1,188	87,041	88,229
2014	5,040	254,173	259,213
2015		538,672	538,672
Thereafter	1,635,000	12,254,361	13,889,361
Total	\$ 1,641,525	\$ 13,142,151	\$ 14,783,676

**12. INCOME TAXES**

Blackstone's effective tax rate was 16.6% and 0.8% for the three months ended September 30, 2012 and 2011, respectively, and 14.4% and -15.2% for the nine months ended September 30, 2012 and 2011, respectively. Blackstone's income tax provision was an expense of \$39.2 million and a benefit of \$7.6 million for the three months ended September 30, 2012 and 2011, respectively, and an expense of \$119.3 million and an expense of \$95.4 million for the nine months ended September 30, 2012 and 2011, respectively.

Blackstone's effective tax rate for the three and nine months ended September 30, 2012 and 2011 was substantially due to the following: (a) certain corporate subsidiaries are subject to federal, state, local and foreign income taxes as applicable and other subsidiaries are subject to New York City unincorporated business taxes, and (b) a portion of compensation charges are not deductible for tax purposes.

**Table of Contents****THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements Continued****(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)****13. NET INCOME (LOSS) PER COMMON UNIT**

Basic and diluted net income (loss) per common unit for the three and nine months ended September 30, 2012 and September 30, 2011 was calculated as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net Income (Loss) Attributable to The Blackstone Group L.P.	\$ 128,824	\$ (274,567)	\$ 112,185	\$ (145,626)
<b>Basic Net Income (Loss) Per Common Unit:</b>				
Weighted-Average Common Units Outstanding	544,716,399	487,189,657	526,892,258	470,551,727
Net Income (Loss) Per Common Unit	\$ 0.24	\$ (0.56)	\$ 0.21	\$ (0.31)
<b>Diluted Net Income (Loss) Per Common Unit:</b>				
Weighted-Average Common Units Outstanding	544,716,399	487,189,657	526,892,258	470,551,727
Weighted-Average Unvested Deferred Restricted Common Units	2,207,204		5,810,614	
Weighted-Average Diluted Common Units Outstanding	546,923,603	487,189,657	532,702,872	470,551,727
Diluted Net Income (Loss) Per Common Unit	\$ 0.24	\$ (0.56)	\$ 0.21	\$ (0.31)

The following table summarizes the anti-dilutive securities for the three and nine months ended September 30, 2012 and 2011:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Weighted-Average Unvested Deferred Restricted Common Units		20,767,022		23,121,018
Weighted-Average Blackstone Holdings Partnership Units	586,762,611	616,168,175	593,555,609	633,174,021
<b>Unit Repurchase Program</b>				

In January 2008, Blackstone announced that the Board of Directors of its general partner, Blackstone Group Management L.L.C., had authorized the repurchase by Blackstone of up to \$500 million of Blackstone Common Units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone Common Units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. This unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date.

During the nine months ended September 30, 2012, no units were repurchased. As of September 30, 2012, the amount remaining available for repurchases under this program was \$335.8 million.



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During the nine months ended September 30, 2011, Blackstone repurchased 116,270 vested Blackstone Holdings Partnership Units as part of the unit repurchase program for a total fair value of \$2.1 million.

**14. EQUITY-BASED COMPENSATION**

The Partnership has granted equity-based compensation awards to Blackstone's senior managing directors, non-partner professionals, non-professionals and selected external advisors under the Partnership's 2007 Equity Incentive Plan (the "Equity Plan"), the majority of which to date were granted in connection with the IPO. The Equity Plan allows for the granting of options, unit appreciation rights or other unit-based awards (units, restricted units, restricted common units, deferred restricted common units, phantom restricted common units or other unit-based awards based in whole or in part on the fair value of the Blackstone Common Units or Blackstone Holdings Partnership Units) which may contain certain service or performance requirements. As of January 1, 2012, the Partnership had the ability to grant 162,195,378 units under the Equity Plan.

For the three and nine months ended September 30, 2012, the Partnership recorded compensation expense of \$223.6 million and \$690.6 million, respectively, in relation to its equity-based awards with corresponding tax benefits of \$2.3 million and \$15.0 million, respectively. For the three and nine months ended September 30, 2011, the Partnership recorded compensation expense of \$240.1 million and \$1.1 billion, respectively, in relation to its equity-based awards with corresponding tax benefits of \$5.1 million and \$13.8 million, respectively. As of September 30, 2012, there was \$2.0 billion of estimated unrecognized compensation expense related to unvested awards. This cost is expected to be recognized over a weighted-average period of 2.8 years.

Total vested and unvested outstanding units, including Blackstone Common Units, Blackstone Holdings Partnership Units and deferred restricted common units, were 1,139,785,399 as of September 30, 2012. Total outstanding unvested phantom units were 221,356 as of September 30, 2012.

A summary of the status of the Partnership's unvested equity-based awards as of September 30, 2012 and a summary of changes during the period January 1, 2012 through September 30, 2012 is presented below:

	Blackstone Holdings		The Blackstone Group L.P.			
	Partnership Units	Weighted- Average Grant Date Fair Value	Equity Settled Awards		Cash Settled Awards	
Unvested Units			Deferred Restricted Common Units and Options	Weighted- Average Grant Date Fair Value	Phantom Units	Weighted- Average Grant Date Fair Value
Balance, December 31, 2011	89,644,650	\$ 29.88	17,635,945	\$ 18.50	218,583	\$ 13.88
Granted	6,014,151	13.33	8,858,682	13.06	6,736	12.82
Vested	(24,749,910)	30.26	(5,135,554)	19.48	(3,963)	13.33
Forfeited	(2,069,835)	30.53	(1,040,852)	18.74		
Balance, September 30, 2012	68,839,056	\$ 28.28	20,318,221	\$ 15.74	221,356	\$ 13.85

**Table of Contents****THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements Continued****(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)****Units Expected to Vest**

The following unvested units, after expected forfeitures, as of September 30, 2012, are expected to vest:

	Units	Weighted-Average Service Period in Years
Blackstone Holdings Partnership Units	64,520,021	2.8
Deferred Restricted Blackstone Common Units and Options	16,003,110	3.1
<b>Total Equity-Based Awards</b>	<b>80,523,131</b>	<b>2.8</b>
Phantom Units	208,271	2.7

**15. RELATED PARTY TRANSACTIONS****Affiliate Receivables and Payables**

As of September 30, 2012 and December 31, 2011, Due from Affiliates and Due to Affiliates comprised the following:

	September 30, 2012	December 31, 2011
<b>Due from Affiliates</b>		
Accrual for Potential Clawback of Previously Distributed Carried Interest	\$ 154,339	\$ 167,415
Primarily Interest Bearing Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees for Investments in Blackstone Funds	169,964	223,281
Amounts Due from Portfolio Companies and Funds	282,722	234,254
Investments Redeemed in Non-Consolidated Funds of Funds	3,584	67,608
Management and Performance Fees Due from Non-Consolidated Funds of Funds	109,916	71,162
Payments Made on Behalf of Non-Consolidated Entities	145,526	87,711
Advances Made to Certain Non-Controlling Interest Holders and Blackstone Employees	11,080	9,083
	<b>\$ 877,131</b>	<b>\$ 860,514</b>
	September 30, 2012	December 31, 2011
<b>Due to Affiliates</b>		
Due to Certain Non-Controlling Interest Holders in Connection with the Tax Receivable Agreements	\$ 1,177,800	\$ 1,112,330
Accrual for Potential Repayment of Previously Received Performance Fees	255,823	266,300
Due to Note-Holders of Consolidated CLO Vehicles	243,780	292,372

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Distributions Received on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees	26,851	20,526
Payable to Affiliates for Consolidated Funds in Liquidation	45,348	58,793
Distributions Received on Behalf of Blackstone Entities	30,908	42,620
Payments Made by Non-Consolidated Entities	7,146	18,527
	\$ 1,787,656	\$ 1,811,468

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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

**Interests of the Founder, Senior Managing Directors and Employees**

The founder, senior managing directors and employees invest on a discretionary basis in the Blackstone Funds both directly and through consolidated entities. Their investments may be subject to preferential management fee and performance fee arrangements. As of September 30, 2012 and December 31, 2011, the founder's, other senior managing directors' and employees' investments aggregated \$877.6 million and \$715.5 million, respectively, and the founder's, other senior managing directors' and employees' share of the Net Income (Loss) Attributable to Redeemable Non-Controlling and Non-Controlling Interests in Consolidated Entities aggregated \$46.8 million and \$(36.2) million for the three months ended September 30, 2012 and 2011, respectively, and \$90.2 million and \$95.6 million for the nine months ended September 30, 2012 and 2011, respectively.

**Revenues Earned from Affiliates**

Management and Advisory Fees earned from affiliates totaled \$49.0 million and \$56.9 million for the three months ended September 30, 2012 and 2011, respectively. Management and Advisory Fees earned from affiliates totaled \$153.1 million and \$245.9 million for the nine months ended September 30, 2012 and 2011, respectively. Fees relate primarily to transaction and monitoring fees which are made in the ordinary course of business and under terms that would have been obtained from unaffiliated third parties.

**Loans to Affiliates**

Loans to affiliates consist of interest-bearing advances to certain Blackstone individuals to finance their investments in certain Blackstone Funds. These loans earn interest at Blackstone's cost of borrowing and such interest totaled \$1.1 million and \$0.6 million for the three months ended September 30, 2012 and 2011, respectively, and \$3.3 million and \$1.9 million for the nine months ended September 30, 2012 and 2011, respectively. No such loans to any director or executive officer of Blackstone have been made or were outstanding since March 22, 2007, the date of Blackstone's initial filing with the Securities and Exchange Commission of a registration statement relating to its initial public offering.

**Contingent Repayment Guarantee**

Blackstone and its personnel who have received Carried Interest distributions have guaranteed payment on a several basis (subject to a cap) to the Carry Funds of any clawback obligation with respect to the excess Carried Interest allocated to the general partners of such funds and indirectly received thereby to the extent that either Blackstone or its personnel fails to fulfill its clawback obligation, if any. The Accrual for Possible Repayment of Previously Received Performance Fees represents amounts previously paid to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Carry Funds were to be liquidated based on the fair value of their underlying investments as of September 30, 2012. See Note 16. Commitments and Contingencies Contingencies Contingent Obligations (Clawback) .

**Aircraft and Other Services**

In the normal course of business, Blackstone personnel have made use of aircraft owned as personal assets by Stephen A. Schwarzman ( Personal Aircraft ). In addition, on occasion, Mr. Schwarzman and his family have made use of an aircraft in which Blackstone owns a fractional interest, as well as other assets of Blackstone. Mr. Schwarzman paid for his purchases of the aircraft himself and bears all operating, personnel and maintenance costs associated with their operation. In addition, Mr. Schwarzman is charged for his and his

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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

family's personal use of Blackstone assets based on market rates and usage. Payment by Blackstone for the use of the Personal Aircraft by other Blackstone employees are made at market rates. Personal use of Blackstone resources are also reimbursed to Blackstone at market rates. The transactions described herein are not material to the Condensed Consolidated Financial Statements.

**Tax Receivable Agreements**

Blackstone used a portion of the proceeds from the IPO and the sale of non-voting common units to Beijing Wonderful Investments to purchase interests in the predecessor businesses from the predecessor owners. In addition, holders of Blackstone Holdings Partnership Units may exchange their Blackstone Holdings Partnership Units for Blackstone Common Units on a one-for-one basis. The purchase and subsequent exchanges are expected to result in increases in the tax basis of the tangible and intangible assets of Blackstone Holdings and therefore reduce the amount of tax that Blackstone's wholly-owned subsidiaries would otherwise be required to pay in the future.

One of the subsidiaries of the Partnership which is a corporate taxpayer has entered into tax receivable agreements with each of the predecessor owners and additional tax receivable agreements have been executed, and will continue to be executed, with newly-admitted senior managing directors and others who acquire Blackstone Holdings Partnership Units. The agreements provide for the payment by the corporate taxpayer to such owners of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the corporate taxpayers actually realize as a result of the aforementioned increases in tax basis and of certain other tax benefits related to entering into these tax receivable agreements. For purposes of the tax receivable agreements, cash savings in income tax will be computed by comparing the actual income tax liability of the corporate taxpayers to the amount of such taxes that the corporate taxpayers would have been required to pay had there been no increase to the tax basis of the tangible and intangible assets of Blackstone Holdings as a result of the exchanges and had the corporate taxpayers not entered into the tax receivable agreements.

Assuming no material changes in the relevant tax law and that the corporate taxpayers earn sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, the expected future payments under the tax receivable agreements (which are taxable to the recipients) will aggregate \$1.2 billion over the next 15 years. The after-tax net present value of these estimated payments totals \$354.6 million assuming a 15% discount rate and using Blackstone's most recent projections relating to the estimated timing of the benefit to be received. Future payments under the tax receivable agreements in respect of subsequent exchanges would be in addition to these amounts. The payments under the tax receivable agreements are not conditioned upon continued ownership of Blackstone equity interests by the pre-IPO owners and the others mentioned above.

**Other**

Blackstone does business with and on behalf of some of its Portfolio Companies; all such arrangements are on a negotiated basis.

**16. COMMITMENTS AND CONTINGENCIES**

**Commitments**

***Investment Commitments***

Blackstone had \$1.3 billion of investment commitments as of September 30, 2012 representing general partner capital funding commitments to the Blackstone Funds, limited partner capital funding to other funds and



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### THE BLACKSTONE GROUP L.P.

#### Notes to Condensed Consolidated Financial Statements Continued

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

Blackstone principal investment commitments. The consolidated Blackstone Funds had signed investment commitments of \$50.5 million as of September 30, 2012 which includes \$18.9 million of signed investment commitments for portfolio company acquisitions in the process of closing.

#### Contingencies

##### Guarantees

Certain of Blackstone's consolidated real estate funds guarantee payments to third parties in connection with the on-going business activities and/or acquisitions of their Portfolio Companies. There is no direct recourse to the Partnership to fulfill such obligations. To the extent that underlying funds are required to fulfill guarantee obligations, the Partnership's invested capital in such funds is at risk. Total investments at risk in respect of guarantees extended by consolidated real estate funds was \$5.0 million as of September 30, 2012.

On March 28, 2012, the Blackstone Holdings Partnerships entered into a guaranty agreement with a lending institution in which the Holdings Partnerships guarantee certain loans held by employees for investment in Blackstone funds. The amount guaranteed as of September 30, 2012 was \$47.8 million.

##### Litigation

From time to time, Blackstone is named as a defendant in legal actions relating to transactions conducted in the ordinary course of business. Although there can be no assurance of the outcome of such legal actions, in the opinion of management, Blackstone does not have a potential liability related to any current legal proceeding or claim that would individually or in the aggregate materially affect its results of operations, financial position or cash flows.

##### Contingent Obligations (Clawback)

Carried Interest is subject to clawback to the extent that the Carried Interest received to date exceeds the amount due to Blackstone based on cumulative results. The actual clawback liability, however, does not become realized until the end of a fund's life except for Blackstone's real estate funds which may have an interim clawback liability come due after a realized loss is incurred, depending on the fund. The lives of the carry funds with a potential clawback obligation, including available contemplated extensions, are currently anticipated to expire at various points beginning toward the end of 2012 and extending through 2018. Further extensions of such terms may be implemented under given circumstances.

For financial reporting purposes, the general partners have recorded a liability for potential clawback obligations to the limited partners of some of the carry funds due to changes in the unrealized value of a fund's remaining investments and where the fund's general partner has previously received Carried Interest distributions with respect to such fund's realized investments.

The following table presents the clawback obligations by segment:

Segment	Blackstone Holdings	September 30, 2012		Blackstone Holdings	December 31, 2011	
		Current and Former Personnel	Total		Current and Former Personnel	Total
Private Equity	\$ 69,282	\$ 129,440	\$ 198,722	\$ 68,044	\$ 128,756	\$ 196,800
Real Estate	32,152	24,863	57,015	30,841	38,659	69,500
Credit	50	36	86			

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Total	\$ 101,484	\$	154,339	\$ 255,823	\$ 98,885	\$	167,415	\$ 266,300
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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

A portion of the Carried Interest paid to current and former Blackstone personnel is held in segregated accounts in the event of a cash clawback obligation. These segregated accounts are not included in the Condensed Consolidated Financial Statements of the Partnership, except to the extent a portion of the assets held in the segregated accounts may be allocated to a consolidated Blackstone fund of hedge funds. At September 30, 2012, \$415.3 million was held in segregated accounts for the purpose of meeting any clawback obligations of current and former personnel if such payments are required.

**17. SEGMENT REPORTING**

Blackstone transacts its primary business in the United States and substantially all of its revenues are generated domestically.

Blackstone conducts its alternative asset management and financial advisory businesses through five segments:

**Private Equity** Blackstone's Private Equity segment comprises its management of private equity funds and certain multi-asset class investment funds.

**Real Estate** Blackstone's Real Estate segment primarily comprises its management of general opportunistic real estate funds and internationally focused opportunistic real estate funds. In addition, the segment has debt investment funds targeting non-controlling real estate debt-related investment opportunities in the public and private markets, primarily in the United States and Europe.

**Hedge Fund Solutions** Blackstone's Hedge Fund Solutions segment is comprised principally of Blackstone Alternative Asset Management (BAAM), an institutional solutions provider utilizing hedge funds across a variety of strategies.

**Credit** Blackstone's Credit segment is comprised principally of GSO and manages credit-oriented funds, CLOs, credit-focused separately managed accounts and publicly registered debt-focused investment companies. Prior to September 30, 2012, this segment had been called Credit Businesses.

**Financial Advisory** Blackstone's Financial Advisory segment comprises its financial advisory services, restructuring and reorganization advisory services and Park Hill Group, which provides fund placement services for alternative investment funds. These business segments are differentiated by their various sources of income. The Private Equity, Real Estate, Hedge Fund Solutions and Credit segments primarily earn their income from management fees and investment returns on assets under management, while the Financial Advisory segment primarily earns its income from fees related to investment banking services and advice and fund placement services.

Blackstone uses Economic Income (EI) as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its five segments. EI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges arise from Blackstone's IPO and long-term retention programs outside of annual deferred compensation and other corporate actions, including acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration associated with acquisitions. EI presents revenues and expenses on a basis that deconsolidates the investment funds Blackstone manages. Prior to June 30, 2012, EI had been called Economic Net Income. The renaming of this measure did not change any of the previously reported amounts. Economic Net Income (ENI) now represents EI adjusted to include current period taxes. Taxes represent the

current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes.

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Management makes operating decisions and assesses the performance of each of Blackstone's business segments based on financial and operating metrics and data that is presented without the consolidation of any of the Blackstone Funds that are consolidated into the Condensed Consolidated Financial Statements. Consequently, all segment data excludes the assets, liabilities and operating results related to the Blackstone Funds.

The following table presents the financial data for Blackstone's five segments as of and for the three months ended September 30, 2012 and 2011:

	Three Months Ended September 30, 2012					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$ 86,136	\$ 135,659	\$ 87,334	\$ 88,959	\$	\$ 398,088
Advisory Fees					59,951	59,951
Transaction and Other Fees, Net	25,693	14,937	4	4,486	6	45,126
Management Fee Offsets	(767)	(6,034)	(382)	(1,271)		(8,454)
<b>Total Management and Advisory Fees, Net</b>	<b>111,062</b>	<b>144,562</b>	<b>86,956</b>	<b>92,174</b>	<b>59,957</b>	<b>494,711</b>
<b>Performance Fees</b>						
Realized						
Carried Interest	31,592	51,845		328		83,765
Incentive Fees		4,879	2,637	4,104		11,620
Unrealized						
Carried Interest	128,746	207,695		67,024		403,465
Incentive Fees		6,150	36,635	61,364		104,149
<b>Total Performance Fees</b>	<b>160,338</b>	<b>270,569</b>	<b>39,272</b>	<b>132,820</b>		<b>602,999</b>
<b>Investment Income (Loss)</b>						
Realized	7,189	10,324	637	6,697	251	25,098
Unrealized	43,267	33,676	5,199	(736)	928	82,334
<b>Total Investment Income</b>	<b>50,456</b>	<b>44,000</b>	<b>5,836</b>	<b>5,961</b>	<b>1,179</b>	<b>107,432</b>
Interest and Dividend Revenue	3,413	3,581	540	2,673	1,797	12,004
Other	1,650	1,941	315	(678)	(751)	2,477
<b>Total Revenues</b>	<b>326,919</b>	<b>464,653</b>	<b>132,919</b>	<b>232,950</b>	<b>62,182</b>	<b>1,219,623</b>
<b>Expenses</b>						
Compensation and Benefits						
Compensation	62,424	71,456	28,826	50,236	46,619	259,561
Performance Fee Compensation						
Realized						

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Carried Interest	1,048	19,822		1,153		22,023
Incentive Fees		2,570	1,062	825		4,457
Unrealized						
Carried Interest	43,228	47,940		37,695		128,863
Incentive Fees		2,876	8,062	33,316		44,254
Total Compensation and Benefits	106,700	144,664	37,950	123,225	46,619	459,158
Other Operating Expenses	30,944	31,284	12,878	33,527	18,823	127,456
Total Expenses	137,644	175,948	50,828	156,752	65,442	586,614
Economic Income (Loss)	\$ 189,275	\$ 288,705	\$ 82,091	\$ 76,198	\$ (3,260)	\$ 633,009

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	Three Months Ended September 30, 2011					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$ 85,534	\$ 97,925	\$ 79,355	\$ 59,557	\$	\$ 322,371
Advisory Fees					86,178	86,178
Transaction and Other Fees, Net	21,430	19,551	740	(26)	98	41,793
Management Fee Offsets	(6,498)	(880)	(258)	(67)		(7,703)
Total Management and Advisory Fees, Net	100,466	116,596	79,837	59,464	86,276	442,639
<b>Performance Fees</b>						
<b>Realized</b>						
Carried Interest	(17,966)	5,137		3,196		(9,633)
Incentive Fees		171	5,764	11,595		17,530
<b>Unrealized</b>						
Carried Interest	(270,014)	(119,192)		6,257		(382,949)
Incentive Fees		(984)	(19,861)	(61,382)		(82,227)
Total Performance Fees	(287,980)	(114,868)	(14,097)	(40,334)		(457,279)
<b>Investment Income (Loss)</b>						
<b>Realized</b>						
	20,548	7,313	1,023	2,807	(44)	31,647
<b>Unrealized</b>						
	(121,688)	(26,060)	(10,034)	(7,800)	(171)	(165,753)
Total Investment Loss	(101,140)	(18,747)	(9,011)	(4,993)	(215)	(134,106)
Interest and Dividend Revenue	3,396	3,195	500	1,404	1,615	10,110
Other	141	(1,390)	18	(132)	(304)	(1,667)
Total Revenues	(285,117)	(15,214)	57,247	15,409	87,372	(140,303)
<b>Expenses</b>						
<b>Compensation and Benefits</b>						
Compensation	52,388	54,986	30,667	40,533	59,633	238,207
<b>Performance Fee Compensation</b>						
<b>Realized</b>						
Carried Interest	(2,443)	2,169		(1,561)		(1,835)
Incentive Fees		82	2,257	10,039		12,378
<b>Unrealized</b>						
Carried Interest	(44,955)	(30,076)		908		(74,123)
Incentive Fees		(434)	(7,214)	(29,664)		(37,312)
Total Compensation and Benefits	4,990	26,727	25,710	20,255	59,633	137,315
Other Operating Expenses	27,588	23,495	14,421	11,210	20,218	96,932
Total Expenses	32,578	50,222	40,131	31,465	79,851	234,247

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Economic Income (Loss)	\$ (317,695)	\$ (65,436)	\$ 17,116	\$ (16,056)	\$ 7,521	\$ (374,550)
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### THE BLACKSTONE GROUP L.P.

#### Notes to Condensed Consolidated Financial Statements Continued

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

The following table reconciles the Total Segments to Blackstone's Income (Loss) Before Provision (Benefit) for Taxes for the three months ended September 30, 2012 and 2011:

	Three Months Ended September 30, 2012			Three Months Ended September 30, 2011		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	\$ 1,219,623	\$ 3,467(a)	\$ 1,223,090	\$ (140,303)	\$ 16,224(a)	\$ (124,079)
Expenses	\$ 586,614	\$ 264,777(b)	\$ 851,391	\$ 234,247	\$ 306,687(b)	\$ 540,934
Other Income	\$	\$ (135,960)(c)	\$ (135,960)	\$	\$ (329,399)(c)	\$ (329,399)
Economic Income (Loss)	\$ 633,009	\$ (397,270)(d)	\$ 235,739	\$ (374,550)	\$ (619,862)(d)	\$ (994,412)

- (a) The Revenues adjustment principally represents management and performance fees earned from Blackstone Funds which were eliminated in consolidation to arrive at Blackstone consolidated revenues.
- (b) The Expenses adjustment represents the addition of expenses of the consolidated Blackstone Funds to the Blackstone unconsolidated expenses, amortization of intangibles and expenses related to transaction-related equity-based compensation to arrive at Blackstone consolidated expenses.
- (c) The Other Income adjustment results from the following:

	Three Months Ended September 30,	
	2012	2011
Fund Management Fees and Performance Fees Eliminated in Consolidation	\$ (4,273)	\$ (18,164)
Fund Expenses Added in Consolidation	(8,837)	9,843
Non-Controlling Interests in Loss of Consolidated Entities	(115,753)	(310,129)
Transaction-Related Other Income	(7,097)	(10,949)
Total Consolidation Adjustments and Reconciling Items	\$ (135,960)	\$ (329,399)

- (d) The reconciliation of Economic Income (Loss) to Income (Loss) Before Provision (Benefit) for Taxes as reported in the Condensed Consolidated Statements of Operations consists of the following:

	Three Months Ended September 30,	
	2012	2011
Economic Income (Loss)	\$ 633,009	\$ (374,550)
Adjustments		
Amortization of Intangibles	(33,338)	(45,665)
IPO and Acquisition-Related Charges	(248,179)	(264,068)

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Non-Controlling Interests in Loss of Consolidated Entities	(115,753)	(310,129)
Total Consolidation Adjustments and Reconciling Items	(397,270)	(619,862)
Income (Loss) Before Provision (Benefit) for Taxes	\$ 235,739	\$ (994,412)

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## THE BLACKSTONE GROUP L.P.

### Notes to Condensed Consolidated Financial Statements Continued

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

The following table presents financial data for Blackstone's five segments for the nine months ended September 30, 2012 and 2011:

	Private Equity	September 30, 2012 and the Real Estate	Hedge Fund Solutions	Credit	September 30, 2011 and the Financial Advisory	Total Segments
Segment Revenues						
Management and Advisory Fees, Net						
Base Management Fees	\$ 259,400	\$ 411,278	\$ 253,433	\$ 250,827	\$	\$ 1,174,938
Advisory Fees					229,169	229,169
Transaction and Other Fees, Net	58,741	54,500	161	19,395	253	133,050
Management Fee Offsets	(5,221)	(20,018)	(1,092)	(3,146)		(29,477)
Total Management and Advisory Fees	312,920	445,760	252,502	267,076	229,422	1,507,680
Performance Fees						
Realized						
Carried Interest	64,306	74,001		14,947		153,254
Incentive Fees		12,644	7,110	8,837		28,591
Unrealized						
Carried Interest	74,904	573,705		137,942		786,551
Incentive Fees		12,538	48,841	93,817		155,196
Total Performance Fees	139,210	672,888	55,951	255,543		1,123,592
Investment Income (Loss)						
Realized	14,905	27,203	2,069	13,018	755	57,950
Unrealized	31,399	74,532	9,934	(681)	1,440	116,624
Total Investment Income	46,304	101,735	12,003	12,337	2,195	174,574
Interest and Dividend Revenue	8,947	9,410	1,421	6,850	5,112	31,740
Other	1,997	642	215	(1,703)	(709)	442
Total Revenues	509,378	1,230,435	322,092	540,103	236,020	2,838,028
Expenses						
Compensation and Benefits						
Compensation	168,746	216,921	91,618	130,224	175,708	783,217
Performance Fee Compensation						
Realized						
Carried Interest	2,172	27,300		8,388		37,860
Incentive Fees		6,443	2,095	5,746		14,284
Unrealized						
Carried Interest	33,917	133,892		82,412		250,221
Incentive Fees		6,015	12,536	28,886		47,437

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Total Compensation and Benefits	204,835	390,571	106,249	255,656	175,708	1,133,019
Other Operating Expenses	90,346	86,768	41,318	66,372	65,211	350,015
Total Expenses	295,181	477,339	147,567	322,028	240,919	1,483,034
Economic Income (Loss)	\$ 214,197	\$ 753,096	\$ 174,525	\$ 218,075	\$ (4,899)	\$ 1,354,994
Segment Assets as of September 30, 2012	\$ 4,257,647	\$ 5,175,273	\$ 931,656	\$ 1,973,765	\$ 675,710	\$ 13,014,051

**Table of Contents****THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements Continued****(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

	Nine Months Ended September 30, 2011					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$ 247,766	\$ 290,831	\$ 234,257	\$ 171,578	\$	\$ 944,432
Advisory Fees					258,673	258,673
Transaction and Other Fees, Net	109,125	90,382	2,328	1,568	314	203,717
Management Fee Offsets	(22,016)	(2,130)	(578)	(190)		(24,914)
<b>Total Management and Advisory Fees</b>	<b>334,875</b>	<b>379,083</b>	<b>236,007</b>	<b>172,956</b>	<b>258,987</b>	<b>1,381,908</b>
<b>Performance Fees</b>						
<b>Realized</b>						
Carried Interest	65,785	19,306		41,429		126,520
Incentive Fees		9,427	7,324	20,441		37,192
<b>Unrealized</b>						
Carried Interest	(50,287)	675,534		35,109		660,356
Incentive Fees		1,852	2,833	(12,177)		(7,492)
<b>Total Performance Fees</b>	<b>15,498</b>	<b>706,119</b>	<b>10,157</b>	<b>84,802</b>		<b>816,576</b>
<b>Investment Income (Loss)</b>						
<b>Realized</b>						
Carried Interest	41,476	21,626	15,219	7,278	279	85,878
Incentive Fees	(15,615)	72,678	(15,778)	2,169	207	43,661
<b>Unrealized</b>						
Carried Interest						
Incentive Fees						
<b>Total Investment Income (Loss)</b>	<b>25,861</b>	<b>94,304</b>	<b>(559)</b>	<b>9,447</b>	<b>486</b>	<b>129,539</b>
Interest and Dividend Revenue	10,098	9,472	1,488	2,759	5,024	28,841
Other	1,617	(15)	84	(81)	115	1,720
<b>Total Revenues</b>	<b>387,949</b>	<b>1,188,963</b>	<b>247,177</b>	<b>269,883</b>	<b>264,612</b>	<b>2,358,584</b>
<b>Expenses</b>						
<b>Compensation and Benefits</b>						
Compensation	171,945	183,264	90,434	103,153	186,335	735,131
<b>Performance Fee Compensation</b>						
<b>Realized</b>						
Carried Interest	5,324	8,390		16,695		30,409
Incentive Fees		4,473	2,810	15,105		22,388
<b>Unrealized</b>						
Carried Interest	(10,182)	163,274		22,453		175,545
Incentive Fees		3,738	1,099	(11,195)		(6,358)
<b>Total Compensation and Benefits</b>	<b>167,087</b>	<b>363,139</b>	<b>94,343</b>	<b>146,211</b>	<b>186,335</b>	<b>957,115</b>
Other Operating Expenses	86,425	74,832	43,504	36,793	57,716	299,270
<b>Total Expenses</b>	<b>253,512</b>	<b>437,971</b>	<b>137,847</b>	<b>183,004</b>	<b>244,051</b>	<b>1,256,385</b>

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Economic Income	\$ 134,437	\$ 750,992	\$ 109,330	\$ 86,879	\$ 20,561	\$ 1,102,199
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**Table of Contents****THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements Continued**

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

The following table reconciles the Total Segments to Blackstone's Income (Loss) Before Provision (Benefit) for Taxes and Total Assets as of and for the nine months ended September 30, 2012 and 2011:

	September 30, 2012 and the Nine Months Then Ended			Nine Months Ended September 30, 2011		
	Total	Consolidation	Blackstone	Total	Consolidation	Blackstone
	Segments	Adjustments and Reconciling Items	Consolidated	Segments	Adjustments and Reconciling Items	Consolidated
Revenues	\$ 2,838,028	\$ (35,700)(a)	\$ 2,802,328	\$ 2,358,584	\$ (21,113)(a)	\$ 2,337,471
Expenses	\$ 1,483,034	\$ 891,968(b)	\$ 2,375,002	\$ 1,256,385	\$ 1,260,244(b)	\$ 2,516,629
Other Income	\$	\$ 400,412(c)	\$ 400,412	\$	\$ (449,244)(c)	\$ (449,244)
Economic Income	\$ 1,354,994	\$ (527,256)(d)	\$ 827,738	\$ 1,102,199	\$ (1,730,601)(d)	\$ (628,402)
Total Assets	\$ 13,014,051	\$ 14,786,388(e)	\$ 27,800,439			

- (a) The Revenues adjustment principally represents management and performance fees earned from Blackstone Funds which were eliminated in consolidation to arrive at Blackstone consolidated revenues.
- (b) The Expenses adjustment represents the addition of expenses of the consolidated Blackstone Funds to the Blackstone unconsolidated expenses, amortization of intangibles and expenses related to transaction-related equity-based compensation to arrive at Blackstone consolidated expenses.
- (c) The Other Income adjustment results from the following:

	Nine Months Ended September 30,	
	2012	2011
Fund Management Fees and Performance Fees Eliminated in Consolidation	\$ 32,217	\$ 15,355
Fund Expenses Added in Consolidation	31,040	22,459
Non-Controlling Interests in Income (Loss) of Consolidated Entities	358,417	(473,733)
Transactional Other Income	(21,262)	(13,325)
Total Consolidation Adjustments and Reconciling Items	\$ 400,412	\$ (449,244)

- (d) The reconciliation of Economic Income to Income (Loss) Before Provision (Benefit) for Taxes as reported in the Condensed Consolidated Statements of Operations consists of the following:

	Nine Months Ended September 30,	
	2012	2011
Economic Income	\$ 1,354,994	\$ 1,102,199

Adjustments

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Amortization of Intangibles	(123,661)	(134,744)
IPO and Acquisition-Related Charges	(762,012)	(1,122,124)
Non-Controlling Interests in Income (Loss) of Consolidated Entities	358,417	(473,733)
 Total Consolidation Adjustments and Reconciling Items	 (527,256)	 (1,730,601)
 Income (Loss) Before Provision (Benefit) for Taxes	 \$ 827,738	 \$ (628,402)

- (e) The Total Assets adjustment represents the addition of assets of the consolidated Blackstone Funds to the Blackstone unconsolidated assets to arrive at Blackstone consolidated assets.

### 18. SUBSEQUENT EVENTS

There have been no events since September 30, 2012 that require recognition or disclosure in the Condensed Consolidated Financial Statements.



**Table of Contents****ITEM 1A. UNAUDITED SUPPLEMENTAL PRESENTATION OF STATEMENTS OF FINANCIAL CONDITION  
THE BLACKSTONE GROUP L.P.****Unaudited Consolidating Statements of Financial Condition**

(Dollars in Thousands)

	September 30, 2012			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
<b>Assets</b>				
Cash and Cash Equivalents	\$ 833,515	\$	\$	\$ 833,515
Cash Held by Blackstone Funds and Other	51,782	750,633		802,415
Investments	6,905,811	14,300,725	(439,836)	20,766,700
Accounts Receivable	387,517	111,026		498,543
Reverse Repurchase Agreements	105,581			105,581
Due from Affiliates	859,323	45,886	(28,078)	877,131
Intangible Assets, Net	622,280			622,280
Goodwill	1,703,602			1,703,602
Other Assets	329,386	46,032		375,418
Deferred Tax Assets	1,215,254			1,215,254
<b>Total Assets</b>	<b>\$ 13,014,051</b>	<b>\$ 15,254,302</b>	<b>\$ (467,914)</b>	<b>\$ 27,800,439</b>
<b>Liabilities and Partners Capital</b>				
Loans Payable	\$ 1,678,965	\$ 11,196,721	\$	\$ 12,875,686
Due to Affiliates	1,478,761	362,644	(53,749)	1,787,656
Accrued Compensation and Benefits	1,295,598			1,295,598
Securities Sold, Not Yet Purchased	105,164			105,164
Repurchase Agreements	69,452			69,452
Accounts Payable, Accrued Expenses and Other Liabilities	388,923	436,230		825,153
<b>Total Liabilities</b>	<b>5,016,863</b>	<b>11,995,595</b>	<b>(53,749)</b>	<b>16,958,709</b>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>		<b>1,450,970</b>		<b>1,450,970</b>
<b>Partners Capital</b>				
Partners Capital	4,628,105	415,940	(415,940)	4,628,105
Appropriated Partners Capital		737,079		737,079
Accumulated Other Comprehensive Income	637	766		1,403
Non-Controlling Interests in Consolidated Entities	666,237	653,952	1,775	1,321,964
Non-Controlling Interests in Blackstone Holdings	2,702,209			2,702,209
<b>Total Partners Capital</b>	<b>7,997,188</b>	<b>1,807,737</b>	<b>(414,165)</b>	<b>9,390,760</b>
<b>Total Liabilities and Partners Capital</b>	<b>\$ 13,014,051</b>	<b>\$ 15,254,302</b>	<b>\$ (467,914)</b>	<b>\$ 27,800,439</b>

continued

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Included within the assets and liabilities of the Consolidated Operating Partnerships is \$2.0 billion representing net accrued performance fees due from the Blackstone Funds. Additional detail on this amount is presented in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Consolidated Results of Operations *Net Accrued Performance Fees* of this filing.

**Table of Contents****THE BLACKSTONE GROUP L.P.****Unaudited Consolidating Statements of Financial Condition (Continued)**

(Dollars in Thousands)

	December 31, 2011			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
<b>Assets</b>				
Cash and Cash Equivalents	\$ 754,744	\$	\$	\$ 754,744
Cash Held by Blackstone Funds and Other	46,282	678,480		724,762
Investments	5,289,125	10,282,084	(442,910)	15,128,299
Accounts Receivable	347,241	58,899		406,140
Reverse Repurchase Agreements	139,485			139,485
Due from Affiliates	784,095	107,042	(30,623)	860,514
Intangible Assets, Net	595,488			595,488
Goodwill	1,703,602			1,703,602
Other Assets	325,269	12,127		337,396
Deferred Tax Assets	1,258,699			1,258,699
<b>Total Assets</b>	<b>\$ 11,244,030</b>	<b>\$ 11,138,632</b>	<b>\$ (473,533)</b>	<b>\$ 21,909,129</b>
<b>Liabilities and Partners Capital</b>				
Loans Payable	\$ 1,066,432	\$ 7,801,136	\$	\$ 8,867,568
Due to Affiliates	1,425,558	437,520	(51,610)	1,811,468
Accrued Compensation and Benefits	903,260			903,260
Securities Sold, Not Yet Purchased	143,825			143,825
Repurchase Agreements	101,849			101,849
Accounts Payable, Accrued Expenses and Other Liabilities	414,080	414,866	(73)	828,873
<b>Total Liabilities</b>	<b>4,055,004</b>	<b>8,653,522</b>	<b>(51,683)</b>	<b>12,656,843</b>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>		<b>1,091,833</b>		<b>1,091,833</b>
<b>Partners Capital</b>				
Partners Capital	4,281,841	421,898	(421,898)	4,281,841
Appropriated Partners Capital		386,864		386,864
Accumulated Other Comprehensive Income	1,272	686		1,958
Non-Controlling Interests in Consolidated Entities	445,393	583,829	48	1,029,270
Non-Controlling Interests in Blackstone Holdings	2,460,520			2,460,520
<b>Total Partners Capital</b>	<b>7,189,026</b>	<b>1,393,277</b>	<b>(421,850)</b>	<b>8,160,453</b>
<b>Total Liabilities and Partners Capital</b>	<b>\$ 11,244,030</b>	<b>\$ 11,138,632</b>	<b>\$ (473,533)</b>	<b>\$ 21,909,129</b>

(a) The Consolidated Blackstone Funds consisted of the following:  
Blackstone Distressed Securities Fund L.P.

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Blackstone Market Opportunities Fund L.P.

Blackstone Strategic Alliance Fund L.P.

Blackstone Strategic Alliance Fund II L.P.

Blackstone Strategic Equity Fund L.P.

Blackstone Value Recovery Fund L.P.

Blackstone/GSO Secured Trust Ltd

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BTD CP Holdings, LP

GSO Legacy Associates II LLC

GSO Legacy Associates LLC

Shanghai Blackstone Equity Investment Partnership L.P.

Private equity side-by-side investment vehicles

Real estate side-by-side investment vehicles

Mezzanine side-by-side investment vehicles

Collateralized loan obligation vehicles

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### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis should be read in conjunction with The Blackstone Group L.P.'s Condensed Consolidated Financial Statements and the related notes included in this Quarterly Report on Form 10-Q.*

#### **Our Business**

Blackstone is one of the largest independent managers of private capital in the world. We also provide a wide range of financial advisory services, including financial advisory, restructuring and reorganization advisory and fund placement services.

Our business is organized into five business segments:

**Private Equity.** We are a world leader in private equity investing, having managed six general private equity funds, as well as two sector focused funds and a regionally focused fund, since we established this business in 1987. We refer to these funds collectively as our Blackstone Capital Partners (BCP) funds. We also manage certain multi-asset class investment funds which we collectively refer to as our Blackstone Tactical Opportunities Accounts (Tactical Opportunities). Through our private equity funds we pursue transactions throughout the world, including leveraged buyout acquisitions of seasoned companies, transactions involving growth equity or start-up businesses in established industries, minority investments, corporate partnerships, distressed debt, structured securities and industry consolidations, in all cases in strictly friendly transactions.

**Real Estate.** We are a world leader in real estate investing since launching our first real estate fund in 1994. We have managed or continue to manage seven global opportunistic real estate funds, three European focused opportunistic real estate funds, a number of real estate debt investment funds and a Bank of America Merrill Lynch Asia real estate platform. Our real estate opportunity funds are diversified geographically and have made significant investments in lodging, major urban office buildings, shopping centers and a variety of real estate operating companies. Our debt investment funds target high yield real estate debt related investment opportunities in the public and private markets, primarily in the United States and Europe. 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.

**Hedge Fund Solutions.** Blackstone's Hedge Fund Solutions segment is comprised principally of Blackstone Alternative Asset Management (BAAM). BAAM was organized in 1990 and has developed into a leading institutional solutions provider utilizing hedge funds across a wide variety of strategies. BAAM is the world's largest discretionary allocator to hedge funds.

**Credit.** Our Credit segment is comprised principally of GSO Capital Partners LP (GSO). GSO manages a variety of credit-oriented funds including senior credit-oriented funds, distressed debt funds, mezzanine funds, general credit-oriented funds and collateralized loan obligation (CLO) vehicles. GSO is a world leader in credit-oriented products. Prior to September 30, 2012, this segment had been called Credit Businesses.

**Financial Advisory.** Our Financial Advisory segment serves a diverse and global group of clients with financial advisory services, restructuring and reorganization advisory services and fund placement services for alternative investment funds.

We generate revenue from fees earned pursuant to contractual arrangements with funds, fund investors and fund portfolio companies (including management, transaction and monitoring fees), and from financial advisory services, restructuring and reorganization advisory services and fund placement services for alternative investment funds. We invest in the funds we manage and, in most cases, receive a preferred allocation of income

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(i.e., a carried interest) or an incentive fee from an investment fund in the event that specified cumulative investment returns are achieved. The composition of our revenues will vary based on market conditions and the cyclical nature of the different businesses in which we operate. Net investment gains and investment income generated by the Blackstone Funds, principally private equity and real estate funds, are driven by value created by our operating and strategic initiatives as well as overall market conditions. Our funds initially record fund investments at cost and then such investments are subsequently recorded at fair value. Fair values are affected by changes in the fundamentals of the portfolio company, the portfolio company's industry, the overall economy and other market conditions.

## **Business Environment**

In the third quarter, pricing for risk assets broadly rallied, largely driven by increased liquidity from central banks around the world. Equity indices rose in most regions, with the MSCI World Index gaining 6.1% and the S&P 500 Index up 5.8%, bringing year-to-date gains to 10.9% and 14.6%, respectively. Fixed income prices rose as well, and high yield credit spreads contracted 70 basis points in the quarter. Capital markets activity generally increased, with sharply higher equity and debt issuance, although M&A activity remained subdued.

In the U.S., the macroeconomic outlook remains uncertain, and investors remain cautious. While there has been some increased confidence regarding the European sovereign debt situation, investors remain concerned about the upcoming fiscal cliff in the U.S. as well as slowing growth in emerging markets. In addition, unemployment remains persistently high in the U.S. despite record low interest rate levels.

Financing conditions for U.S. leveraged buyouts remain highly attractive, with record levels of new issuance in U.S. high yield and leveraged loans, although the market remains constrained in Europe. New issuance is a mix of funding for new LBOs, dividend recapitalizations and repricings. Some of this new issuance is the repricing of loans issued in May-June 2012, where borrowers are paying to lock in even more attractive terms than what was negotiated just a few months ago.

During the quarter, commercial real estate performance metrics remained healthy. The office sector continues to see modestly improving leasing velocity, led primarily by demand from technology and energy tenants. National vacancy levels have declined 20 basis points to 15.5%. The retail sector continues to benefit from favorable trends in tenant sales, combined with severely constrained new supply (particularly for regional malls). Overall vacancy for the retail sector fell to 12.9% during the third quarter. The industrial sector has experienced more than two years of consecutive quarterly positive net absorption and availability currently stands at 13.1%. Trends within the U.S. hotel market continue to improve with RevPAR (Revenue per Available Room) growing 5.1% during the third quarter of 2012.

Blackstone's businesses are materially affected by conditions in the financial markets and economic conditions in the U.S., Western Europe, Asia and, to a lesser extent, elsewhere in the world.

## **Key Financial Measures and Indicators**

Our key financial measures and indicators are discussed below.

## ***Revenues***

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other. Please refer to Part I. Item 1. Business Incentive Arrangements / Fee Structure and Part I. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Revenue Recognition in our 2011 Annual Report on Form 10-K for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

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**Management and Advisory Fees** Management and Advisory Fees are comprised of management fees, including base management fees, transaction and other fees, management fee reductions and offsets, and advisory fees.

The Partnership earns base management fees from limited partners of funds in each of its managed funds, at a fixed percentage of assets under management, net asset value, total assets, committed capital or invested capital, or in some cases, a fixed fee. Base management fees are based on contractual terms specified in the underlying investment advisory agreements.

Transaction and other fees (including monitoring fees) are fees charged directly to funds and portfolio companies. The investment advisory agreements generally require that the investment adviser reduce the amount of management fees payable by the limited partners to the Partnership ( management fee reductions ) by an amount equal to a portion of the transaction and other fees directly paid to the Partnership by the portfolio companies. The amount of the reduction varies by fund, the type of fee paid by the portfolio company and the previously incurred expenses of the fund.

Management fee offsets are reductions to management fees payable by our limited partners, which are granted based on the amount they reimburse Blackstone for placement fees.

Advisory fees consist of advisory retainer and transaction-based fee arrangements related to merger, acquisition, restructuring and divestiture activities and fund placement services for alternative investment funds. Advisory retainer fees are recognized when services for the transactions are complete, in accordance with terms set forth in individual agreements. Transaction-based fees are recognized when (a) there is evidence of an arrangement with a client, (b) agreed upon services have been provided, (c) fees are fixed or determinable and (d) collection is reasonably assured. Fund placement fees are recognized as earned upon the acceptance by a fund of capital or capital commitments.

Accrued but unpaid Management and Advisory Fees, net of management fee reductions and management fee offsets, as of the reporting date, are included in Accounts Receivable or Due From Affiliates in the Condensed Consolidated Statements of Financial Condition.

**Performance Fees** Performance Fees earned on the performance of Blackstone's hedge fund structures ( Incentive Fees ) are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund's governing agreements. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone's offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Condensed Consolidated Statements of Financial Condition. Incentive fees arising on Blackstone's onshore hedge funds are allocated to the general partner. Accrued but unpaid Incentive Fees on onshore funds as of the reporting date are reflected in Investments in the Condensed Consolidated Statements of Financial Condition. Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback.

In certain fund structures, specifically in private equity, real estate and certain credit-oriented funds ( Carry Funds ), performance fees ( Carried Interest ) are allocated to the general partner based on cumulative fund performance to date, subject to a preferred return to limited partners. At the end of each reporting period, the Partnership calculates the Carried Interest that would be due to the Partnership for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as Carried Interest to reflect either (a) positive performance resulting in an increase in the Carried Interest allocated to the general partner or (b) negative performance that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue, resulting in a negative adjustment to Carried Interest allocated to the general partner. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest



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recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Condensed Consolidated Statements of Financial Condition.

Carried Interest is realized when an underlying investment is profitably disposed of and the fund's cumulative returns are in excess of the preferred return. Incentive fees earned on hedge fund structures are realized at the end of each fund's measurement period.

Carried Interest is subject to clawback to the extent that the Carried Interest actually distributed to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received performance fees, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Blackstone Carry Funds were to be liquidated based on the current fair value of the underlying funds investments as of the reporting date. Generally, the actual clawback liability does not become realized until the end of a fund's life or one year after a realized loss is incurred, depending on the terms of the fund.

*Investment Income (Loss)* Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership's principal investments, including its investments in Blackstone Funds that are not consolidated, its equity method investments, and other principal investments. Investment Income (Loss) is realized when the Partnership redeems all or a portion of its investment or when the Partnership receives cash income, such as dividends or distributions, from its non-consolidated funds. Unrealized Investment Income (Loss) results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

*Interest and Dividend Revenue* Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by Blackstone.

*Other Revenue* Other Revenue consists of foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars and other revenues.

## ***Expenses***

*Compensation and Benefits* Compensation Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors.

*Equity-Based Compensation* Compensation cost relating to the issuance of share-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight line basis. Equity-based awards that do not require future service are expensed immediately. Cash settled equity-based awards are classified as liabilities and are re-measured at the end of each reporting period.

*Compensation and Benefits* Performance Fee Compensation and Benefits consists of Carried Interest and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone's firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis.

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**Other Operating Expenses** Other operating expenses represent general and administrative expenses including interest expense, occupancy and equipment expenses and other expenses, which consist principally of professional fees, public company costs, travel and related expenses, communications and information services and depreciation and amortization.

**Fund Expenses** The expenses of our consolidated Blackstone Funds consist primarily of interest expense, professional fees and other third-party expenses.

### ***Non-Controlling Interests in Consolidated Entities***

Non-Controlling Interests in Consolidated Entities represent the component of Partners' Capital in consolidated Blackstone Funds and side-by-side entities held by third party investors and employees. The percentage interests held by third parties and employees is adjusted for general partner allocations and by subscriptions and redemptions in funds of hedge funds and certain credit-oriented funds which occur during the reporting period. In addition, all non-controlling interests in consolidated Blackstone Funds are attributed a share of income (loss) arising from the respective funds and a share of other comprehensive income, if applicable. Income (Loss) is allocated to non-controlling interests in consolidated entities based on the relative ownership interests of third party investors and employees after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group L.P. Non-controlling interests related to funds of hedge funds and certain other credit-oriented funds are subject to annual, semi-annual or quarterly redemption by investors in these funds following the expiration of a specified period of time (typically between one and three years), or may be withdrawn subject to a redemption fee in the funds of hedge funds and certain credit-oriented funds during the period when capital may not be withdrawn. As limited partners in these types of funds have been granted redemption rights, amounts relating to third party interests in such consolidated funds are presented as Redeemable Non-Controlling Interests in Consolidated Entities within the Condensed Consolidated Statements of Financial Condition. When redeemable amounts become legally payable to investors, they are classified as a liability and included in Accounts Payable, Accrued Expenses and Other Liabilities in the Condensed Consolidated Statements of Financial Condition. For all consolidated funds in which redemption rights have not been granted, non-controlling interests are presented within Partners' Capital in the Condensed Consolidated Statements of Financial Condition as Non-Controlling Interests in Consolidated Entities.

### ***Non-Controlling Interests in Blackstone Holdings***

Non-Controlling Interests in Blackstone Holdings represent the component of Partners' Capital in the consolidated Blackstone Holdings Partnerships held by the Founder, other senior managing directors and Blackstone employees.

Certain costs and expenses are borne directly by the Holdings Partnerships. Income (Loss), excluding those costs directly borne by and attributable to the Holdings Partnerships, is attributable to Non-Controlling Interests in Blackstone Holdings. This residual attribution is based on the year to date average percentage of Holdings Partnership units held by the Founder, other senior managing directors and Blackstone employees.

### ***Income Taxes***

The Blackstone Holdings partnerships and certain of their subsidiaries operate in the U.S. as partnerships for U.S. federal income tax purposes and generally as corporate entities in non-U.S. jurisdictions. Accordingly, these entities in some cases are subject to New York City unincorporated business taxes or non-U.S. income taxes. In addition, certain of the wholly-owned subsidiaries of the Partnership and the Blackstone Holdings partnerships will be subject to federal, state and local corporate income taxes at the entity level and the related tax provision attributable to the Partnership's share of this income tax is reflected in the Condensed Consolidated Financial Statements.

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Income taxes are accounted for using the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis, using tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current and deferred tax liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Condensed Consolidated Statements of Financial Position.

Blackstone analyzes its tax filing positions in all of the U.S. federal, state, local and foreign tax jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. If, based on this analysis, the Partnership determines that uncertainties in tax positions exist, a reserve is established. Blackstone recognizes accrued interest and penalties related to uncertain tax positions in General, Administrative, and Other expenses within the Condensed Consolidated Statements of Operations.

There remains some uncertainty regarding Blackstone's future taxation levels. Over the past several years, a number of legislative and administrative proposals to change the taxation of Carried Interest have been introduced and, in certain cases, have been passed by the U.S. House of Representatives. On May 28, 2010, the U.S. House of Representatives passed legislation, or May 2010 House bill, that would have, in general, treated income and gains, including gain on sale, attributable to an investment services partnership interest, or ISPI, as income subject to a new blended tax rate that is higher than the capital gains rate applicable to such income under current law, except to the extent such ISPI would have been considered under the legislation to be a qualified capital interest. Our common units and the interests that we hold in entities that are entitled to receive Carried Interest would likely have been classified as ISPIs for purposes of this legislation. In June 2010, the U.S. Senate considered but did not pass legislation that was generally similar to the legislation passed by the U.S. House of Representatives. More recently, Representative Levin and Senator Harkin (and other representatives) separately introduced similar legislation, or 2012 bills, that would tax Carried Interest at ordinary income tax rates (which would be higher than the proposed blended rate under the May 2010 House bill). It is unclear whether or when the U.S. Congress will pass such legislation or what provisions will be included in any final legislation if enacted.

Each of the May 2010 House bill and the 2012 bills also provided that, for taxable years beginning ten years after the date of enactment, income derived with respect to an ISPI that is not a qualified capital interest and that is subject to the foregoing rules would not meet the qualifying income requirements under the publicly traded partnership rules. Therefore, if similar legislation were to be enacted, following such ten-year period, we would be precluded from qualifying as a partnership for U.S. federal income tax purposes or be required to hold all such ISPIs through corporations.

On September 12, 2011, the Obama administration submitted similar legislation to Congress in the American Jobs Act that would tax income and gain, including gain on sale, attributable to an ISPI at ordinary rates, with an exception for certain qualified capital interests. The proposed legislation would also characterize certain income and gain in respect of ISPIs as non-qualifying income under the tax rules applicable to publicly traded partnerships after a ten-year transition period from the effective date, with an exception for certain qualified capital interests. This proposed legislation follows several prior statements by the Obama administration in support of changing the taxation of Carried Interest. In its published revenue proposal for 2013, the Obama administration proposed that the current law regarding the treatment of Carried Interest be changed to subject such income to ordinary income tax. The Obama administration proposed similar changes in its published revenue proposals for 2010, 2011 and 2012.

States and other jurisdictions have also considered legislation to increase taxes with respect to Carried Interest. For example, in 2010, the New York State Assembly passed a bill, which could have caused a non-resident of New York who holds our common units to be subject to New York state income tax on carried

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interest earned by entities in which we hold an indirect interest, thereby requiring the non-resident to file a New York state income tax return reporting such carried interest income. This legislation would have been retroactive to January 1, 2010. It is unclear whether or when similar legislation will be enacted. Finally, several state and local jurisdictions are evaluating ways to subject partnerships to entity level taxation through the imposition of state or local income, franchise or other forms of taxation or to increase the amount of such taxation.

If we were taxed as a corporation or were forced to hold interests in entities earning income from Carried Interest through taxable subsidiary corporations, our effective tax rate could increase significantly. The federal statutory rate for corporations is currently 35%, and the state and local tax rates, net of the federal benefit, aggregate approximately 10%. If a variation of the above described legislation or any other change in the tax laws, rules, regulations or interpretations preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes under the publicly traded partnership rules or force us to hold interests in entities earning income from Carried Interest through taxable subsidiary corporations, this could materially increase our tax liability, and could well result in a reduction in the market price of our common units.

It is not possible at this time to meaningfully quantify the potential impact on Blackstone of this potential future legislation or any similar legislation. Multiple versions of legislation in this area have been proposed over the last few years that have included significantly different provisions regarding effective dates and the treatment of invested capital, tiered entities and cross-border operations, among other matters. Depending upon what version of the legislation, if any, were enacted, the potential impact on a public company such as Blackstone in a given year could differ dramatically and could be material. In addition, these legislative proposals would not themselves impose a tax on a publicly traded partnership such as Blackstone. Rather, they could force Blackstone and other publicly traded partnerships to restructure their operations so as to prevent disqualifying income from reaching the publicly traded partnership in amounts that would disqualify the partnership from treatment as a partnership for U.S. federal income tax purposes. Such a restructuring could result in more income being earned in corporate subsidiaries, thereby increasing corporate income tax liability indirectly borne by the publicly traded partnership. In addition, we, and our common unitholders, could be taxed on any such restructuring. The nature of any such restructuring would depend on the precise provisions of the legislation that was ultimately enacted, as well as the particular facts and circumstances of Blackstone's operations at the time any such legislation were to take effect, making the task of predicting the amount of additional tax highly speculative.

On February 22, 2012, the Obama administration announced its framework of key elements to change the U.S. federal income tax rules for businesses. Few specifics were included, and it is unclear what any actual legislation would provide, when it would be proposed or what its prospects for enactment would be. Several parts of the framework, if enacted, could adversely affect us. First, the framework would reduce the deductibility of interest for corporations in some manner not specified. A reduction in interest deductions could increase our tax rate and thereby reduce cash available for distribution to investors or for other uses by us. Such a reduction could also increase the effective cost of financing by companies in which we invest, which could reduce the value of our Carried Interest in respect of such companies. The framework would also reduce the top marginal tax rate on corporations from 35% to 28%. Such a change could increase the effective cost of financing such investments, which could again reduce the value of our Carried Interest. The framework suggests some entities currently treated as partnerships for tax purposes should be subject to an entity-level income tax similar to the corporate income tax. If such a proposal caused us to be subject to additional entity-level taxes, it could reduce cash available for distribution to investors or for other uses by us. Finally, the framework reiterates the President's support for treatment of Carried Interest as ordinary income, as provided in the President's revenue proposal for 2013 described above. Because the framework did not include specifics, its effect on us is unclear.

### ***Economic Income***

Blackstone uses Economic Income (EI) as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its five segments. EI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges

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arise from Blackstone's initial public offering ( IPO ) and long-term retention programs outside of annual deferred compensation and other corporate actions, including acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration associated with acquisitions. EI presents revenues and expenses on a basis that deconsolidates the investment funds we manage. Prior to June 30, 2012, EI had been called Economic Net Income. The renaming of this measure did not change any of the previously reported amounts. Economic Net Income ( ENI ) now represents EI adjusted to include current period taxes. Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes.

### ***Distributable Earnings***

Distributable Earnings, which is derived from our segment reported results, is a supplemental measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships. Distributable Earnings, which is a non-GAAP measure, is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. See Liquidity and Capital Resources Liquidity and Capital Resources below for our discussion of Distributable Earnings.

Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses and (d) Taxes and Payables Under the Tax Receivable Agreement. It is Blackstone's current intention that on an annual basis it will distribute to unitholders all of its Distributable Earnings, less realized investment gains and returns of capital from investments and acquisitions, in excess of amounts determined by its general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its business and funds, to comply with applicable law, any of its debt instruments or other agreements, or to provide for future distributions to its unitholders for any ensuing quarter.

### ***Fee Related Earnings***

Blackstone uses Fee Related Earnings ( FRE ) as a measure to highlight earnings from operations excluding: (a) the income related to performance fees and related performance fee compensation costs, (b) income earned from Blackstone's investments in the Blackstone Funds, and (c) realized and unrealized gains (losses) from other investments except for such gains (losses) from Blackstone's Treasury cash management strategies. Management uses FRE as a measure to assess whether recurring revenue from our businesses is sufficient to adequately cover all of our operating expenses and generate profits. FRE equals contractual fee revenues, investment income from Blackstone's Treasury cash management strategies and interest income, less (a) compensation expenses (which includes amortization of non-IPO and non-acquisition-related equity-based awards, but excludes amortization of IPO and acquisition-related equity-based awards, Carried Interest and incentive fee compensation) and (b) other operating expenses. See Liquidity and Capital Resources Liquidity and Capital Resources below for our discussion of Fee Related Earnings.

### ***Operating Metrics***

The alternative asset management business is a complex business that is primarily based on managing third party capital and does not require substantial capital investment to support rapid growth. However, there also can be volatility associated with its earnings and cash flows. Since our inception, we have developed and used various key operating metrics to assess and monitor the operating performance of our various alternative asset management businesses in order to monitor the effectiveness of our value creating strategies.

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*Assets Under Management.* Assets Under Management refers to the assets we manage. Our Assets Under Management equals the sum of:

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

Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election. Interests related to our funds of hedge funds and certain of our credit-oriented funds are generally subject to annual, semi-annual or quarterly withdrawal or redemption by investors 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.* 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

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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.

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*Limited Partner Capital Invested.* Limited Partner Capital Invested represents the amount of Limited Partner capital commitments which were invested by our carry funds during each period presented, plus the capital invested through co-investments arranged by us that were made by limited partners in investments of our carry funds on which we receive fees or a Carried Interest allocation.

We manage our business using traditional financial measures and our key operating metrics since we believe that these metrics measure the productivity of our investment activities.

## **Consolidated Results of Operations**

Following is a discussion of our consolidated results of operations for the three and nine months ended September 30, 2012 and 2011. For a more detailed discussion of the factors that affected the results of our five business segments (which are presented on a basis that deconsolidates the investment funds we manage) in these periods, see **Segment Analysis** below.



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The following table sets forth information regarding our consolidated results of operations and certain key operating metrics for the three and nine months ended September 30, 2012 and 2011:

	Three Months Ended September 30,		2012 vs. 2011		Nine Months Ended September 30,		2012 vs. 2011	
	2012	2011	\$	%	2012	2011	\$	%
(Dollars in Thousands)								
<b>Revenues</b>								
Management and Advisory Fees, Net	\$ 469,109	\$ 425,193	\$ 43,916	10%	\$ 1,428,833	\$ 1,335,971	\$ 92,862	7%
<b>Performance Fees</b>								
Realized								
Carried Interest	83,765	(9,633)	93,398	N/M	153,254	126,520	26,734	21%
Incentive Fees	11,588	16,238	(4,650)	-29%	28,497	38,051	(9,554)	-25%
Unrealized								
Carried Interest	403,465	(382,949)	786,414	N/M	786,551	660,356	126,195	19%
Incentive Fees	104,312	(79,953)	184,265	N/M	155,011	(369)	155,380	N/M
Total Performance Fees	603,130	(456,297)	1,059,427	N/M	1,123,313	824,558	298,755	36%
<b>Investment Income (Loss)</b>								
Realized	18,559	45,596	(27,037)	-59%	40,652	77,682	(37,030)	-48%
Unrealized	119,599	(145,990)	265,589	N/M	181,906	70,116	111,790	159%
Total Investment Income (Loss)	138,158	(100,394)	238,552	N/M	222,558	147,798	74,760	51%
Interest and Dividend Revenue	10,278	9,085	1,193	13%	27,181	27,423	(242)	-1%
Other	2,415	(1,666)	4,081	N/M	443	1,721	(1,278)	-74%
<b>Total Revenues</b>	<b>1,223,090</b>	<b>(124,079)</b>	<b>1,347,169</b>	<b>N/M</b>	<b>2,802,328</b>	<b>2,337,471</b>	<b>464,857</b>	<b>20%</b>
<b>Expenses</b>								
<b>Compensation and Benefits</b>								
Compensation	503,295	494,478	8,817	2%	1,531,917	1,853,393	(321,476)	-17%
<b>Performance Fee Compensation</b>								
Realized								
Carried Interest	22,023	(1,836)	23,859	N/M	37,860	30,409	7,451	25%
Incentive Fees	4,457	12,378	(7,921)	-64%	14,284	22,388	(8,104)	-36%
Unrealized								
Carried Interest	128,863	(74,123)	202,986	N/M	250,221	175,546	74,675	43%
Incentive Fees	44,254	(37,312)	81,566	N/M	47,437	(6,358)	53,795	N/M
Total Compensation and Benefits	702,892	393,585	309,307	79%	1,881,719	2,075,378	(193,659)	-9%
General, Administrative and Other	139,172	124,929	14,243	11%	417,675	380,433	37,242	10%
Interest Expense	19,074	13,785	5,289	38%	47,365	41,773	5,592	13%
Fund Expenses	(9,747)	8,635	(18,382)	N/M	28,243	19,045	9,198	48%
<b>Total Expenses</b>	<b>851,391</b>	<b>540,934</b>	<b>310,457</b>	<b>57%</b>	<b>2,375,002</b>	<b>2,516,629</b>	<b>(141,627)</b>	<b>-6%</b>
<b>Other Income (Loss)</b>								
Net Gains (Losses) from Fund Investment Activities	(135,960)	(329,399)	193,439	59%	400,412	(449,244)	849,656	N/M
<b>Income (Loss) Before Provision (Benefit) for Taxes</b>								
<b>Provision (Benefit) for Taxes</b>	<b>39,237</b>	<b>(7,637)</b>	<b>46,874</b>	<b>N/M</b>	<b>119,327</b>	<b>95,412</b>	<b>23,915</b>	<b>25%</b>
<b>Net Income (Loss)</b>	<b>196,502</b>	<b>(986,775)</b>	<b>1,183,277</b>	<b>N/M</b>	<b>708,411</b>	<b>(723,814)</b>	<b>1,432,225</b>	<b>N/M</b>

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<b>Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	41,854	(47,922)	89,776	N/M	78,447	(24,980)	103,427	N/M
<b>Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities</b>	(157,607)	(262,207)	104,600	40%	279,970	(448,753)	728,723	N/M
<b>Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings</b>	183,431	(402,079)	585,510	N/M	237,809	(104,455)	342,264	N/M
<b>Net Income (Loss) Attributable to The Blackstone Group L.P.</b>	\$ 128,824	\$ (274,567)	\$ 403,391	N/M	\$ 112,185	\$ (145,626)	\$ 257,811	N/M

N/M Not meaningful.

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### *Revenues*

Total Revenues were \$1.2 billion for the three months ended September 30, 2012, an increase of \$1.3 billion compared to Total Revenues for the three months ended September 30, 2011 of \$(124.1) million. This increase in revenues was primarily driven by an increase of \$1.1 billion in Performance Fees and an increase of \$238.6 million in Investment Income (Loss). These increases were largely driven by stronger appreciation of investments during the third quarter.

Total Revenues were \$2.8 billion for the nine months ended September 30, 2012, an increase of \$464.9 million compared to Total Revenues for the nine months ended September 30, 2011 of \$2.3 billion. The increase in revenues was primarily attributable to an increase of \$298.8 million in Performance Fees, a \$92.9 million increase in Management and Advisory Fees and a \$74.8 million increase in Investment Income (Loss). These increases were largely driven by stronger appreciation of investments during the current year period compared to the prior year period.

### *Expenses*

Expenses were \$851.4 million for the three months ended September 30, 2012, an increase of \$310.5 million, or 57%, compared to \$540.9 million for the three months ended September 30, 2011. The increase was primarily attributable to an increase of \$300.5 million of Performance Fee Compensation due to the increases in Performance Fee revenue mentioned above. General, Administrative and Other expenses were \$139.2 million for the current quarter, an increase of \$14.2 million, driven primarily by the levels of business activity and headcount.

Expenses were \$2.4 billion for the nine months ended September 30, 2012, a decrease of \$141.6 million, or 6%, compared to \$2.5 billion for the nine months ended September 30, 2011. The decrease was primarily attributable to a decrease of \$193.7 million in Compensation and Benefits across the segments. Compensation decreased \$321.5 million from the prior year period to \$1.5 billion principally due to the absence of equity-based compensation expense resulting from the vesting of certain IPO awards in 2011. General, Administrative and Other expenses were \$417.7 million for the current year period, an increase of \$37.2 million driven by the same factors as for the quarterly period noted above.

### *Other Income*

Other Income (Loss) is comprised of Net Gains (Losses) from Fund Investment Activities. Net Gains (Losses) from Fund Investment Activities is attributable to the consolidated Blackstone Funds which are largely held by third party investors. As such, most of this Other Income (Loss) is eliminated from the results attributable to The Blackstone Group L.P. through the redeemable non-controlling interests and non-controlling interests items in the Condensed Consolidated Statements of Operations.

Other Income (Loss) was \$(136.0) million for the three months ended September 30, 2012, an increase of \$193.4 million compared to \$(329.4) million for the three months ended September 30, 2011. The change was principally driven by increases in unrealized gains relating to the consolidated CLO vehicles and greater demand in the market from the third quarter of 2011 for the underlying investments held by the consolidated CLO vehicles.

Other Income (Loss) was \$400.4 million for the nine months ended September 30, 2012, an increase of \$849.7 million compared to \$(449.2) million for the nine months ended September 30, 2011. The change was principally driven by the same factors discussed above for the three month period.

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### *Provision for Taxes*

Blackstone's Provision (Benefit) for Taxes for the three months ended September 30, 2012 and 2011 was \$39.2 million and \$(7.6) million, respectively. This resulted in an effective tax rate of 16.6% and 0.8%, respectively, based on our Income (Loss) Before Provision (Benefit) for Taxes of \$235.7 million and \$(994.4) million, respectively. The 15.8% increase in the effective tax rate resulted mainly due to the impact of the portion of equity-based compensation that is not deductible for tax purposes and the amount of income or (loss) not subject to tax that is passed through to common unit holders and non-controlling interests.

Blackstone's Provision for Taxes for the nine months ended September 30, 2012 and 2011 was \$119.3 million and \$95.4 million, respectively. This resulted in an effective tax rate of 14.4% and -15.2%, respectively, based on our Income (Loss) Before Provision for Taxes of \$827.7 million and \$(628.4) million, respectively.

Two principal factors contributed to the 29.6% increase in the effective tax rate for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011. First, the GAAP equity-based compensation expense exceeds the tax deductible equity-based compensation expense. The tax expense attributable to equity-based compensation was \$60.6 million for the nine months ended September 30, 2012 compared to \$75.5 million for the nine months ended September 30, 2011. This decrease increased our effective tax rate by 19.3% for the nine months ended September 30, 2012 compared to the corresponding prior year period. Second, the tax expense on the amount of income (loss) not subject to tax that is passed through to common unit holders and non-controlling interests increased from a loss of \$247.4 million for the nine months ended September 30, 2011 to income of \$219.4 million for the nine months ended September 30, 2012. The increase in income (loss) not subject to tax that is passed through to common unit holders and non-controlling interests increased our effective tax rate by 12.9%.

### *Non-Controlling Interests in Consolidated Entities*

The Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities and Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities is attributable to the consolidated Blackstone Funds. The amounts of these items vary directly with the performance of the consolidated Blackstone Funds and largely eliminate the amount of Other Income Net Gains (Losses) from Fund Investment Activities from the Net Income Attributable to The Blackstone Group L.P.

Net income (Loss) Attributed to Non-Controlling Interests in Blackstone Holdings is derived from the Income (Loss) before Provision (Benefits) for Taxes, excluding the Net Gains (Losses) from Fund Investment Activities and the percentage allocation of the income between Blackstone Holdings and The Blackstone Group L.P. after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group L.P.

For the quarter ended September 30, 2012, the Net Income Attributed to the Non-Controlling Interests in Blackstone Holdings was primarily driven by the increase in revenues resulting from the variance in Performance Fees.

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### Operating Metrics

The following tables present certain operating metrics for the three and nine months ended September 30, 2012 and 2011. For a description of how Assets Under Management and Fee-Earning Assets Under Management are determined, please see Key Financial Measures and Indicators Operating Metrics Assets Under Management and Fee-Earning Assets Under Management :

	Three Months Ended					September 30, 2011				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total (Dollars in Thousands)	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
Earning Assets Under Management										
Balance, Beginning of Period	\$ 37,159,452	\$ 38,476,123	\$ 40,161,179	\$ 41,849,767	\$ 157,646,521	\$ 35,778,240	\$ 27,919,000	\$ 37,244,509	\$ 28,059,457	\$ 129,001,200
Flows, including commitments (a)	1,397,242	2,394,593	1,929,379	4,372,127	10,093,341	1,449,593	4,262,469	2,787,777	2,341,829	10,841,666
Flows, including distributions (b)		(46,506)	(221,349)	(374,734)	(642,589)	(16,488)	(1,737,631)	(375,235)	(297,022)	(2,426,375)
Netizations (c)	(62,458)	(379,663)		(717,535)	(1,159,656)	(160,412)	(269,164)		(783,291)	(1,212,860)
Inflows (flows)	1,334,784	1,968,424	1,708,030	3,279,858	8,291,096	1,272,693	2,255,674	2,412,542	1,261,516	7,202,422
Net appreciation (depreciation) (d)	11,261	164,739	1,732,332	784,133	2,692,465	(44,909)	(192,754)	(2,426,038)	(605,553)	(3,269,250)
Balance, End of Period (e)	\$ 38,505,497	\$ 40,609,286	\$ 43,601,541	\$ 45,913,758	\$ 168,630,082	\$ 37,006,024	\$ 29,981,920	\$ 37,231,013	\$ 28,715,420	\$ 132,934,377
Net increase (decrease)	\$ 1,346,045	\$ 2,133,163	\$ 3,440,362	\$ 4,063,991	\$ 10,983,561	\$ 1,227,784	\$ 2,062,920	\$ (13,496)	\$ 655,963	\$ 3,933,170
Net increase (decrease)	4%	6%	9%	10%	7%	3%	7%	-0%	2%	

	Nine Months Ended					September 30, 2011				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total (Dollars in Thousands)	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
Earning Assets Under Management										
Balance, Beginning of Period	\$ 37,237,791	\$ 31,236,540	\$ 37,819,636	\$ 30,462,786	\$ 136,756,753	\$ 24,188,555	\$ 26,814,714	\$ 33,159,795	\$ 25,337,158	\$ 109,500,222
Flows, including commitments (a)	2,195,722	10,786,538	4,594,192	17,850,096	35,426,548	15,738,904	6,027,950	7,441,780	6,844,330	36,052,966
Flows, including distributions (b)		(113,988)	(1,347,517)	(872,010)	(2,333,515)	(2,190,087)	(1,937,593)	(1,348,664)	(941,985)	(6,418,322)
Netizations (c)	(938,933)	(1,437,304)		(2,282,238)	(4,658,475)	(715,567)	(1,147,355)		(2,395,708)	(4,258,630)
Inflows (flows)	1,256,789	9,235,246	3,246,675	14,695,848	28,434,558	12,833,250	2,943,002	6,093,116	3,506,637	25,376,000

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ket preciation preciation) (d)	10,917	137,500	2,535,230	755,124	3,438,771	(15,781)	224,204	(2,021,898)	(128,375)	(1,941,85
ance, End of od (e)	\$ 38,505,497	\$ 40,609,286	\$ 43,601,541	\$ 45,913,758	\$ 168,630,082	\$ 37,006,024	\$ 29,981,920	\$ 37,231,013	\$ 28,715,420	\$ 132,934,37
ease ease	\$ 1,267,706 3%	\$ 9,372,746 30%	\$ 5,781,905 15%	\$ 15,450,972 51%	\$ 31,873,329 23%	\$ 12,817,469 53%	\$ 3,167,206 12%	\$ 4,071,218 12%	\$ 3,378,262 13%	\$ 23,434,15 2

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	September 30, 2012				Three Months Ended			September 30, 2011			Total
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total (Dollars in Thousands)	Private Equity	Real Estate	Hedge Fund Solutions	Credit		
Assets Under Management											
Balance, beginning of period	\$ 46,633,552	\$ 50,225,950	\$ 42,888,946	\$ 50,519,383	\$ 190,267,831	\$ 46,728,301	\$ 37,605,560	\$ 40,578,219	\$ 33,791,093	\$ 158,703,179	
Flows, including commitments (a)	1,653,995	2,312,991	1,766,927	4,103,430	9,837,343	1,316,046	4,163,960	2,711,747	1,803,439	9,995,199	
Flows, including distributions (b)	(42,478)	(136,707)	(242,582)	(388,485)	(810,252)	(10,702)	(75,252)	(410,253)	(535,000)	(1,031,200)	
Netizations (c)	(286,248)	(676,071)		(810,472)	(1,772,791)	(2,212,579)	(863,316)		(620,274)	(3,696,165)	
Inflows	1,325,269	1,500,213	1,524,345	2,904,473	7,254,300	(907,235)	3,225,392	2,301,494	648,165	5,267,811	
Net appreciation (depreciation) (d)	2,263,491	1,819,860	1,805,327	1,140,763	7,029,441	(2,853,907)	(121,452)	(2,506,621)	(790,561)	(6,272,540)	
Balance, End of period (e)	\$ 50,222,312	\$ 53,546,023	\$ 46,218,618	\$ 54,564,619	\$ 204,551,572	\$ 42,967,159	\$ 40,709,500	\$ 40,373,092	\$ 33,648,697	\$ 157,698,448	
Change (increase) (decrease)	\$ 3,588,760	\$ 3,320,073	\$ 3,329,672	\$ 4,045,236	\$ 14,283,741	\$ (3,761,142)	\$ 3,103,940	\$ (205,127)	\$ (142,396)	\$ (1,004,721)	
Change (increase) (decrease)	8%	7%	8%	8%	8%	-8%	8%	-1%	-0%	-	
	September 30, 2012				Nine Months Ended			September 30, 2011			Total
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total (Dollars in Thousands)	Private Equity	Real Estate	Hedge Fund Solutions	Credit		
Assets Under Management											
Balance, beginning of period	\$ 45,863,673	\$ 42,852,669	\$ 40,534,768	\$ 36,977,394	\$ 166,228,504	\$ 29,319,136	\$ 33,165,124	\$ 34,587,292	\$ 31,052,368	\$ 128,123,920	
Flows, including commitments (a)	3,591,929	9,004,235	4,463,517	19,919,596	36,979,277	16,417,715	6,496,853	9,352,779	6,304,505	38,571,857	
Flows, including distributions (b)	(45,214)	(222,463)	(1,442,993)	(1,457,131)	(3,167,801)	(75,384)	(324,739)	(1,513,466)	(1,087,043)	(3,000,630)	
Netizations (c)	(1,503,656)	(2,137,295)		(2,403,963)	(6,044,914)	(4,036,642)	(2,244,805)		(2,718,933)	(9,000,382)	
Inflows	2,043,059	6,644,477	3,020,524	16,058,502	27,766,562	12,305,689	3,927,309	7,839,313	2,498,529	26,570,840	
Net appreciation (depreciation) (d)	2,315,580	4,048,877	2,663,326	1,528,723	10,556,506	1,342,334	3,617,067	(2,053,513)	97,800	3,003,688	
Balance, End of period (e)	\$ 50,222,312	\$ 53,546,023	\$ 46,218,618	\$ 54,564,619	\$ 204,551,572	\$ 42,967,159	\$ 40,709,500	\$ 40,373,092	\$ 33,648,697	\$ 157,698,448	
Change (increase) (decrease)	\$ 4,358,639	\$ 10,693,354	\$ 5,683,850	\$ 17,587,225	\$ 38,323,068	\$ 13,648,023	\$ 7,544,376	\$ 5,785,800	\$ 2,596,329	\$ 29,574,522	
Change (increase) (decrease)	10%	25%	14%	48%	23%	47%	23%	17%	8%	2%	

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- (a) Inflows represent contributions in our hedge funds and closed-end mutual funds, increases in available capital for our carry funds (capital raises, recallable capital and increased side-by-side commitments) and CLOs and increases in the capital we manage pursuant to separately managed account programs.
- (b) Outflows represent redemptions in our hedge funds and closed-end mutual funds, client withdrawals from our separately managed account programs and decreases in available capital for our carry funds (expired capital, expense drawdowns and decreased side-by-side commitments). Also included is the distribution of funds associated with the discontinuation of our proprietary single manager hedge funds.
- (c) Realizations represent realizations from the disposition of assets and capital returned to investors from CLOs.
- (d) Market appreciation (depreciation) includes realized and unrealized gains (losses) on portfolio investments and the impact of foreign exchange rate fluctuations.
- (e) Fee-Earning Assets Under Management and Assets Under Management as of September 30, 2012 included \$295.4 million and \$551.8 million, respectively, from a joint venture in which we are the minority interest holder.

### *Fee-Earning Assets Under Management*

Fee-Earning Assets Under Management were \$168.6 billion at September 30, 2012, an increase of \$11.0 billion, or 7%, compared to \$157.6 billion at June 30, 2012. Inflows of \$10.1 billion were primarily related to (a) inflows of \$1.4 billion in our Private Equity segment primarily due to additional capital raised for our energy focused fund, Blackstone Energy Partners (BEP), (b) inflows of \$2.4 billion in our Real Estate segment primarily related to additional closings of commitments in BREP VII, (c) inflows of \$1.9 billion in our Hedge Fund Solutions segment mainly related to growth in its commingled and customized investment products, and (d) inflows of \$4.4 billion in our Credit segment principally from the launch of our third closed-end fund, the pricing of two new CLOs, deploying limited partner capital in our carry funds and inflows across our long only platform. Outflows of \$642.6 million were primarily attributable to (a) outflows of \$374.7 million in our Credit segment primarily from our long only platform and hedge funds, (b) outflows of \$221.3 million in our Hedge Fund Solutions segment as a result of, in general, the liquidity needs of limited partners and (c) outflows of \$46.5 million in our Real Estate segment due to redemptions from our debt investment funds. Realizations of \$1.2 billion were driven by (a) realizations of \$62.5 million in our Private Equity segment that were primarily a result of the dispositions of investments in funds which earn fees based on remaining invested capital, (b) realizations of \$379.7 million in our Real Estate segment attributable to the sale of various investments across the real estate segment's funds which earn fees on invested capital and (c) realizations of \$717.5 million in our Credit segment primarily due to realizations in our mezzanine funds and capital returned to CLO investors from CLOs that are post their investment periods. Market appreciation of \$2.7 billion was principally due to increases in the global markets during the third quarter of 2012.

BAAM had net inflows of \$588.5 million from October 1 through November 1, 2012.

Fee-Earning Assets Under Management were \$168.6 billion at September 30, 2012, an increase of \$31.9 billion, or 23%, compared to \$136.8 billion at December 31, 2011. Inflows of \$35.4 billion were primarily related to (a) inflows of \$2.2 billion in our Private Equity segment primarily due to additional capital raised for our energy focused fund, BEP, and investments made from BCP V, (b) inflows of \$10.8 billion in our Real Estate segment primarily due to additional closings of commitments in BREP VII, (c) inflows of \$4.6 billion in our Hedge Fund Solutions segment mainly from BAAM's customized and commingled investment products, and (d) inflows of \$17.9 billion in our Credit segment primarily from the launch of our third closed-end fund, the pricing of two new CLOs, deploying limited partner capital in our carry funds and inflows across our long only platform and the \$9.4 billion acquisition of Harbourmaster on January 5, 2012. Outflows of \$2.3 billion were primarily attributable to (a) outflows of \$872.0 million in our Credit segment principally from our long only platform and hedge funds, (b) outflows of \$1.3 billion in our Hedge Fund Solutions segment primarily due to liquidity needs of limited partners and (c) outflows of \$114.0 million in our Real Estate segment primarily due to redemptions from our debt investment funds. Realizations of \$4.7 billion were driven by (a) realizations of \$1.4 billion in our Real Estate segment attributable to the sale of various investments across the Real Estate segment's funds which earn fees on invested capital, (b) realizations of \$938.9 million in our Private Equity segment primarily as a result of the dispositions of investments in funds which earn fees based on remaining



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invested capital, and (c) realizations of \$2.3 billion in our Credit segment principally due to capital returned to CLO investors from CLOs that are post their investment periods. Market appreciation of \$3.4 billion was principally due to increases in the global markets during the first nine months of 2012.

*Assets Under Management*

Assets Under Management were \$204.6 billion at September 30, 2012, an increase of \$14.3 billion, or 8%, compared to \$190.3 billion at June 30, 2012. Inflows of \$9.8 billion were primarily related to (a) inflows of \$1.7 billion in our Private Equity segment due to additional closings on our BEP fund, (b) inflows of \$2.3 billion in our Real Estate segment primarily related to additional closings of commitments in BREP VII, (c) inflows of \$1.8 billion in our Hedge Fund Solutions segment due to growth in its commingled and customized investment products, and (d) inflows of \$4.1 billion in our Credit segment driven by inflows in our hedge funds and across our long only platform. Market appreciation of \$7.0 billion, outflows of \$810.3 million and realizations of \$1.8 billion across the segments were due to the same reasons noted in Fee-Earning Assets Under Management above.

Assets Under Management were \$204.6 billion at September 30, 2012, an increase of \$38.3 billion, or 23%, compared to \$166.2 billion at December 31, 2011. Inflows of \$37.0 billion were primarily related to (a) inflows of \$3.6 billion in our Private Equity segment driven by the closing on our multi asset class Blackstone Tactical Opportunities funds and additional closings on our BEP fund, (b) inflows of \$9.0 billion in our Real Estate segment primarily due to additional closings of commitments in BREP VII, (c) inflows of \$4.5 billion in our Hedge Fund Solutions segment due to growth in its commingled and customized investment products and (d) inflows of \$19.9 billion in our Credit segment primarily due to inflows in our hedge funds, the closing of a mezzanine fund, inflows across our long only platform and the \$9.6 billion acquisition of Harbourmaster on January 5, 2012. Outflows of \$3.2 billion, realizations of \$6.0 billion and market appreciation of \$10.6 billion across the segments were due to the same reasons noted in Fee-Earning Assets Under Management above.

*Limited Partner Capital Invested*

The following table presents the limited partner capital deployed during the respective periods:

	Three Months Ended September 30,		2012 vs. 2011		Nine Months Ended September 30,		2012 vs. 2011	
	2012	2011	\$	%	2012	2011	\$	%
	(Dollars in Thousands)							
Capital Deployed								
Limited Partner Capital Invested								
Private Equity	\$ 1,015,605	\$ 1,377,715	\$ (362,110)	-26%	\$ 1,761,548	\$ 2,698,338	\$ (936,790)	-35%
Real Estate	1,342,811	1,706,157	(363,346)	-21%	4,341,474	5,145,773	(804,299)	-16%
Hedge Fund Solutions	196,180	354,971	(158,791)	-45%	200,841	601,022	(400,181)	-67%
Credit	530,845	1,314,318	(783,473)	-60%	1,904,634	1,621,498	283,136	17%
Total	\$ 3,085,441	\$ 4,753,161	\$ (1,667,720)	-35%	\$ 8,208,497	\$ 10,066,631	\$ (1,858,134)	-18%

Limited Partner Capital Invested was \$3.1 billion for the three months ended September 30, 2012, a decrease of \$1.7 billion, or 35%, from \$4.8 billion for the three months ended September 30, 2011. Limited Partner Capital Invested was \$8.2 billion for the nine months ended September 30, 2012, a decrease of \$1.9 billion, or 18%, compared to \$10.1 billion for the nine months ended September 30, 2011. The change for the nine month period reflected decreases in our Private Equity segment of \$936.8 million due to the timing of new investment activity, Real Estate segment of \$804.3 million primarily due to the acquisition of the U.S. assets of Brixmor (formerly known as Centro) during the second quarter of 2011 and Hedge Fund Solutions segment of \$400.2 million due to the relative investment opportunities for our funds that employ a capital commitment structure. This was partially offset by an increase of \$283.1 million in our Credit segment due to limited partner capital invested in mezzanine and rescue lending funds.

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The following table presents the accrued performance fees, net of compensation, of the Blackstone Funds as of September 30, 2012 and 2011:

	September 30, 2012      2011 (Dollars in Millions)	
Private Equity		
BCP IV Carried Interest	\$ 551	\$ 459
BCP VI Carried Interest	8	
BEP Carried Interest	30	
Tactical Opportunities Carried Interest	2	
Total Private Equity	591	459
Real Estate		
BREP V Carried Interest	434	244
BREP VI Carried Interest	590	258
BREP VII Carried Interest	44	
BREP Int 1 I Carried Interest	3	7
BREP EU III Carried Interest	66	18
BREDS Carried Interest	19	11
BREDS Incentive Fees	5	1
Asia Platform Incentive Fees	28	21
Total Real Estate	1,189	560
Hedge Fund Solutions		
Incentive Fees	42	5
Total Hedge Fund Solutions	42	5
Credit		
Carried Interest	142	89
Incentive Fees	85	76
Total Credit	227	165
Total Blackstone		
Carried Interest	1,889	1,086
Incentive Fees	160	103
Net Accrued Performance Fees	\$ 2,049	\$ 1,189

- (a) Net accrued performance fees are presented net of compensation and does not include clawback amounts, if any, which are disclosed in Note 16. Commitments and Contingencies Contingencies Contingent Obligations (Clawback) in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements of this filing.

- (b) Private Equity and Real Estate include Co-Investments.

*Investment Record*

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Fund returns information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

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The following table presents the investment record of our significant draw down funds from inception through September 30, 2012:

Fund (Investment Period)	Committed Capital	Available Capital (a)	Unrealized Investments			Realized Investments		Total Investments		Net IRR (c)	
			Value	MOIC (b)	% Public	Value	MOIC (b)	Value	MOIC (b)	Realized	Total
(Dollars in Thousands, Except Where Noted)											
Private Equity											
BCP I (Oct 1987 / Oct 1993)	\$ 859,081	\$	\$	N/A		\$ 1,741,738	2.6x	\$ 1,741,738	2.6x	19%	19%
BCP II (Oct 1993 / Aug 1997)	1,361,100			N/A		3,256,351	2.5x	3,256,351	2.5x	32%	32%
BCP III (Aug 1997 / Nov 2002)	3,973,378	167,776	22,507	0.6x	100%	9,160,904	2.3x	9,183,411	2.3x	14%	14%
BCOM (Jun 2000 / Jun 2006)	2,137,330	202,433	439,754	0.6x	52%	2,418,537	1.8x	2,858,291	1.3x	18%	6%
BCP IV (Nov 2002 / Dec 2005)	6,773,138	266,490	5,216,902	1.8x	60%	14,496,044	3.2x	19,712,946	2.6x	59%	37%
BCP V (Dec 2005 / Jan 2011)	21,592,318	1,990,259	18,437,391	1.0x	17%	3,502,372	1.7x	21,939,763	1.1x	31%	1%
BCP VI (Jan 2011 / Jan 2016) (d)	15,220,118	12,843,121	2,817,359	1.2x	28%	3,330	1.5x	2,820,689	1.2x	N/M	8%
BEP (Aug 2011 / Aug 2017) (d)	2,415,509	1,929,546	765,116	1.6x	43%		N/A	765,116	1.6x	N/A	101%
Total Core Private Equity	54,331,972	17,399,625	27,699,029	1.1x	28%	34,579,276	2.5x	62,278,305	1.6x	23%	14%
Tactical Opportunities											
(d)	1,374,734	1,204,273	189,843	1.1x		8,948	1.7x	198,791	1.1x	N/M	N/M
Other Funds (d)	397,493	262,946	65,161	0.9x			N/A	65,161	0.9x	N/A	-18%
Total Private Equity	\$ 56,104,199	\$ 18,866,844	\$ 27,954,033	1.1x	28%	\$ 34,588,224	2.5x	\$ 62,542,257	1.6x	23%	14%

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Fund (Investment Period)	Committed Capital	Available Capital (a)	Unrealized Investments			Realized Investments		Total Investments		Net IRR (c)	
			Value	MOIC (b)	Public	Value	MOIC (b)	Value	MOIC (b)	Realized	Total
(Dollars in Thousands, Except Where Noted)											
Real Estate											
Dollar											
Pre-BREP	\$ 140,714	\$	\$	N/A		\$ 345,190	2.5x	\$ 345,190	2.5x	33%	33%
BREP I (Sep 1994 / Oct 1996)	380,708			N/A		1,327,708	2.8x	1,327,708	2.8x	40%	40%
BREP II (Oct 1996 / Mar 1999)	1,198,339			N/A		2,524,866	2.1x	2,524,866	2.1x	19%	19%
BREP III (Apr 1999 / Apr 2003)	1,522,708		2,161	0.1x		3,323,362	2.4x	3,325,523	2.3x	22%	21%
BREP IV (Apr 2003 / Dec 2005)	2,198,694		1,335,973	0.9x	5%	2,862,147	2.4x	4,198,120	1.5x	80%	14%
BREP V (Dec 2005 / Feb 2007)	5,538,579	243,769	7,216,141	1.6x		2,085,100	1.7x	9,301,241	1.6x	81%	9%
BREP VI (Feb 2007 / Aug 2011)	11,055,826	863,921	14,696,610	1.5x	6%	1,237,507	1.9x	15,934,117	1.5x	31%	9%
BREP VII (Aug 2011 / Feb 2017)	13,300,149	10,452,873	3,499,225	1.2x		135,831	1.2x	3,635,056	1.2x	75%	33%
Total Global Real Estate Funds	35,335,717	11,560,563	26,750,110	1.4x	3%	13,841,711	2.2x	40,591,821	1.6x	28%	16%
BREP Co-Investment (e)	2,944,738		3,936,619	1.5x	1%	437,583	1.4x	4,374,202	1.5x	10%	11%
Euro											
BREP Int 1 (Jan 2001 / Sep 2005)	824,172		100,438	1.1x		1,230,290	2.2x	1,330,728	2.0x	26%	23%
BREP Int 1 II (Sep 2005 / Jun 2008)	1,627,954	81,441	1,131,982	0.9x		177,238	1.5x	1,309,220	1.0x	14%	-3%
BREP Europe III (Jun 2008 / Dec 2013)	3,196,712	1,793,012	2,064,912	1.4x		15,712	2.8x	2,080,624	1.4x	49%	20%
Total Euro Funds	5,648,838	1,874,453	3,297,332	1.2x		1,423,240	2.1x	4,720,572	1.4x	25%	8%
Total Real Estate	\$ 45,403,329	\$ 14,006,034	\$ 34,996,439	1.4x	3%	\$ 16,028,251	2.1x	\$ 51,024,690	1.5x	27%	14%
Debt Strategies											
Drawdown	\$ 2,822,818	\$ 738,815	\$ 2,406,779	1.2x		\$ 897,237	1.3x	\$ 3,304,016	1.2x	17%	14%
Credit											
Mezzanine	\$ 6,120,000	\$ 3,025,830	\$ 4,256,967	1.3x		\$ 1,435,871	1.6x	\$ 5,692,838	1.4x	N/A	18%
Rescue Lending	3,253,143	930,246	2,877,253	1.2x		1,084,354	1.1x	3,961,607	1.2x	N/A	14%
Total Credit	\$ 9,373,143	\$ 3,956,076	\$ 7,134,220	1.3x		\$ 2,520,225	1.4x	\$ 9,654,445	1.3x		

The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.

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N/M Not meaningful.

N/A Not applicable.

- (a) Available Capital represents total investable capital commitments, including side-by-side, adjusted for certain expenses and expired or callable capital, less invested capital. This amount is not reduced by outstanding commitments to investments. Additionally, the Real Estate segment has \$1.2 billion of Available Capital that has been reserved for add-on investments in funds that are fully invested.
- (b) Multiple of Invested Capital ( MOIC ) represents carrying value, before management fees, expenses and Carried Interest, divided by invested capital.
- (c) Net Internal Rate of Return ( IRR ) represents the annualized inception to September 30, 2012 IRR on total invested capital based on realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest.
- (d) Returns for BCP VI, BEP, Tactical Opportunities and Other Funds are not applicable or not meaningful as these funds have no or little realizations.
- (e) BREP Co-Investment represents co-investment capital raised for various BREP investments. The Net IRR reflected is calculated by aggregating each co-investment s realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest.

**Segment Analysis**

Discussed below is our EI for each of our segments. This information is reflected in the manner utilized by our senior management to make operating decisions, assess performance and allocate resources. References to our sectors or investments may also refer to portfolio companies and investments of the underlying funds that we manage.

For segment reporting purposes, revenues and expenses are presented on a basis that deconsolidates the investment funds we manage. As a result, segment revenues are greater than those presented on a consolidated GAAP basis because fund management fees recognized in certain segments are received from the Blackstone Funds and eliminated in consolidation when presented on a consolidated GAAP basis. Furthermore, segment expenses are lower than related amounts presented on a consolidated GAAP basis due to the exclusion of fund expenses that are paid by Limited Partners and the elimination of non-controlling interests.

**Table of Contents****Private Equity**

The following table presents our results of operations for our Private Equity segment:

	Three Months Ended September 30,		2012 vs. 2011		Nine Months Ended September 30,		2012 vs. 2011	
	2012	2011	\$	%	2012	2011	\$	%
(Dollars in Thousands)								
<b>Segment Revenues</b>								
Management Fees, Net								
Base Management Fees	\$ 86,136	\$ 85,534	\$ 602	1%	\$ 259,400	\$ 247,766	\$ 11,634	5%
Transaction and Other Fees, Net	25,693	21,430	4,263	20%	58,741	109,125	(50,384)	-46%
Management Fee Offsets	(767)	(6,498)	5,731	88%	(5,221)	(22,016)	16,795	76%
<b>Total Management Fees, Net</b>	<b>111,062</b>	<b>100,466</b>	<b>10,596</b>	<b>11%</b>	<b>312,920</b>	<b>334,875</b>	<b>(21,955)</b>	<b>-7%</b>
<b>Performance Fees</b>								
Realized								
Carried Interest	31,592	(17,966)	49,558	N/M	64,306	65,785	(1,479)	-2%
Unrealized								
Carried Interest	128,746	(270,014)	398,760	N/M	74,904	(50,287)	125,191	N/M
<b>Total Performance Fees</b>	<b>160,338</b>	<b>(287,980)</b>	<b>448,318</b>	<b>N/M</b>	<b>139,210</b>	<b>15,498</b>	<b>123,712</b>	<b>N/M</b>
<b>Investment Income (Loss)</b>								
Realized	7,189	20,548	(13,359)	-65%	14,905	41,476	(26,571)	-64%
Unrealized	43,267	(121,688)	164,955	N/M	31,399	(15,615)	47,014	N/M
<b>Total Investment Income (Loss)</b>	<b>50,456</b>	<b>(101,140)</b>	<b>151,596</b>	<b>N/M</b>	<b>46,304</b>	<b>25,861</b>	<b>20,443</b>	<b>79%</b>
Interest and Dividend Revenue	3,413	3,396	17	1%	8,947	10,098	(1,151)	-11%
Other	1,650	141	1,509	N/M	1,997	1,617	380	24%
<b>Total Revenues</b>	<b>326,919</b>	<b>(285,117)</b>	<b>612,036</b>	<b>N/M</b>	<b>509,378</b>	<b>387,949</b>	<b>121,429</b>	<b>31%</b>
<b>Expenses</b>								
Compensation and Benefits								
Compensation	62,424	52,388	10,036	19%	168,746	171,945	(3,199)	-2%
Performance Fee Compensation								
Realized								
Carried Interest	1,048	(2,443)	3,491	N/M	2,172	5,324	(3,152)	-59%
Unrealized								
Carried Interest	43,228	(44,955)	88,183	N/M	33,917	(10,182)	44,099	N/M
<b>Total Compensation and Benefits</b>	<b>106,700</b>	<b>4,990</b>	<b>101,710</b>	<b>N/M</b>	<b>204,835</b>	<b>167,087</b>	<b>37,748</b>	<b>23%</b>
Other Operating Expenses	30,944	27,588	3,356	12%	90,346	86,425	3,921	5%
<b>Total Expenses</b>	<b>137,644</b>	<b>32,578</b>	<b>105,066</b>	<b>N/M</b>	<b>295,181</b>	<b>253,512</b>	<b>41,669</b>	<b>16%</b>
<b>Economic Income (Loss)</b>	<b>\$ 189,275</b>	<b>\$ (317,695)</b>	<b>\$ 506,970</b>	<b>N/M</b>	<b>\$ 214,197</b>	<b>\$ 134,437</b>	<b>\$ 79,760</b>	<b>59%</b>

N/M Not meaningful.

*Revenues*

Revenues were \$326.9 million for the three months ended September 30, 2012, an increase of \$612.0 million compared to \$(285.1) million for the three months ended September 30, 2011. The increase in revenues was attributed to increases in Performance Fees, Investment Income and Total Management Fees of \$448.3 million, \$151.6 million and \$10.6 million, respectively.



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Performance Fees, which are determined on a fund by fund basis, were \$160.3 million for the three months ended September 30, 2012 compared to \$(288.0) million for the three months ended September 30, 2011, principally due to positive net returns in our BEP, BCP VI and BCP IV funds. These returns were largely driven by publicly traded holdings and portfolio companies in the energy sector. Both of the BEP and BCP VI funds crossed their hurdle rates for the first time during the quarter. On a realized basis, Performance Fees were \$49.6 million greater than the third quarter of 2011 as BCP IV was able to execute the sale of a portion of its holdings in Team Health Holdings, generating a 3.7 times gross multiple of invested capital.

Investment Income (Loss) was \$50.5 million compared to \$(101.1) million for the three months ended September 30, 2011. The 15.1% appreciation in our public holdings was driven by our new investments in Cheniere and Knight Capital as well as our holdings in Nielsen, Team Health, Vanguard and TRW. At September 30, 2012, the unrealized value and cumulative realized proceeds, before Carried Interest, fees and expenses, of our contributed private equity funds represented 1.5 times investors' original investments. On a realized basis, this multiple was 2.6 times investors' original investments.

Total Management Fees were \$111.1 million for the three months ended September 30, 2012, an increase of \$10.6 million compared to \$100.5 million for the three months ended September 30, 2011, driven by higher Transaction and Other Fees, higher Base Management Fees and lower Management Fee Offsets. Transaction and Other Fees were \$25.7 million for the three months ended September 30, 2012, an increase of \$4.3 million compared to \$21.4 million for the three months ended September 30, 2011. The increase in Transaction and Other Fees was driven by increased investment activity during the quarter. Management Fee Offsets represent reductions of management fees payable by our limited partners in BCP VI based on the amount they reimbursed Blackstone for placement fees.

Revenues were \$509.4 million for the nine months ended September 30, 2012, an increase of \$121.4 million compared to \$387.9 million for the nine months ended September 30, 2011. The increase in revenues was attributed to increases in Performance Fees and Investment Income of \$123.7 million and \$20.4 million, respectively, and partially offset by a decrease in Total Management Fees of \$22.0 million.

Performance Fees, which are determined on a fund by fund basis, were \$139.2 million for the nine months ended September 30, 2012, an increase of \$123.7 million, compared to \$15.5 million for the nine months ended September 30, 2011, principally due to the returns generated from investments in the retail/consumer and energy sectors as well as from our publicly traded investments, particularly TRW and Team Health.

Investment Income (Loss) was \$46.3 million, an increase of \$20.4 million, compared to \$25.9 million for the nine months ended September 30, 2011, driven by the net returns in the BEP, BCP VI and BCP IV funds of 76%, 22% and 7%, respectively.

Total Management Fees were \$312.9 million for the nine months ended September 30, 2012, a decrease of \$22.0 million compared to \$334.9 million for the nine months ended September 30, 2011, driven by a decrease in Transaction and Other Fees, and partially offset by an increase in Base Management Fees and reduced Management Fee Offsets. Base Management Fees were \$259.4 million for the nine months ended September 30, 2012, an increase of \$11.6 million compared to \$247.8 million for the nine months ended September 30, 2011, principally as a result of fees generated from BEP, which commenced its investment period during the third quarter of 2011. Transaction and Other Fees were \$58.7 million for the nine months ended September 30, 2012, a decrease of \$50.4 million compared to \$109.1 million for the nine months ended September 30, 2011. Transaction and Other Fees for the nine months ended September 30, 2011 included one time fees earned from the accelerated termination of management advisory service agreements related to Nielsen Holdings and Freescale Semiconductor, two portfolio companies that completed initial public offerings, as well as fees generated from new investment activity. Management Fee Offsets represent reductions of management fees payable by our limited partners in BCP VI based on the amount they reimbursed Blackstone for placement fees.

**Table of Contents***Expenses*

Expenses were \$137.6 million for the three months ended September 30, 2012, an increase of \$105.1 million compared to \$32.6 million for the three months ended September 30, 2011. The \$105.1 million increase was primarily attributed to a \$91.7 million increase in Performance Fee Compensation and a \$10.0 million increase in Compensation. Performance Fee Compensation increased as a result of the increases in Performance Fees revenue described above. Compensation increased as a portion of it is related to the segment's results, exclusive of Performance Fees and Investment Income as well as compensation related to business growth. Other Operating Expenses increased \$3.4 million over the same prior year period primarily due to increases in miscellaneous and interest expenses allocated to the segment.

Expenses were \$295.2 million for the nine months ended September 30, 2012, an increase of \$41.7 million, compared to \$253.5 million for the nine months ended September 30, 2011. The \$41.7 million increase was primarily attributed to a \$40.9 million increase in Performance Fee Compensation as a result of the increase in Performance Fees revenue. Increases in Other Operating Expenses were substantially offset by a decrease in Compensation.

*Fund Returns*

Fund returns information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

The following table presents the internal rates of return of our significant private equity funds:

Fund (a)	Three Months Ended September 30,				Nine Months Ended September 30,				September 30, 2012 Inception to Date			
	2012		2011		2012		2011		Realized		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BCP IV	9%	8%	-21%	-20%	7%	7%	3%	2%	77%	59%	51%	37%
BCP V	3%	3%	-7%	-7%	4%	4%	2%	2%	49%	31%	2%	1%
BCP VI (b)	28%	28%	N/M	N/M	30%	22%	N/M	N/M	N/M	N/M	27%	8%
BEP (b)	67%	64%	N/M	N/M	86%	76%	N/M	N/M	N/A	N/A	110%	101%

**The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

N/M Not meaningful.

N/A Not applicable.

- (a) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and Carried Interest allocations.
- (b) 2011 returns for BCP VI and BEP are not meaningful as a material portion of the funds' capital had not been invested. Realized returns for BCP VI are not meaningful as the fund has had an immaterial amount of realizations. BEP realized returns are not applicable as the fund has not had any realizations through September 30, 2012.

The Private Equity segment has three contributed funds with closed investment periods: BCP IV, BCP V and BCOM. As of September 30, 2012, BCP IV was above its Carried Interest threshold (i.e., the preferred return payable to its limited partners before the general partner is eligible to receive Carried Interest) and would still be above its Carried Interest threshold even if all remaining investments were valued at zero. BCP V is currently

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below its Carried Interest threshold. BCOM is currently below its Carried Interest threshold but has generated inception-to-date positive returns. We are entitled to retain previously realized Carried Interest up to 20% of BCOM's net gains. As a result, Performance Fees are recognized from BCOM on current period gains and losses.

The following table presents the Carried Interest status of our private equity funds out of their investment period which are currently not generating performance fees as of September 30, 2012:

Funds Out of the Investment Period	Gain to Cross Carried Interest Threshold (a)	
	Amount (Dollars in Millions)	% Change in Total Enterprise Value (b)
BCP V (Dec 2005 / Jan 2011)	\$ 6,412	13%

- (a) The general partner of each fund is allocated Carried Interest when the annualized returns, net of management fees and expenses, exceed the preferred return as dictated by the fund agreements. The preferred return is calculated for each limited partner individually. The Gain to Cross Carried Interest Threshold represents the increase in equity at the fund level (excluding our side-by-side investments) that is required for the general partner to begin accruing Carried Interest, assuming the gain is earned pro rata across the fund's investments and is achieved at the reporting date.
- (b) Total Enterprise Value is the respective fund's pro rata ownership of the portfolio companies' Enterprise Value at the reporting date.

**Table of Contents****Real Estate**

The following table presents our results of operations for our Real Estate segment:

	Three Months Ended September 30, 2012				Nine Months Ended September 30, 2012			
			2012 vs. 2011				2012 vs. 2011	
	2012	2011	\$	%	2012	2011	\$	%
(Dollars in Thousands)								
Segment Revenues								
Management Fees, Net								
Base Management Fees	\$ 135,659	\$ 97,925	\$ 37,734	39%	\$ 411,278	\$ 290,831	\$ 120,447	41%
Transaction and Other Fees, Net	14,937	19,551	(4,614)	-24%	54,500	90,382	(35,882)	-40%
Management Fee Offsets	(6,034)	(880)	(5,154)	N/M	(20,018)	(2,130)	(17,888)	N/M
Total Management Fees, Net	144,562	116,596	27,966	24%	445,760	379,083	66,677	18%
Performance Fees								
Realized								
Carried Interest	51,845	5,137	46,708	N/M	74,001	19,306	54,695	N/M
Incentive Fees	4,879	171	4,708	N/M	12,644	9,427	3,217	34%
Unrealized								
Carried Interest	207,695	(119,192)	326,887	N/M	573,705	675,534	(101,829)	-15%
Incentive Fees	6,150	(984)	7,134	N/M	12,538	1,852	10,686	N/M
Total Performance Fees	270,569	(114,868)	385,437	N/M	672,888	706,119	(33,231)	-5%
Investment Income (Loss)								
Realized	10,324	7,313	3,011	41%	27,203	21,626	5,577	26%
Unrealized	33,676	(26,060)	59,736	N/M	74,532	72,678	1,854	3%
Total Investment Income (Loss)	44,000	(18,747)	62,747	N/M	101,735	94,304	7,431	8%
Interest and Dividend Revenue	3,581	3,195	386	12%	9,410	9,472	(62)	-1%
Other	1,941	(1,390)	3,331	N/M	642	(15)	657	N/M
Total Revenues	464,653	(15,214)	479,867	N/M	1,230,435	1,188,963	41,472	3%
Expenses								
Compensation and Benefits								
Compensation	71,456	54,986	16,470	30%	216,921	183,264	33,657	18%
Performance Fee Compensation								
Realized								
Carried Interest	19,822	2,169	17,653	N/M	27,300	8,390	18,910	N/M
Incentive Fees	2,570	82	2,488	N/M	6,443	4,473	1,970	44%
Unrealized								
Carried Interest	47,940	(30,076)	78,016	N/M	133,892	163,274	(29,382)	-18%
Incentive Fees	2,876	(434)	3,310	N/M	6,015	3,738	2,277	61%
Total Compensation and Benefits	144,664	26,727	117,937	N/M	390,571	363,139	27,432	8%
Other Operating Expenses	31,284	23,495	7,789	33%	86,768	74,832	11,936	16%
Total Expenses	175,948	50,222	125,726	N/M	477,339	437,971	39,368	9%
Economic Income (Loss)	\$ 288,705	\$ (65,436)	\$ 354,141	N/M	\$ 753,096	\$ 750,992	\$ 2,104	0%

N/M Not meaningful.

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### *Revenues*

Revenues were \$464.7 million for the three months ended September 30, 2012, an increase of \$479.9 million compared to \$(15.2) million for the three months ended September 30, 2011. The increase in revenues was primarily attributable to an increase of \$385.4 million in Performance Fees, an increase of \$28.0 million in Total Management Fees and an increase of \$62.7 million in Investment Income.

Performance Fees, which are determined on a fund by fund basis, were \$270.6 million for the three months ended September 30, 2012, an increase of \$385.4 million compared to \$(114.9) million for the three months ended September 30, 2011. Performance Fees continued to benefit from the strong performance of our Real Estate carry funds. For the three months ended September 30, 2012, the carrying value of assets for Blackstone's contributed BREP funds, including fee-paying co-investments, increased 4.9% driven by the continued strengthening of operating fundamentals, particularly in our hospitality, office and retail holdings. Our BREDS and real estate hedge funds increased 5.1% and 6.2%, respectively. As of September 30, 2012, the unrealized value and cumulative proceeds, before carried interest, fees and expenses, of our contributed BREP carry funds represented 1.5 times investors' original investments. On a realized basis, this multiple was 2.0 times investors' original investments.

Investment Income (Loss) was \$44.0 million for the three months ended September 30, 2012, an increase of \$62.7 million compared to \$(18.7) million for the three months ended September 30, 2011. The increase in Investment Income was primarily driven by the year over year increase in the net appreciation of investments across our global Real Estate funds.

Total Management Fees were \$144.6 million for the three months ended September 30, 2012, an increase of \$28.0 million compared to \$116.6 million for the three months ended September 30, 2011. Base Management Fees were \$135.7 million for the three months ended September 30, 2012, an increase of \$37.7 million compared to \$97.9 million for the three months ended September 30, 2011, which was primarily related to fees generated from the commencement of BREP VII. Transaction and Other Fees were \$14.9 million for the three months ended September 30, 2012, a decrease of \$4.6 million compared to \$19.6 million for the three months ended September 30, 2011, which was primarily related to a decrease in the size of completed transactions.

Revenues were \$1.2 billion for the nine months ended September 30, 2012, an increase of \$41.5 million compared to \$1.2 billion for the nine months ended September 30, 2011. The increase in revenues was primarily attributed to an increase of \$66.7 million in Total Management Fees and a \$7.4 million increase in Investment Income (Loss), partially offset by a decrease of \$33.2 million in Performance Fees.

Total Management Fees were \$445.8 million for the nine months ended September 30, 2012, an increase of \$66.7 million compared to \$379.1 million for the nine months ended September 30, 2011. Base Management Fees were \$411.3 million for the nine months ended September 30, 2012, an increase of \$120.4 million compared to \$290.8 million for the nine months ended September 30, 2011, which was primarily related to fees generated from the commencement of BREP VII. Transaction and Other Fees were \$54.5 million for the nine months ended September 30, 2012, a decrease of \$35.9 million compared to \$90.4 million for the nine months ended September 30, 2011, which was primarily related to a decrease in the size of completed transactions.

Investment Income (Loss) was \$101.7 million for the nine months ended September 30, 2012, an increase of \$7.4 million compared to \$94.3 million for the nine months ended September 30, 2011. The increase in Investment Income was primarily driven by the year over year increase in the net appreciation of investments across our global Real Estate funds.

Performance Fees, which are determined on a fund by fund basis, were \$672.9 million for the nine months ended September 30, 2012, a decrease of \$33.2 million compared to \$706.1 million for the nine months ended September 30, 2011. Performance Fees continued to benefit from the strong performance of our BREP carry

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funds. However, the year over year comparison was impacted by a decrease in the net appreciation of our BREP V and BREP VI carry funds investments and the effect of the catch-up provision in the prior year period. For the nine months ended September 30, 2012, the carrying value of assets for Blackstone's contributed Real Estate funds, including fee-paying co-investments, increased 11.6% driven by the continued strengthening of operating fundamentals, particularly in our hospitality, office and retail holdings. Our BREDS and real estate hedge funds increased 11.6% and 14.6%, respectively.

### Expenses

Expenses were \$175.9 million for the three months ended September 30, 2012, an increase of \$125.7 million, compared to \$50.2 million for the three months ended September 30, 2011. The increase was primarily attributed to a \$101.5 million increase in Performance Fee Compensation, a result of an increase in Performance Fees revenue, and a \$16.5 million increase in Compensation. Compensation rose, as a portion of compensation is related to the segment's results, excluding Performance Fees and Investment Income. Other Operating Expenses increased \$7.8 million for the three months ended September 30, 2012, principally due to fundraising costs and interest expense allocated to the segment.

Expenses were \$477.3 million for the nine months ended September 30, 2012, an increase of \$39.4 million, compared to \$438.0 million for the nine months ended September 30, 2011. The increase was primarily attributed to increases of \$33.7 million in Compensation and \$11.9 million in Other Operating Expenses and was partially offset by a \$6.2 million decrease in Performance Fee Compensation. Compensation rose, as a portion of compensation is related to the segment's results, excluding Performance Fees and Investment Income. Performance Fee Compensation decreased as a result of the decrease in Performance Fees revenue. Other Operating Expenses increased \$11.9 million for the nine months ended September 30, 2012, principally due to increases in miscellaneous expense and interest expense allocated to the segment.

### Fund Returns

Fund return information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the performance of The Blackstone Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

The following table presents the internal rates of return of our significant real estate funds:

Fund (a)	Three Months Ended September 30,				Nine Months Ended September 30,				September 30, 2012 Inception to Date			
	2012		2011		2012		2011		Realized		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BREP International (b)	2%	1%	-1%		14%	10%	28%	21%	35%	26%	33%	23%
BREP IV	0%		-5%	-4%	7%	4%	10%	6%	116%	80%	25%	14%
BREP V	5%	4%	-2%	-2%	15%	12%	19%	12%	121%	81%	13%	9%
BREP International II (b)	-1%	-1%	-1%	-1%	-3%	-4%	2%	1%	28%	14%	-1%	-3%
BREP VI	4%	3%		1%	11%	8%	16%	11%	40%	31%	13%	9%
BREP Europe III (b)	5%	3%	8%	5%	16%	11%	18%	7%	60%	49%	50%	20%
BREP VII (c)	10%	7%	N/A	N/A	42%	25%	N/A	N/A	526%	75%	59%	33%
BREDS	5%	4%	1%		15%	12%	7%	6%	21%	17%	18%	14%
BSSF I	7%	5%	-4%	-4%	17%	13%	1%	-1%	N/A	N/A	15%	11%
CMBS	6%	5%	-6%	-6%	15%	11%	-2%	-3%	N/A	N/A	18%	12%
BREP Co-Investment (d)	4%	4%	10%	8%	10%	8%	22%	19%	9%	7%	13%	11%

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The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.

N/A Not applicable.

- (a) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and performance fee allocations.
- (b) Euro-based net internal rates of return.
- (c) The BREP VII investment period commenced in August 2011.
- (d) Excludes fully realized co-investments prior to Blackstone's initial public offering.

The following table presents the Carried Interest status of our real estate carry funds with expired investment periods which are currently not generating performance fees as of September 30, 2012:

Fully Invested Funds	Amount (Amounts in Millions)	Gain to Cross Carried Interest Threshold (a)
		% Change in Total Enterprise Value (b)
BREP Int 1 II (Sep 2005 / Jun 2008)	952	22%

- (a) The general partner of each fund is allocated Carried Interest when the annualized returns, net of management fees and expenses, exceed the preferred return as dictated by the fund agreements. The preferred return is calculated for each limited partner individually. The Gain to Cross Carried Interest Threshold represents the increase in equity at the fund level (excluding our side-by-side investments) that is required for the general partner to begin accruing Carried Interest, assuming the gain is earned pro rata across the fund's investments and is achieved at the reporting date.
- (b) Total Enterprise Value is the respective fund's pro rata ownership of the privately held portfolio companies' Enterprise Value. The Real Estate segment has three funds in their investment period, which were above their respective Carried Interest thresholds as of September 30, 2012: BREP Europe III, BREP VII and BREDS.



**Table of Contents****Hedge Fund Solutions**

The following table presents our results of operations for our Hedge Fund Solutions segment:

	Three Months Ended September 30,		2012 vs. 2011		Nine Months Ended September 30,		2012 vs. 2011	
	2012	2011	\$	%	2012	2011	\$	%
(Dollars in Thousands)								
<b>Segment Revenues</b>								
Management Fees, Net								
Base Management Fees	\$ 87,334	\$ 79,355	\$ 7,979	10%	\$ 253,433	\$ 234,257	\$ 19,176	8%
Transaction and Other Fees, Net	4	740	(736)	-99%	161	2,328	(2,167)	-93%
Management Fee Offsets	(382)	(258)	(124)	-48%	(1,092)	(578)	(514)	-89%
Total Management Fees, Net	86,956	79,837	7,119	9%	252,502	236,007	16,495	7%
<b>Performance Fees</b>								
Realized								
Incentive Fees	2,637	5,764	(3,127)	-54%	7,110	7,324	(214)	-3%
Unrealized								
Incentive Fees	36,635	(19,861)	56,496	N/M	48,841	2,833	46,008	N/M
Total Performance Fees	39,272	(14,097)	53,369	N/M	55,951	10,157	45,794	N/M
<b>Investment Income (Loss)</b>								
Realized	637	1,023	(386)	-38%	2,069	15,219	(13,150)	-86%
Unrealized	5,199	(10,034)	15,233	N/M	9,934	(15,778)	25,712	N/M
Total Investment Income (Loss)	5,836	(9,011)	14,847	N/M	12,003	(559)	12,562	N/M
Interest and Dividend Revenue	540	500	40	8%	1,421	1,488	(67)	-5%
Other	315	18	297	N/M	215	84	131	156%
Total Revenues	132,919	57,247	75,672	132%	322,092	247,177	74,915	30%
<b>Expenses</b>								
Compensation and Benefits								
Compensation	28,826	30,667	(1,841)	-6%	91,618	90,434	1,184	1%
Performance Fee Compensation								
Realized								
Incentive Fees	1,062	2,257	(1,195)	-53%	2,095	2,810	(715)	-25%
Unrealized								
Incentive Fees	8,062	(7,214)	15,276	N/M	12,536	1,099	11,437	N/M
Total Compensation and Benefits	37,950	25,710	12,240	48%	106,249	94,343	11,906	13%
Other Operating Expenses	12,878	14,421	(1,543)	-11%	41,318	43,504	(2,186)	-5%
Total Expenses	50,828	40,131	10,697	27%	147,567	137,847	9,720	7%
Economic Income	\$ 82,091	\$ 17,116	\$ 64,975	N/M	\$ 174,525	\$ 109,330	\$ 65,195	60%

N/M Not meaningful.

*Revenues*

Revenues were \$132.9 million for the three months ended September 30, 2012, an increase of \$75.7 million compared to \$57.2 million for the three months ended September 30, 2011. The increase in revenues was primarily attributable to an increase of \$53.4 million in Performance Fees to \$39.3 million, an increase of \$14.8 million of Investment Income (Loss) to \$5.8 million and an increase of \$7.1 million of Total Management Fees to \$87.0 million.

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Performance Fees were \$39.3 million for the three months ended September 30, 2012, an increase of \$53.4 million compared to \$(14.1) million for the three months ended September 30, 2011, primarily due to higher returns. The returns of the underlying assets for Blackstone's Hedge Fund Solutions funds were up 3.3% during the three months ended September 30, 2012. Fee-Earning Assets Under Management related to funds of funds above their respective high-water marks and/or hurdle, and therefore eligible for Performance Fees, increased during the three months ended September 30, 2012 compared to the three months ended September 30, 2011. This increase was a result of the better performance of the underlying assets of the segment.

Total Management Fees were \$87.0 million for the three months ended September 30, 2012, an increase of \$7.1 million compared to \$79.8 million for the three months ended September 30, 2011. Base Management Fees were \$87.3 million for the three months ended September 30, 2012, an increase of \$8.0 million compared to the prior year period, driven by an increase in Fee-Earning Assets Under Management of 17% from the prior year period, which was primarily from net inflows.

Investment Income (Loss) was \$5.8 million for the three months ended September 30, 2012, an increase of \$14.8 million compared to \$(9.0) million for the three months ended September 30, 2011. The increase in Investment Income (Loss) was primarily driven by the year over year increase in the net appreciation of investments of which Blackstone owns a share of such investments.

Revenues were \$322.1 million for the nine months ended September 30, 2012, an increase of \$74.9 million compared to \$247.2 million for the nine months ended September 30, 2011. The increase in revenues was primarily attributable to an increase of \$45.8 million in Performance Fees to \$56.0 million, an increase of \$16.5 million of Total Management Fees to \$252.5 million and an increase of \$12.6 million of Investment Income (Loss) to \$12.0 million.

Performance Fees were \$56.0 million for the nine months ended September 30, 2012, an increase of \$45.8 million compared to \$10.2 million for the nine months ended September 30, 2011, primarily due to higher returns. The returns of the underlying assets for Blackstone's Hedge Fund Solutions funds were 6.2% during the nine months ended September 30, 2012. Fee-Earning Assets Under Management related to funds of funds above their respective high-water marks and/or hurdle, and therefore eligible for Performance Fees, increased during the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011. This increase was a result of the better performance of the underlying assets of the segment.

Total Management Fees were \$252.5 million for the nine months ended September 30, 2012, an increase of \$16.5 million compared to \$236.0 million for the nine months ended September 30, 2011. Base Management Fees were \$253.4 million for the nine months ended September 30, 2012, an increase of \$19.2 million compared to the prior year period, driven by an increase in Fee-Earning Assets Under Management of 17% from the prior year period, which was primarily from net inflows.

Investment Income (Loss) was \$12.0 million for the nine months ended September 30, 2012, an increase of \$12.6 million compared to \$(0.6) million for the nine months ended September 30, 2011. The increase in Investment Income (Loss) was primarily driven by the year over year increase in the net appreciation of investments of which Blackstone owns a share.

### *Expenses*

Expenses were \$50.8 million for the three months ended September 30, 2012, an increase of \$10.7 million compared to the three months ended September 30, 2011. The \$10.7 million increase was primarily attributed to a \$14.1 million increase in Performance Fee Compensation and partially offset by decreases of \$1.8 million in Compensation and \$1.5 million in Other Operating Expenses. Performance Fee Compensation was \$9.1 million for the three months ended September 30, 2012, an increase of \$14.1 million, compared to \$(5.0) million for the prior year period, primarily due to the increase in Performance Fees revenue described above. Compensation was

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\$28.8 million for the three months ended September 30, 2012, a decrease of \$1.8 million, compared to \$30.7 million for the prior year period. Other Operating Expenses decreased \$1.5 million to \$12.9 million for the three months ended September 30, 2012, compared to \$14.4 million for the three months ended September 30, 2011, primarily resulting from a decrease in professional fees due to a decrease in placement fees.

Expenses were \$147.6 million for the nine months ended September 30, 2012, an increase of \$9.7 million compared to the nine months ended September 30, 2011. The \$9.7 million increase was primarily attributed to a \$1.2 million increase in Compensation and \$10.7 million increase in Performance Fee Compensation, partially offset by a \$2.2 million decrease in Other Operating Expenses. Compensation was \$91.6 million for the nine months ended September 30, 2012, an increase of \$1.2 million, compared to \$90.4 million for the prior year period. Performance Fee Compensation was \$14.6 million for the nine months ended September 30, 2012, an increase of \$10.7 million, compared to \$3.9 million for the prior year period. Other Operating Expenses decreased \$2.2 million to \$41.3 million for the nine months ended September 30, 2012, compared to \$43.5 million for the nine months ended September 30, 2011, primarily due to the same factors noted above.

### Operating Metrics

The following table presents information regarding our Fee-Earning Assets Under Management:

	Fee-Earning Assets Under Management Eligible for Incentive Fees As of September 30, 2012                      2011 (Dollars in Thousands)		Estimated % Above High Water Mark and/or Hurdle (a) As of September 30, 2012                      2011	
BAAM Managed Funds (b)	\$ 24,063,577	\$ 19,486,179	77%	2%

- (a) Estimated % Above High Water Mark and / or Hurdle represents the percentage of Fee-Earning Assets Under Management Eligible for Incentive Fees that as of the dates presented would earn incentive fees when the applicable BAAM managed fund has positive investment performance (relative to a hurdle, where applicable). Incremental positive performance in the applicable Blackstone Funds may cause additional assets to reach their respective High Water Mark and / or Hurdle, thereby resulting in an increase in Estimated % Above High Water Mark and/or Hurdle.
- (b) For the BAAM managed funds, at September 30, 2012 the incremental appreciation needed for the 23% of Fee-Earning Assets Under Management below their respective High Water Marks and / or Hurdle to reach their respective High Water Marks and / or Hurdle was \$361.8 million, a decrease of \$637.5 million, or 63.8%, compared to \$999.3 million at September 30, 2011. Of the Fee-Earning Assets Under Management below their respective High Water Marks and / or Hurdle as of September 30, 2012, 71% were within 5% of reaching their respective High Water Mark and / or Hurdle.

### Composite Returns

Composite returns information is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The composite returns information reflected in this discussion and analysis is not indicative of the performance of The Blackstone Group L.P. and is also not necessarily indicative of the future results of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds or composites. There can be no assurance that any of our funds or composites or our other existing and future funds or composites will achieve similar returns.

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The following table presents the return information of the BAAM Managed Funds, Core Fund Composite:

Composite	Three Months Ended September 30,				Nine Months Ended September 30,				Average Annual Net Returns (a)							
	2012		2011		2012		2011		One Year		Three Year		Five Year		Historical	
	Gross		Gross		Gross		Gross		Gross		Gross		Gross		Gross	
	Net	Net	Net	Net	Net	Net	Net	Net	Net	Net	Net	Net	Net	Net	Net	Net
BAAM Managed Funds,																
Core Funds Composite (b)	4%	3%	-4%	-4%	7%	6%	-2%	-3%	9%	8%	6%	5%	2%	1%	7%	6%

The returns presented represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.

- (a) Composite returns present a summarized asset weighted return measure to evaluate the overall performance of the applicable class of Blackstone Funds.
- (b) The BAAM Core Funds Composite does not include BAAM's long-only platforms, seed funds and advisory relationships. The historical return is from January 1, 2000 and excludes fluctuations due to foreign currency exchange rates.

**Table of Contents****Credit**

The following table presents our results of operations for our Credit segment:

	Three Months Ended September 30,		2012 vs. 2011		Nine Months Ended September 30,		2012 vs. 2011	
	2012	2011	\$	%	2012	2011	\$	%
(Dollars in Thousands)								
<b>Segment Revenues</b>								
Management Fees, Net								
Base Management Fees	\$ 88,959	\$ 59,557	\$ 29,402	49%	\$ 250,827	\$ 171,578	\$ 79,249	46%
Transaction and Other Fees, Net	4,486	(26)	4,512	N/M	19,395	1,568	17,827	N/M
Management Fee Offsets	(1,271)	(67)	(1,204)	N/M	(3,146)	(190)	(2,956)	N/M
Total Management Fees, Net	92,174	59,464	32,710	55%	267,076	172,956	94,120	54%
<b>Performance Fees</b>								
Realized								
Carried Interest	328	3,196	(2,868)	-90%	14,947	41,429	(26,482)	-64%
Incentive Fees	4,104	11,595	(7,491)	-65%	8,837	20,441	(11,604)	-57%
Unrealized								
Carried Interest	67,024	6,257	60,767	N/M	137,942	35,109	102,833	N/M
Incentive Fees	61,364	(61,382)	122,746	N/M	93,817	(12,177)	105,994	N/M
Total Performance Fees	132,820	(40,334)	173,154	N/M	255,543	84,802	170,741	N/M
<b>Investment Income (Loss)</b>								
Realized	6,697	2,807	3,890	139%	13,018	7,278	5,740	79%
Unrealized	(736)	(7,800)	7,064	91%	(681)	2,169	(2,850)	N/M
Total Investment Income (Loss)	5,961	(4,993)	10,954	N/M	12,337	9,447	2,890	31%
Interest and Dividend Revenue	2,673	1,404	1,269	90%	6,850	2,759	4,091	148%
Other	(678)	(132)	(546)	N/M	(1,703)	(81)	(1,622)	N/M
Total Revenues	232,950	15,409	217,541	N/M	540,103	269,883	270,220	100%
<b>Expenses</b>								
Compensation and Benefits								
Compensation	50,236	40,533	9,703	24%	130,224	103,153	27,071	26%
Performance Fee Compensation								
Realized								
Carried Interest	1,153	(1,561)	2,714	N/M	8,388	16,695	(8,307)	-50%
Incentive Fees	825	10,039	(9,214)	-92%	5,746	15,105	(9,359)	-62%
Unrealized								
Carried Interest	37,695	908	36,787	N/M	82,412	22,453	59,959	N/M
Incentive Fees	33,316	(29,664)	62,980	N/M	28,886	(11,195)	40,081	N/M
Total Compensation and Benefits	123,225	20,255	102,970	N/M	255,656	146,211	109,445	75%
Other Operating Expenses	33,527	11,210	22,317	199%	66,372	36,793	29,579	80%
Total Expenses	156,752	31,465	125,287	N/M	322,028	183,004	139,024	76%
Economic Income	\$ 76,198	\$ (16,056)	\$ 92,254	N/M	\$ 218,075	\$ 86,879	\$ 131,196	151%

N/M Not meaningful.

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### *Revenues*

Revenues were \$233.0 million for the three months ended September 30, 2012, an increase of \$217.5 million compared to the three months ended September 30, 2011. This change was primarily attributable to an increase of \$173.2 million in Performance Fees reflecting improved market conditions and strong underlying company performance as well as an increase of \$32.7 million in Total Management Fees.

Performance Fees were \$132.8 million for the three months ended September 30, 2012, an increase of \$173.2 million compared to the prior year period. This change was primarily attributable to an increase in Unrealized Performance Fees resulting from robust returns in our flagship hedge funds and steady appreciation in our significant drawdown funds. The net returns for Blackstone's Credit segment funds were 6.1% for the hedge funds, 7.7% for the mezzanine funds and 4.6% for the rescue lending funds for the three months ended September 30, 2012.

Total Management Fees were \$92.2 million for the three months ended September 30, 2012, an increase of \$32.7 million compared to the prior year period. This change was primarily attributable to an increase of \$29.4 million in Base Management Fees driven by greater Fee-Earning Assets Under Management resulting from net AUM inflows, new product launches, increased limited partner capital deployed and the acquisition of Harbourmaster in January 2012.

Investment Income (Loss) was \$6.0 million for the three months ended September 30, 2012, an increase of \$11.0 million compared to \$(5.0) million for the three months ended September 30, 2011.

Revenues were \$540.1 million for the nine months ended September 30, 2012, an increase of \$270.2 million compared to the nine months ended September 30, 2011. This change was primarily attributable to increases of \$170.7 million in Performance Fees and \$94.1 million in Total Management Fees.

Performance Fees were \$255.5 million for the nine months ended September 30, 2012, an increase of \$170.7 million compared to the prior year period. This change was attributable to an increase in Unrealized Performance Fees resulting from a higher rate of appreciation in our investment funds partially offset by a lower amount of Realized Performance Fees. The net returns of Blackstone's Credit segment funds were 9.2% for the hedge funds, 17.7% for the mezzanine funds and 12.4% for the rescue lending funds for the nine months ended September 30, 2012.

Total Management Fees were \$267.1 million for the nine months ended September 30, 2012, an increase of \$94.1 million compared to the prior year period. This change was primarily attributable to an increase of \$79.2 million in Base Management Fees due to the significant growth in our Fee-Earning Assets Under Management.

### *Expenses*

Expenses were \$156.8 million for the three months ended September 30, 2012, an increase of \$125.3 million compared to the three months ended September 30, 2011. The increase in expenses was attributable to increases of \$9.7 million in Compensation, \$93.3 million in Performance Fee Compensation correlated with the increases in Performance Fees described above, and \$22.3 million in Other Operating Expenses. The increase in Other Operating Expenses was primarily due to the non-recurring structuring costs related to the launch of our third closed-end fund.

Expenses were \$322.0 million for the nine months ended September 30, 2012, an increase of \$139.0 million compared to the nine months ended September 30, 2011. The increase in expenses was attributable to increases of \$27.1 million in Compensation, \$82.4 million in Performance Fee Compensation correlated with the increase in Performance Fees described above, and \$29.6 million in Other Operating Expenses. The increase in Other



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Operating Expenses was primarily due to certain non-recurring expenses related to the structuring costs in connection with the launch of our third closed-end fund and the write-off of leasehold improvements.

*Fund Returns*

Fund return information for our significant businesses is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the performance of The Blackstone Group L.P. and is also not necessarily indicative of the future results of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

The following table presents the return information of the segment's Flagship Hedge Funds:

Fund	Three Months Ended September 30,				Nine Months Ended September 30,				Average Annual Returns (a) Periods Ended September 30, 2012							
	2012		2011		2012		2011		One Year		Three Year		Five Year		Historical	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Flagship Hedge Funds (b)	8%	6%	-5%	-4%	12%	9%	4%	3%	17%	13%	16%	12%	11%	7%	12%	8%

**The returns presented represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

- (a) Average annual returns present a summarized asset weighted return measure to evaluate the overall performance of the applicable class of Blackstone Funds.
- (b) The Flagship Hedge Funds' returns represent the weighted-average return for the U.S. domestic and offshore funds included in this return. The historical return is from August 1, 2005, which is before Blackstone's acquisition of GSO in March 2008.

The following table presents the Internal Rates of Return of our significant Credit drawdown funds:

Fund (a)	Three Months Ended September 30,				Nine Months Ended September 30,				Inception to Date	
	2012		2011		2012		2011		Gross	Net
	Gross	Net	Gross	Net	Gross	Net	Gross	Net		
Mezzanine Funds (b)	10%	8%	7%	5%	24%	18%	23%	17%	25%	18%
Rescue Lending Funds (c)	6%	5%	-10%	-5%	17%	12%	2%	1%	21%	14%

**The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

- (a) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and performance fee allocations, net of tax advances.
- (b) The Mezzanine Funds' returns represent the weighted-average return for the U.S. domestic and offshore funds including, as applicable, for the new significant mezzanine fund. The inception to date return is from July 16, 2007, which is before Blackstone's acquisition of GSO in March 2008.
- (c) The Rescue Lending Funds' returns represent the weighted-average return for the U.S. domestic and offshore funds included in this return. The inception to date returns are from September 29, 2009, which is when the funds commenced investing.

As of September 30, 2012, the significant Credit drawdown funds were above their respective Carried Interest thresholds (i.e., the preferred return payable to its limited partners before the general partner is eligible to receive Carried Interest).



**Table of Contents****Financial Advisory**

The following table presents our results of operations for our Financial Advisory segment:

	Three Months Ended September 30,		2012 vs. 2011		Nine Months Ended September 30,		2012 vs. 2011	
	2012	2011	\$	%	2012	2011	\$	%
(Dollars in Thousands)								
<b>Segment Revenues</b>								
Advisory Fees	\$ 59,951	\$ 86,178	\$ (26,227)	-30%	\$ 229,169	\$ 258,673	\$ (29,504)	-11%
Transaction and Other Fees, Net	6	98	(92)	-94%	253	314	(61)	-19%
Total Advisory and Transaction Fees	59,957	86,276	(26,319)	-31%	229,422	258,987	(29,565)	-11%
<b>Investment Income</b>								
Realized	251	(44)	295	N/M	755	279	476	171%
Unrealized	928	(171)	1,099	N/M	1,440	207	1,233	N/M
Total Investment Income	1,179	(215)	1,394	N/M	2,195	486	1,709	N/M
Interest and Dividend Revenue	1,797	1,615	182	11%	5,112	5,024	88	2%
Other	(751)	(304)	(447)	-147%	(709)	115	(824)	N/M
Total Revenues	62,182	87,372	(25,190)	-29%	236,020	264,612	(28,592)	-11%
<b>Expenses</b>								
<b>Compensation and Benefits</b>								
Compensation	46,619	59,633	(13,014)	-22%	175,708	186,335	(10,627)	-6%
Other Operating Expenses	18,823	20,218	(1,395)	-7%	65,211	57,716	7,495	13%
Total Expenses	65,442	79,851	(14,409)	-18%	240,919	244,051	(3,132)	-1%
Economic Income (Loss)	\$ (3,260)	\$ 7,521	\$ (10,781)	N/M	\$ (4,899)	\$ 20,561	\$ (25,460)	N/M

N/M Not meaningful.

**Revenues**

Revenues were \$62.2 million for the three months ended September 30, 2012, a decrease of \$25.2 million, or 29%, compared to \$87.4 million for the three months ended September 30, 2011. The decrease in revenues was driven by decreases in each of the advisory businesses. The decrease in Blackstone's restructuring and reorganization business was driven primarily by fewer transactions completed during the three months ended September 30, 2012 following the completion of numerous transactions in the quarter ended June 30, 2012. The decrease in Blackstone Advisory Partners' business was due to a decrease in the number of transactions completed compared to the prior year period as the completion of certain transactions was delayed. The decrease in fees earned by Blackstone's fund placement business was primarily due to the timing of several transactions.

Revenues were \$236.0 million for the nine months ended September 30, 2012, a decrease of \$28.6 million, or 11%, compared to \$264.6 million for the nine months ended September 30, 2011. The decrease in revenues was driven primarily by decreases in Blackstone's fund placement business and Blackstone Advisory Partners' business, partially offset by an increase in Blackstone's restructuring and reorganization business. The increase in Blackstone's restructuring and reorganization business was driven primarily by an increase in revenues due to several significant transactions completed in the current year period, as well as an increase in the number of transactions completed during the nine months ended September 30, 2012. The decrease in Blackstone Advisory Partners' revenue was due to a decrease, attributable in large part to the overall weakness in the mergers and acquisitions market, in the number and size of transactions completed compared to the prior year period. The

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decrease in fees earned by Blackstone's fund placement business was primarily due to the timing of several transactions.

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### *Expenses*

Expenses were \$65.4 million for the three months ended September 30, 2012, a decrease of \$14.4 million, or 18%, compared to \$79.9 million for the three months ended September 30, 2011. Compensation and Benefits decreased \$13.0 million compared to the three months ended September 30, 2011, principally due to an overall decrease in total fee revenue across the segment. Compensation expense for these businesses is related to their financial performance. Other Operating Expenses decreased \$1.4 million over the three months ended September 30, 2011, principally due to a reduction in bad debt expense.

Expenses were \$240.9 million for the nine months ended September 30, 2012, a decrease of \$3.1 million, or 1%, compared to \$244.1 million for the nine months ended September 30, 2011. Compensation and Benefits decreased \$10.6 million compared to the nine months ended September 30, 2011, principally due to an overall decrease in total fee revenue across the segment. Other Operating Expenses increased \$7.5 million over the nine months ended September 30, 2011, principally due to increases in all other expenses.

### **Liquidity and Capital Resources**

#### *General*

Blackstone's business model derives revenue primarily from third party assets under management and from advisory businesses. Blackstone is not a capital or balance sheet intensive business and targets operating expense levels such that total management and advisory fees exceed total operating expenses each period. As a result, we require limited capital resources to support the working capital or operating needs of our businesses. We draw primarily on the long term committed capital of our limited partner investors to fund the investment requirements of the Blackstone Funds and use our own realizations and cash flows to invest in growth initiatives, make commitments to our own funds, which are typically less than 5% of the assets under management of a fund, or pay distributions to unitholders.

Fluctuations in our balance sheet result primarily from activities of the Blackstone Funds which are consolidated as well as business transactions, such as the issuance of senior notes described below. The majority economic ownership interests of the Blackstone Funds are reflected as Non-Controlling Interests in Consolidated Entities in the Condensed Consolidated Financial Statements. The consolidation of these Blackstone Funds has no net effect on the Partnership's Net Income or Partners' Capital. Additionally, fluctuations in our Condensed Consolidated Statements of Financial Condition also include appreciation or depreciation in Blackstone investments in the Blackstone Funds, additional investments and redemptions of such interests in the Blackstone Funds and the collection of receivables related to management and advisory fees.

Total assets were \$27.8 billion as of September 30, 2012, an increase of \$5.9 billion from December 31, 2011. The increase in total assets was primarily attributable to a \$5.6 billion increase in Investments. Total liabilities were \$17.0 billion as of September 30, 2012, an increase of \$4.3 billion from December 31, 2011. The increase in total liabilities was primarily due to an increase in Loans Payable of \$4.0 billion.

For the three months ended September 30, 2012, we had Total Fee Related Revenues of \$522.1 million and related expenses of \$387.0 million, generating Fee Related Earnings of \$135.1 million and Distributable Earnings of \$189.6 million. For the nine months ended September 30, 2012, we had Total Fee Related Revenues of \$1.6 billion and related expenses of \$1.1 billion, generating Fee Related Earnings of \$427.7 million and Distributable Earnings of \$540.2 million.

#### *Sources of Liquidity*

We have multiple sources of liquidity to meet our capital needs, including annual cash flows, accumulated earnings in the businesses, investments in our own Treasury and liquid funds and access to our debt capacity, including our \$1.1 billion committed revolving credit facility and the proceeds from our 2009, 2010 and 2012 issuances of senior notes. On July 13, 2012, an indirect subsidiary of Blackstone amended its revolving credit facility. The amendment is described in Note 11. Borrowings in the Notes to Condensed Consolidated

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Financial Statements in Part I. Item 1. Financial Statements. As of September 30, 2012, Blackstone had \$833.5 million in cash, \$1.3 billion invested in Blackstone's Treasury cash management strategies, \$143.2 million invested in liquid Blackstone Funds, \$1.9 billion invested in illiquid Blackstone Funds and \$144.2 million in other investments, against \$1.6 billion in borrowings from our 2009, 2010 and 2012 bond issuances, and no borrowings outstanding under its revolving credit facility.

In addition to the cash we received in connection with our IPO, debt offering and our borrowing facilities, we expect to receive (a) cash generated from operating activities, (b) Carried Interest and incentive income realizations, and (c) realizations on the carry and hedge fund investments that we make. The amounts received from these three sources in particular may vary substantially from year to year and quarter to quarter depending on the frequency and size of realization events or net returns experienced by our investment funds. Our available capital could be adversely affected if there are prolonged periods of few substantial realizations from our investment funds accompanied by substantial capital calls for new investments from those investment funds. Therefore, Blackstone's commitments to our funds are taken into consideration when managing our overall liquidity and cash position.

We use Distributable Earnings, which is derived from our segment reported results, as a supplemental non-GAAP measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships. Distributable Earnings is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses and (d) Taxes and Related Payables including the Payable Under the Tax Receivable Agreement.

The following table calculates Blackstone's Fee Related Earnings, Distributable Earnings and Economic Net Income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars in Thousands)			
Base Management Fees (a)	\$ 398,088	\$ 322,371	\$ 1,174,938	\$ 944,432
Transaction and Other Fees, Net (a)	45,126	41,793	133,050	203,717
Advisory Fees (a)	59,951	86,178	229,169	258,673
Management Fee Offsets (a)	(8,454)	(7,703)	(29,477)	(24,914)
Interest Income and Other Revenue (b)	27,358	5,432	53,261	32,890
Compensation (a)	(259,561)	(238,207)	(783,217)	(735,131)
Other Operating Expenses (a)	(127,456)	(96,932)	(350,015)	(299,270)
<b>Fee Related Earnings</b>	<b>135,052</b>	<b>112,932</b>	<b>427,709</b>	<b>380,397</b>
Net Realized Incentive Fees (b)	7,163	5,152	14,307	14,804
Net Realized Carried Interest (b)	61,742	(7,798)	115,394	96,111
Realized Investment Income (b)	16,847	31,338	42,522	82,216
Taxes and Related Payables (c)	(31,169)	(15,879)	(59,772)	(54,990)
<b>Distributable Earnings</b>	<b>189,635</b>	<b>125,745</b>	<b>540,160</b>	<b>518,538</b>
Net Unrealized Incentive Fees (b)	59,895	(44,915)	107,759	(1,134)
Net Unrealized Carried Interest (b)	274,602	(308,826)	536,330	484,811
Unrealized Investment Income (b)	77,708	(162,433)	110,973	44,994
Add Back: Related Payables (d)	19,912	10,430	30,096	23,845
<b>Economic Net Income (Loss)</b>	<b>\$ 621,752</b>	<b>\$ (379,999)</b>	<b>\$ 1,325,318</b>	<b>\$ 1,071,054</b>

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- (a) Represents the total segment amounts of the respective captions.  
(b) Detail on this amount is included in the table below.  
(c) Represents the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes and the payable under the Tax Receivable Agreement.  
(d) Represents tax related payables including the payable under the tax receivable agreement.  
The following calculates the components of Fee Related Earnings, Distributable Earnings and Economic Net Income in the above table identified by note (b):

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	2012	2011	2012	2011
	(Dollars in Thousands)			
Interest Income and Dividend Revenue (a)	\$ 12,004	\$ 10,110	\$ 31,740	\$ 28,841
Other Revenue (a)	2,477	(1,667)	442	1,720
Investment Income (Loss) Blackstone's Treasury Cash Management Strategies (b)	12,877	(3,011)	21,079	2,329
Interest Income and Other Revenue	\$ 27,358	\$ 5,432	\$ 53,261	\$ 32,890
Realized Incentive Fees (a)	11,620	17,530	28,591	37,192
Less: Realized Incentive Fee Compensation (a)	(4,457)	(12,378)	(14,284)	(22,388)
Net Realized Incentive Fees	\$ 7,163	\$ 5,152	\$ 14,307	\$ 14,804
Realized Carried Interest (a)	\$ 83,765	\$ (9,633)	\$ 153,254	\$ 126,520
Less: Realized Carried Interest Compensation (a)	(22,023)	1,835	(37,860)	(30,409)
Net Realized Carried Interest	\$ 61,742	\$ (7,798)	\$ 115,394	\$ 96,111
Realized Investment Income (a)	\$ 25,098	\$ 31,647	\$ 57,950	\$ 85,878
Adjustment Related to Realized Investment Income Blackstone's Treasury Cash Management Strategies (c)	(8,251)	(309)	(15,428)	(3,662)
Realized Investment Income	\$ 16,847	\$ 31,338	\$ 42,522	\$ 82,216
Unrealized Incentive Fees (a)	\$ 104,149	\$ (82,227)	\$ 155,196	\$ (7,492)
Less: Unrealized Incentive Fee Compensation (a)	(44,254)	37,312	(47,437)	6,358
Net Unrealized Incentive Fees	\$ 59,895	\$ (44,915)	\$ 107,759	\$ (1,134)
Unrealized Carried Interest (a)	\$ 403,465	\$ (382,949)	\$ 786,551	\$ 660,356
Less: Unrealized Carried Interest Compensation (a)	(128,863)	74,123	(250,221)	(175,545)
Net Unrealized Carried Interest	\$ 274,602	\$ (308,826)	\$ 536,330	\$ 484,811
Unrealized Investment Income (a)	\$ 82,334	\$ (165,753)	\$ 116,624	\$ 43,661
Less: Investment Income (Loss) Blackstone's Treasury Cash Management Strategies (b)	(12,877)	3,011	(21,079)	(2,329)
Less: Adjustment Related to Realized Investment Income Blackstone's Treasury Cash Management Strategies (c)	8,251	309	15,428	3,662

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Unrealized Investment Income (Loss)	\$ 77,708	\$ (162,433)	\$ 110,973	\$ 44,994
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- (a) Represents the total segment amounts of the respective captions.
- (b) Represents the inclusion of Investment Income from Blackstone's Treasury cash management strategies.
- (c) Represents the adjustment related to the Realized Investment Income attributable to Blackstone's Treasury cash management strategies which is a component of Distributable Earnings.



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The following table is a reconciliation of Net Income (Loss) Attributable to The Blackstone Group L.P. to Economic Income, of Economic Income to Economic Net Income, of Economic Net Income to Fee Related Earnings, of Fee Related Earnings to Distributable Earnings and of Distributable Earnings to Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization:

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	2012	2011	2012	2011
	(Dollars in Thousands)			
<b>Net Income (Loss) Attributable to The Blackstone Group L.P.</b>	\$ 128,824	\$ (274,567)	\$ 112,185	\$ (145,626)
Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings	183,431	(402,079)	237,809	(104,455)
Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities	(157,607)	(262,207)	279,970	(448,753)
Net Income (Loss) Attributable to Redeemable Non- Controlling Interests in Consolidated Entities	41,854	(47,922)	78,447	(24,980)
<b>Net Income (Loss)</b>	196,502	(986,775)	708,411	(723,814)
Provision (Benefit) for Taxes	39,237	(7,637)	119,327	95,412
<b>Income (Loss) Before Provision (Benefit) for Taxes</b>	235,739	(994,412)	827,738	(628,402)
IPO and Acquisition-Related Charges (a)	248,179	264,068	762,012	1,122,124
Amortization of Intangibles (b)	33,338	45,665	123,661	134,744
Income (Loss) Associated with Non-Controlling Interests in (Income) Loss of Consolidated Entities (c)	115,753	310,129	(358,417)	473,733
<b>Economic Income (Loss)</b>	633,009	(374,550)	1,354,994	1,102,199
Taxes (d)	(11,257)	(5,449)	(29,676)	(31,145)
<b>Economic Net Income (Loss)</b>	621,752	(379,999)	1,325,318	1,071,054
Taxes (d)	11,257	5,449	29,676	31,145
Performance Fee Adjustment (e)	(602,999)	457,279	(1,123,592)	(816,576)
Investment Income (Loss) Adjustment (f)	(107,432)	134,106	(174,574)	(129,539)
Investment Income (Loss) Blackstone s Treasury Cash Management Strategies (g)	12,877	(3,011)	21,079	2,329
Performance Fee Compensation and Benefits Adjustment (h)	199,597	(100,892)	349,802	221,984
<b>Fee Related Earnings</b>	135,052	112,932	427,709	380,397
Realized Performance Fees (i)	68,905	(2,646)	129,701	110,915
Realized Investment Income (j)	25,098	31,647	57,950	85,878
Adjustment Related to Realized Investment Income Blackstone s Treasury Cash Management Strategies (k)	(8,251)	(309)	(15,428)	(3,662)
Taxes and Related Payables Including Payable Under Tax Receivable Agreement (l)	(31,169)	(15,879)	(59,772)	(54,990)
<b>Distributable Earnings</b>	189,635	125,745	540,160	518,538
Interest	18,163	12,577	44,567	38,358
Taxes and Related Payables Including Payable Under Tax Receivable Agreement (l)	31,169	15,879	59,772	54,990
Depreciation and Amortization	8,895	8,325	29,554	24,313
<b>Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization</b>	\$ 247,862	\$ 162,526	\$ 674,053	\$ 636,199



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- (a) The adjustment adds back to Income (Loss) Before Provision (Benefit) for Taxes amounts for Transaction-Related Charges which include principally equity-based compensation charges associated with Blackstone's initial public offering and long-term retention programs outside of annual deferred compensation and other corporate actions.
- (b) This adjustment adds back to Income (Loss) Before Provision (Benefit) for Taxes amounts for the Amortization of Intangibles which are associated with Blackstone's initial public offering and other corporate actions.
- (c) This adjustment adds back to Income (Loss) Before Provision (Benefit) for Taxes the amount of (Income) Loss Associated with Non-Controlling Interests in (Income) Loss of Consolidated Entities and includes the amount of Management Fee Revenues associated with Consolidated CLO Entities.
- (d) Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision (Benefit) for Taxes.
- (e) This adjustment removes from EI the total segment amount of Performance Fees.
- (f) This adjustment removes from EI the total segment amount of Investment Income (Loss).
- (g) This adjustment represents the realized and unrealized gain on Blackstone's Treasury cash management strategies which are a component of Investment Income (Loss) but included in Fee Related Earnings.
- (h) This adjustment removes from expenses the compensation and benefit amounts related to Blackstone's profit sharing plans related to Performance Fees.
- (i) Represents the adjustment for realized Performance Fees net of corresponding actual amounts due under Blackstone's profit sharing plans related thereto.
- (j) Represents the adjustment for Blackstone's Investment Income (Loss) Realized.
- (k) Represents the elimination of Realized Investment Income attributable to Blackstone's Treasury cash management strategies which is a component of both Fee Related Earnings from Operations and Realized Investment Income (Loss).
- (l) Taxes and Related Payables Including Payable Under Tax Receivable Agreement represent the current tax provision (benefit) calculated on Income (Loss) Before Provision (Benefit) for Taxes and the payable under the Tax Receivable Agreement.

**Table of Contents****Liquidity Needs**

We expect that our primary liquidity needs will be cash to (a) provide capital to facilitate the growth of our existing businesses which principally includes funding our general partner and co-investment commitments to our funds, (b) provide capital to facilitate our expansion into new businesses that are complementary, (c) pay operating expenses, including cash compensation to our employees and other obligations as they arise, (d) fund modest capital expenditures, (e) repay borrowings and related interest costs, (f) pay income taxes and (g) make distributions to our unitholders and the holders of Blackstone Holdings Partnership Units. Our own capital commitments to our funds, the funds we invest in and our investment strategies as of September 30, 2012 consisted of the following:

<b>Fund</b>	<b>Original Commitment (Dollars in Thousands)</b>	<b>Remaining Commitment</b>
<b>Private Equity</b>		
BCP VI	\$ 719,718	\$ 626,043
BCP V	629,356	72,648
BCP IV	150,000	5,633
BCOM	50,000	4,762
Blackstone Energy Partners ( BEP )	50,000	42,771
China Fund ( RMB )	8,882	7,823
Blackstone Tactical Opportunity Fund	27,000	23,662
Woori Blackstone Korea I	5,451	2,289
Blackstone Clean Technology Partners	4,575	363
<b>Real Estate Funds</b>		
BREP VII	300,000	218,005
BREP VI	750,000	58,154
BREP V	52,545	2,313
BREP International II	25,822	1,631
BREP Europe III	100,000	55,199
Blackstone Real Estate Special Situations Fund II	43,016	16,444
Blackstone Real Estate Special Situations Fund G	2,500	531
Blackstone Commercial Real Estate Debt Fund	10,000	1,205
<b>Hedge Fund Solutions</b>		
Strategic Alliance II	50,000	26,361
Strategic Alliance	50,000	2,033
<b>Credit</b>		
Capital Opportunities Fund II L.P. ( COF )	120,000	98,268
Blackstone / GSO Capital Solutions	50,000	14,376
BMezz	41,000	2,590
Blackstone Credit Liquidity Partners	32,244	3,192
BMezz II	17,692	3,085
Other (a)	27,362	17,109
<b>Total</b>	<b>\$ 3,317,163</b>	<b>\$ 1,306,490</b>

(a) Represents capital commitments to a number of other Credit funds.

For some of the general partner commitments shown in the table above we require our senior managing directors and certain other professionals to fund a portion of the commitment even though the ultimate obligation to fund the aggregate commitment is ours pursuant to the governing agreements of the respective funds. For BCP VI, BREP VI, BREP Europe III, BREP VII and COF II, it is intended that our senior managing directors and certain other professionals will fund \$250 million, \$150 million, \$35 million, \$100 million, and \$110 million, respectively, of the aggregate applicable general partner original commitment shown above. In



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addition, certain senior managing directors and other professionals are required to fund a de minimis amount of the commitment in the other private equity, real estate and credit-oriented carry funds. We expect our commitments to be drawn down over time and to be funded by available cash and cash generated from operations and realizations. Taking into account prevailing market conditions and both the liquidity and cash or liquid investment balances, we believe that the sources of liquidity described below will be more than sufficient to fund our working capital requirements.

On March 23, 2010, indirect subsidiaries of Blackstone entered into an unsecured revolving credit facility (the "Credit Facility") with Citibank, N.A., as Administrative Agent. On November 23, 2010, the Credit Facility was amended to set the facility aggregate borrowing limit at \$1.02 billion. On April 8, 2011, the Credit Facility was amended to extend the maturity date from March 23, 2013 to April 8, 2016. On July 13, 2012, the Credit Facility was further amended to increase the borrowing capacity from \$1.02 billion to \$1.1 billion and to extend the maturity date from April 8, 2016 to July 13, 2017. Borrowings may also be made in U.K. sterling or euros, in each case subject to certain sub-limits. The Credit Facility contains customary representations, covenants and events of default. Financial covenants consist of a maximum net leverage ratio and a requirement to keep a minimum amount of fee generating assets under management, each tested quarterly.

In August 2009, Blackstone Holdings Finance Co. L.L.C. issued \$600 million in aggregate principal amount of 6.625% Senior Notes which will mature on August 15, 2019, unless earlier redeemed or repurchased. In September 2010, Blackstone Holdings Finance Co. L.L.C. issued \$400 million in aggregate principal amount of 5.875% Senior Notes which will mature on March 15, 2021, unless earlier redeemed or repurchased. In August 2012, Blackstone Holdings Finance Co. L.L.C. issued \$400 million in aggregate principal amount of 4.75% Senior Notes which will mature on February 15, 2023 and \$250 million in aggregate principal amount of 6.25% Senior Notes which will mature on August 15, 2042. (These issuances of Senior Notes are collectively referred to as the "Notes".) The Notes are unsecured and unsubordinated obligations of Blackstone Holdings Finance Co. L.L.C. and are fully and unconditionally guaranteed, jointly and severally, by The Blackstone Group L.P. and each of the Blackstone Holdings partnerships. The Notes contain customary covenants and financial restrictions that, among other things, limit Blackstone Holdings Finance Co. L.L.C. and the guarantors' ability, subject to certain exceptions, to incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The Notes also contain customary events of default. All or a portion of the Notes may be redeemed at our option, in whole or in part, at any time and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the Notes. If a change of control repurchase event occurs, the Notes are subject to repurchase at the repurchase price as set forth in the Notes.

In January 2008, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to \$500 million of our common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. This unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date. During the three months ended September 30, 2012, no units were repurchased. As of September 30, 2012, the amount remaining available for repurchases was \$335.8 million under this program.

## ***Distributions***

Distributable Earnings will only be a starting point for our determination of the amount to be distributed to unitholders because as noted above, in determining the amount to be distributed we will subtract from Distributable Earnings any amounts determined by our general partner to be necessary or appropriate to provide for the conduct of our business, to make appropriate investments in our business and our funds, to comply with applicable law or any of our debt instruments or other agreements, or to provide for future distributions to our unitholders for any ensuing quarter. In most years the aggregate amounts of our distributions to unitholders will typically be less than our Distributable Earnings for that year.

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Our current intention is to distribute to our common unitholders substantially all of The Blackstone Group L.P.'s net after-tax share of our annual Distributable Earnings less the amount of our realized investment gains and returns of capital from investments and acquisitions. This determination has been based on the continued pace of organic and inorganic growth and the potential for further strategic initiatives and the retained amount will be used for those purposes. The retained cash will be deducted from the fourth quarter distribution which is made in the first quarter of the ensuing calendar year. All distributions are subject to Blackstone's discretion to retain additional amounts from the amount of annual Distributable Earnings to be distributed as described above.

Because we will not know what our Distributable Earnings will be for any fiscal year until the end of such year, we expect that our first three quarterly distributions in respect of any given year will remain unchanged at \$0.10 per unit. For the fourth quarter of each year, we expect to pay the remaining amount of the year's Distributable Earnings less realized investment gains and returns of capital from investments and acquisitions. As such, the distributions for the first three quarters are expected to be smaller than the final quarterly distribution in respect of such year.

All of the foregoing is subject to the qualification that the declaration and payment of any distributions are at the sole discretion of our general partner and our general partner may change our distribution policy at any time.

Because the subsidiaries of The Blackstone Group L.P. must pay taxes and make payments under the tax receivable agreements described in Blackstone's 2011 Annual Report on Form 10-K, the amounts ultimately distributed by The Blackstone Group L.P. to its common unitholders in respect of each fiscal year are expected to be less, on a per unit basis, than the amounts distributed by the Blackstone Holdings partnerships to the Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships in respect of their Blackstone Holdings partnership units.

## Leverage

We may under certain circumstances use leverage opportunistically and over time to create the most efficient capital structure for Blackstone and our public common unitholders, including through the issuance of debt securities. As of September 30, 2012, we had total partners' capital of \$9.4 billion, including \$833.5 million in cash, \$1.3 billion invested in Blackstone's Treasury cash management strategies, \$143.2 million invested in liquid Blackstone Funds, \$1.9 billion invested in illiquid Blackstone Funds and \$144.2 million in other investments, against \$1.6 billion in borrowings from our 2009, 2010 and 2012 bond issuances.

Included in our Treasury cash management strategies are reverse repurchase agreements, repurchase agreements and securities sold, not yet purchased. All of these positions are held in a separately managed portfolio. Reverse repurchase agreements are entered into primarily to take advantage of opportunistic yields otherwise absent in the overnight markets and also to use the collateral received to cover securities sold, not yet purchased. Repurchase agreements are entered into primarily to opportunistically yield higher spreads on purchased securities. The balances held in these financial instruments fluctuate based on Blackstone's liquidity needs, market conditions and investment risk profiles. The following table presents information regarding these financial instruments:

	Reverse Repurchase Agreements	Repurchase Agreements (Dollars in Millions)	Securities Sold, Not Yet Purchased
Balance, September 30, 2012	\$ 105.6	\$ 69.5	\$ 105.2
Balance, December 31, 2011	139.5	101.8	143.8
Nine Months Ended September 30, 2012			
Average Daily Balance	103.2	116.1	108.8
Maximum Daily Balance	169.8	206.1	191.7

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Our private equity funds, real estate funds and funds of hedge funds have not historically utilized substantial leverage at the fund level other than (a) for short-term borrowings between the date of an investment and the receipt of capital from the investing fund's investors, and (b) long-term borrowings for certain investments in aggregate amounts which are generally 2% to 10% of the capital commitments of the respective fund. Our carry funds make direct or indirect investments in companies that utilize leverage in their capital structure. The degree of leverage employed varies among portfolio companies.

Certain of our Hedge Fund Solutions and Credit funds use leverage in order to obtain additional market exposure, enhance returns on invested capital and/or to bridge short-term cash needs. The forms of leverage primarily employed by these funds include purchasing securities on margin, utilizing collateralized financing and using derivative instruments.

**Contractual Obligations, Commitments and Contingencies**

The following table sets forth information relating to our contractual obligations as of September 30, 2012 on a consolidated basis and on a basis deconsolidating the Blackstone funds:

Contractual Obligations	October 1, 2012 to					Total
	December 31, 2012	2013	2014	2015	2016 (Dollars in Thousands)	Thereafter
Operating Lease Obligations (a)	\$ 16,212	\$ 116,786		\$ 104,089		\$ 225,552
Purchase Obligations	8,023	18,804		3,796		
Blackstone Issued Notes and Revolving Credit Facility (b)						1,635,000
Interest on Blackstone Issued Notes and Revolving Credit Facility (c)	24,220	193,762		193,762		717,397
Blackstone Operating Entities Loan and Credit Facilities Payable (d)	297	6,228				
Interest on Blackstone Operating Entities Loan and Credit Facilities Payable (e)	70	88				
Blackstone Funds and CLO Vehicles Debt Obligations Payable (f)	7,904	341,214		538,672		12,254,361
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (g)	47,621	362,945		319,860		707,511
Blackstone Funds Capital Commitments to Investee Funds (h)	50,532					
Due to Certain Non-Controlling Interest Holders in Connection with Tax Receivable Agreements (i)		83,503		166,130		967,857
Blackstone Operating Entities Capital Commitments to Blackstone Funds and Other (j)	1,306,490					
Unrecognized Tax Benefits, Including Interest (k)	3,327	3,728				
Consolidated Contractual Obligations	1,464,696	1,127,058		1,326,309		16,507,678
Blackstone Funds and CLO Vehicles Debt Obligations Payable (f)	(7,904)	(341,214)		(538,672)		(12,254,361)
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (g)	(47,621)	(362,945)		(319,860)		(707,511)
Blackstone Funds Capital Commitments to Investee Funds (h)	(50,532)					
Blackstone Operating Entities Contractual Obligations	\$ 1,358,639	\$ 422,899		\$ 467,777		\$ 3,545,806
						\$ 5,795,121





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- (a) We lease our primary office space under agreements that expire through 2024. In connection with certain lease agreements, we are responsible for escalation payments. The contractual obligation table above includes only guaranteed minimum lease payments for such leases and does not project potential escalation or other lease-related payments. These leases are classified as operating leases for financial statement purposes and as such are not recorded as liabilities on the Condensed Consolidated Statements of Financial Condition. The amounts are presented net of contractual sublease commitments.
- (b) Represents the principal amount due on the senior notes we issued. As of September 30, 2012, we had no outstanding borrowings under our revolver.
- (c) Represents interest to be paid over the maturity of our senior notes and borrowings under our revolving credit facility which has been calculated assuming no prepayments are made and debt is held until its final maturity date. These amounts exclude commitment fees for unutilized borrowings under our revolver.
- (d) Represents borrowings for a capital asset facility.
- (e) Represents interest to be paid over the maturity of the related debt obligation which has been calculated assuming no prepayments are made and debt is held until its final maturity date. The future interest payments are calculated using variable rates in effect as of September 30, 2012, at spreads to market rates pursuant to the financing agreements, at 1.09%.
- (f) These obligations are those of the Blackstone Funds including the consolidated CLO vehicles.
- (g) Represents interest to be paid over the maturity of the related consolidated Blackstone Funds and CLO vehicles debt obligations which has been calculated assuming no prepayments will be made and debt will be held until its final maturity date. The future interest payments are calculated using variable rates in effect as of September 30, 2012, at spreads to market rates pursuant to the financing agreements, and range from 0.44% to 17.00%. The majority of the borrowings are due on demand and for purposes of this schedule are assumed to mature within one year. Interest on the majority of these borrowings rolls over into the principal balance at each reset date.
- (h) These obligations represent commitments of the consolidated Blackstone Funds to make capital contributions to investee funds and portfolio companies. These amounts are generally due on demand and are therefore presented in the less than one year category.
- (i) Represents obligations by the Partnership's corporate subsidiary to make payments under the Tax Receivable Agreements to certain non-controlling interest holders for the tax savings realized from the taxable purchases of their interests in connection with the reorganization at the time of Blackstone's initial public offering in 2007 and subsequent purchases. The obligation represents the amount of the payments currently expected to be made, which are dependent on the tax savings actually realized as determined annually without discounting for the timing of the payments. As required by GAAP, the amount of the obligation included in the Condensed Consolidated Financial Statements and shown in Note 15. Related Party Transactions (see Part I. Item 1. Financial Statements) differs to reflect the net present value of the payments due to certain non-controlling interest holders.
- (j) These obligations represent commitments by us to provide general partner capital funding to the Blackstone Funds, limited partner capital funding to other funds and Blackstone principal investment commitments. These amounts are generally due on demand and are therefore presented in the less than one year category; however, a substantial amount of the capital commitments are expected to be called over the next three years. We expect to continue to make these general partner capital commitments as we raise additional amounts for our investment funds over time.
- (k) The total represents gross unrecognized tax benefits of \$5.7 million and interest of \$1.3 million. In addition, Blackstone is not able to make a reasonably reliable estimate of the timing of payments in individual years in connection with gross unrecognized benefits of \$13.7 million and interest of \$2.4 million; therefore, such amounts are not included in the above contractual obligations table.

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### ***Guarantees***

Blackstone and certain of its consolidated funds provide financial guarantees. The amounts and nature of these guarantees are described in Note 16. Commitments and Contingencies Contingencies Guarantees in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements of this filing.

### ***Indemnifications***

In many of its service contracts, Blackstone agrees to indemnify the third party service provider under certain circumstances. The terms of the indemnities vary from contract to contract and the amount of indemnification liability, if any, cannot be determined and has not been included in the table above or recorded in our Condensed Consolidated Financial Statements as of September 30, 2012.

### ***Clawback Obligations***

For financial reporting purposes, the general partners have recorded a liability for potential clawback obligations to the limited partners of some of the carry funds due to changes in the unrealized value of a fund's remaining investments and where the fund's general partner has previously received Carried Interest distributions with respect to such fund's realized investments.

The actual clawback liability, however, does not become realized until the end of a fund's life except for Blackstone's real estate funds which may have an interim clawback liability come due after a realized loss is incurred, depending on the fund. The lives of the carry funds with a potential clawback obligation, including available contemplated extensions, are currently anticipated to expire at various points beginning toward the end of 2012 and extending through 2018. Further extensions of such terms may be implemented under given circumstances.

As of September 30, 2012, the clawback obligations were \$255.8 million, of which \$101.5 million related to Blackstone Holdings and \$154.3 million relate to current and former Blackstone personnel. (See Note 15. Related Party Transactions and Note 16. Commitments and Contingencies in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements of this filing.)

### ***Critical Accounting Policies***

We prepare our Condensed Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America (GAAP). In applying many of these accounting principles, we need to make assumptions, estimates and/or judgments that affect the reported amounts of assets, liabilities, revenues and expenses in our consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates and/or judgments, however, are often subjective. Actual results may be affected negatively based on changing circumstances. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. We believe the following critical accounting policies could potentially produce materially different results if we were to change underlying assumptions, estimates and/or judgments. (See Note 2. Summary of Significant Accounting Policies in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements of this filing.)

### ***Principles of 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

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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. Income (Loss) attributable to Blackstone Holdings, excluding certain costs and expenses borne directly by Blackstone Holdings, is calculated based on the year to date average percentage 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:

The entity has all of the attributes of an investment company as defined under AICPA 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,

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

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 consolidation guidance as discussed in Note 2. Summary of Significant Accounting Policies in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements, 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 VIEs 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.

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### ***Revenue Recognition***

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other.

Please refer to Part I. Item 1. Business Incentive Arrangements / Fee Structure in our 2011 Annual Report on Form 10-K for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

*Management and Advisory Fees* Management and Advisory Fees are comprised of management fees, including base management fees, transaction and other fees, management fee reductions and offsets, and advisory fees.

The Partnership earns base management fees from limited partners of funds in each of its managed funds, at a fixed percentage of assets under management, net asset value, total assets, committed capital, invested capital or, in some cases, a fixed-fee. Base management fees are based on contractual terms specified in the underlying investment advisory agreements. The range of management fee rates and the calculation base from which they are earned, generally, are as follows:

On private equity, real estate, and certain credit-oriented funds:

0.30% to 1.75% of committed capital or invested capital during the commitment period,

0.75% to 1.75% of invested capital subsequent to the investment period for private equity and real estate funds, and

1.00% to 1.50% of invested capital or net asset value for certain credit-oriented funds.

On credit-oriented funds structured like hedge funds:

1.50% to 2.00% of net asset value.

On credit-oriented separately managed accounts:

0.35% to 1.00% of net asset value.

On funds of hedge funds and separately managed accounts invested in hedge funds:

0.50% to 1.25% of net asset value.

On CLO vehicles:

0.40% to 1.25% of total assets.

On closed-end mutual funds and registered investment companies:

0.50% to 1.50% of fund assets or net asset value.

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Transaction and other fees (including monitoring fees) are fees charged directly to funds and portfolio companies. The investment advisory agreements generally require that the investment adviser reduce the amount of management fees payable by the limited partners to the Partnership ( management fee reductions ) by an amount equal to a portion of the transaction and other fees directly paid to the Partnership by the portfolio companies. The amount of the reduction varies by fund, the type of fee paid by the portfolio company and the previously incurred expenses of the fund.

Management fee offsets are reductions to management fees payable by our limited partners, which are granted based on the amount they reimburse Blackstone for placement fees.

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Advisory fees consist of advisory retainer and transaction-based fee arrangements related to merger, acquisition, restructuring and divestiture activities and fund placement services for alternative investment funds. Advisory retainer fees are recognized when services for the transactions are complete, in accordance with terms set forth in individual agreements. Transaction-based fees are recognized when (a) there is evidence of an arrangement with a client, (b) agreed upon services have been provided, (c) fees are fixed or determinable and (d) collection is reasonably assured. Fund placement fees are recognized as earned upon the acceptance by a fund of capital or capital commitments.

Accrued but unpaid Management and Advisory Fees, net of management fee reductions and management fee offsets, as of the reporting date, are included in Accounts Receivable or Due From Affiliates in the Condensed Consolidated Statements of Financial Condition.

*Performance Fees* Performance Fees earned on the performance of Blackstone's hedge fund structures ( Incentive Fees ) are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund's governing agreements. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone's offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Condensed Consolidated Statements of Financial Condition. Incentive fees arising on Blackstone's onshore hedge funds are allocated to the general partner. Accrued but unpaid Incentive Fees on onshore funds as of the reporting date are reflected in Investments in the Condensed Consolidated Statements of Financial Condition. Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback.

In certain fund structures, specifically in private equity, real estate and certain credit-oriented funds ( Carry Funds ), performance fees ( Carried Interest ) are allocated to the general partner based on cumulative fund performance to date, subject to a preferred return to limited partners. At the end of each reporting period, the Partnership calculates the Carried Interest that would be due to the Partnership for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as Carried Interest to reflect either (a) positive performance resulting in an increase in the Carried Interest allocated to the general partner or (b) negative performance that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue, resulting in a negative adjustment to Carried Interest allocated to the general partner. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Condensed Consolidated Statements of Financial Condition.

Carried Interest is realized when an underlying investment is profitably disposed of and the fund's cumulative returns are in excess of the preferred return. Performance fees earned on hedge fund structures are realized at the end of each fund's measurement period.

Carried Interest is subject to clawback to the extent that the Carried Interest actually distributed to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received performance fees, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Blackstone Carry Funds were to be liquidated based on the current fair value of the underlying funds investments as of the reporting date. Generally, the actual clawback liability does not become realized until the end of a fund's life or one year after a realized loss is incurred, depending on the terms of the fund.

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**Investment Income (Loss)** Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership's principal investments, including its investments in Blackstone Funds that are not consolidated, its equity method investments, and other principal investments. Investment Income (Loss) is realized when the Partnership redeems all or a portion of its investment or when the Partnership receives cash income, such as dividends or distributions, from its non-consolidated funds. Unrealized Investment Income (Loss) results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

**Interest and Dividend Revenue** Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by Blackstone.

**Other Revenue** Other Revenue consists of foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars and other revenues.

### ***Expenses***

Our expenses include compensation and benefits expense and general and administrative expenses. Our accounting policies related thereto are as follows:

**Compensation and Benefits Compensation** Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors.

**Equity-Based Compensation** Compensation cost relating to the issuance of share-based awards to senior management and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight line basis. Equity-based awards that do not require future service are expensed immediately. Cash settled equity-based awards are classified as liabilities and are re-measured at the end of each reporting period.

**Compensation and Benefits Performance Fee** Performance Fee Compensation and Benefits consists of Carried Interest and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone's firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis.

### ***Fair Value of Financial Instruments***

GAAP establishes a hierarchical 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.



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**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.

### *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.

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Freestanding Derivatives and Derivative Instruments Used in Fair Value Hedging Strategies are valued using contractual cash flows and observable inputs comprising yield curves, foreign currency rates and credit spreads.

In certain cases, debt 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, market transactions in comparable investments and various relationships between investments.

### *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 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,

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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 in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements of this filing.

**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.

### ***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 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

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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. Assets of the consolidated CLOs are presented within Investments within the 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 from Fund Investment Activities. Amounts attributable to Non-Controlling Interests in Consolidated Entities have a corresponding adjustment to Appropriated Partners' Capital.

Further disclosure on instruments for which the fair value option has been elected is presented in Note 7. Fair Value Option in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1, Financial Statements of this filing.

### ***Intangibles and Goodwill***

Blackstone's intangible assets consist of contractual rights to earn future fee income, including management and advisory fees and Carried Interest from its Carry Funds. Identifiable finite-lived intangible assets are amortized on a straight line basis over their estimated useful lives, ranging from 4 to 20 years, reflecting the contractual lives of such funds. Amortization expense is included within General, Administrative and Other in the accompanying Condensed Consolidated Statements of Operations. The Partnership does not hold any indefinite-lived intangible assets.

Goodwill comprises goodwill arising from the contribution and reorganization of the Partnership's predecessor entities in 2007 immediately prior to its IPO and the acquisition of GSO in 2008.

The carrying value of goodwill was \$1.7 billion as of September 30, 2012 and December 31, 2011. Intangible Assets and Goodwill are reviewed for impairment at least annually, or more frequently if circumstances indicate impairment may have occurred. As of September 30, 2012 and December 31, 2011, the fair value of the Partnership's operating segments substantially exceeded their respective carrying values.

We test goodwill for impairment at the operating segment level (the same as our segments). Management has organized the firm into five operating segments. All of the components in each segment have similar economic characteristics and management makes key operating decisions based on the performance of each segment. Therefore, we believe that operating segment is the appropriate reporting level for testing the impairment of goodwill. In determining fair value for each of our segments, we utilize a discounted cash flow methodology based on the adjusted cash flows from operations for each segment. We believe this method provides the best approximation of fair value. In calculating the discounted cash flows, we begin with the

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adjusted cash flows from operations of each segment. We then determine the most likely growth rate by operating segment for each of the next four years and assume a terminal value by segment. We do not apply a control premium. The discounted cash flow analysis includes the Blackstone issued notes and borrowings under the revolving credit facility, if any, and includes an allocation of interest expense to each segment for the unused commitment fee on Blackstone's revolving credit facility. We use a discount rate that reflects the weighted average cost of capital adjusted for the risks inherent in the future cash flows.

### **Off-Balance Sheet Arrangements**

In the normal course of business, we enter into various off-balance sheet arrangements including sponsoring and owning limited or general partner interests in consolidated and non-consolidated funds, entering into derivative transactions, entering into operating leases, and entering into guarantee arrangements. We also have ongoing capital commitment arrangements with certain of our consolidated and non-consolidated drawdown funds. We do not have any off-balance sheet arrangements that would require us to fund losses or guarantee target returns to investors in our funds.

Further disclosure on our off-balance sheet arrangements is presented in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1. Financial Statements of this filing as follows:

Note 6. Derivative Financial Instruments ,

Note 9. Variable Interest Entities , and

Note 16. Commitments and Contingencies Commitments Investment Commitments and Contingencies Guarantees .

### **Recent Accounting Developments**

Information regarding recent accounting developments and their impact on Blackstone can be found in Note 2. Summary of Significant Accounting Policies in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1. Financial Statements.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our predominant exposure to market risk is related to our role as general partner or investment adviser to the Blackstone Funds and the sensitivities to movements in the fair value of their investments, including the effect on management fees, performance fees and investment income.

Although the Blackstone Funds share many common themes, each of our alternative asset management operations runs its own investment and risk management processes, subject to our overall risk tolerance and philosophy:

The investment process of our carry funds involves a detailed analysis of potential investments, and asset management teams are assigned to oversee the operations, strategic development, financing and capital deployment decisions of each portfolio investment. Key investment decisions are subject to approval by the applicable investment committee, which is comprised of Blackstone senior managing directors and senior management.

In our capacity as advisor to certain of our hedge fund solutions and credit funds, we continuously monitor a variety of markets for attractive trading opportunities, applying a number of traditional and customized risk management metrics to analyze risk related to specific assets or portfolios. In addition, we perform extensive credit and cash-flow analyses of borrowers, credit-based assets and underlying hedge fund managers, and have extensive asset management teams that monitor covenant compliance by, and relevant financial data of, borrowers and other obligors, asset pool performance statistics, tracking of cash payments relating to investments

and ongoing analysis of the credit status of investments.

**Table of Contents****Effect on Fund Management Fees**

Our management fees are based on (a) third parties' capital commitments to a Blackstone Fund, (b) third parties' capital invested in a Blackstone Fund or (c) the net asset value, or NAV, of a Blackstone Fund, as described in our Condensed Consolidated Financial Statements. Management fees will only be directly affected by short-term changes in market conditions to the extent they are based on NAV or represent permanent impairments of value. These management fees will be increased (or reduced) in direct proportion to the effect of changes in the market value of our investments in the related funds. The proportion of our management fees that are based on NAV is dependent on the number and types of Blackstone Funds in existence and the current stage of each fund's life cycle. For the nine months ended September 30, 2012 and September 30, 2011, the approximate percentage of our fund management fees based on the NAV of the applicable funds or separately managed accounts, were as follows:

	As of September 30,	
	2012	2011
Fund Management Fees Based on the NAV of the Applicable Funds or Separately Managed Accounts	28%	32%

**Market Risk**

The Blackstone Funds hold investments which are reported at fair value. Based on the fair value as of September 30, 2012 and September 30, 2011, we estimate that a 10% decline in fair value of the investments would have the following effects:

	2012		September 30,		2011	
	Performance				Performance	
	Fees, Net of				Fees, Net of	
	the Related				the Related	
	Management	Compensation	Investment	Management	Compensation	Investment
	Fees	Expense	Income	Fees	Expense	Income
	(Dollars in Thousands)					
10% Decline in Fair Value of the Investments	\$ 49,556	\$ 1,215,826	\$ 249,826	\$ 43,006	\$ 713,898	\$ 217,272

Total assets under management, excluding undrawn capital commitments and the amount of capital raised for our CLOs, by segment, and the percentage amount classified as Level III investments as defined within the fair value standards of GAAP, are as follows:

	Total Assets Under Management, Excluding Undrawn Capital Commitments and the Amount of Capital Raised for CLOs (Dollars in Thousands)	Percentage Amount Classified as Level III Investments
Private Equity	\$ 30,865,583	72%
Real Estate	38,800,979	97%
Hedge Fund Solutions	44,938,188	75%
Credit	24,160,421	49%

The fair value of our investments and securities can vary significantly based on a number of factors that take into consideration the diversity of the Blackstone Funds' investment portfolio and on a number of factors and inputs such as similar transactions, financial metrics, and industry comparatives, among others. (See Part I, Item 1A. Risk Factors in our 2011 Annual Report on Form 10-K. Also see Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies)





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Investments, at Fair Value. ) We believe these fair value amounts should be utilized with caution as our intent and strategy is to hold investments and securities until prevailing market conditions are beneficial for investment sales.

Investors in all of our carry funds (and certain of our credit-oriented funds and funds of hedge funds) make capital commitments to those funds that we are entitled to call from those investors at any time during prescribed periods. We depend on investors fulfilling their commitments when we call capital from them in order for those funds to consummate investments and otherwise pay their related obligations when due, including management fees. We have not had investors fail to honor capital calls to any meaningful extent and any investor that did not fund a capital call would be subject to having a significant amount of its existing investment forfeited in that fund. But if investors were to fail to satisfy a significant amount of capital calls for any particular fund or funds, those funds could be materially and adversely affected.

**Exchange Rate Risk**

The Blackstone Funds hold investments that are denominated in non-U.S. dollar currencies that may be affected by movements in the rate of exchange between the U.S. dollar and non-U.S. dollar currencies. Additionally, a portion of our management fees are denominated in non-U.S. dollar currencies. We estimate that as of September 30, 2012 and September 30, 2011, a 10% decline in the rate of exchange of all foreign currencies against the U.S. dollar would have the following effects:

	2012		September 30,		2011	
	Performance				Performance	
	Fees, Net of				Fees, Net of	
	the Related				the Related	
	Management	Compensation	Investment	Management	Compensation	Investment
	Fees	Expense	Income	Fees	Expense	Income
			(Dollars in Thousands)			
10% Decline in the Rate of Exchange of All Foreign Currencies Against the U.S. Dollar	\$ 13,070	\$ 101,621	\$ 33,966	\$ 9,851	\$ 128,225	\$ 31,869

**Interest Rate Risk**

Blackstone has debt obligations payable that accrue interest at variable rates. Interest rate changes may therefore affect the amount of interest payments, future earnings and cash flows. Based on our debt obligations payable as of September 30, 2012 and September 30, 2011, we estimate that interest expense relating to variable rates would increase on an annual basis, in the event interest rates were to increase by one percentage point, as follows:

	September 30,	
	2012	2011
	(Dollars in Thousands)	
Increase in Interest Expense Due to a One Percentage Point Increase in Interest Rates	\$ 232	\$ 4,825

Blackstone's Treasury cash management strategies consists of a diversified portfolio of liquid assets to meet the liquidity needs of various businesses (the Treasury Liquidity Portfolio ). This portfolio includes cash, open-ended money market mutual funds, open-ended bond mutual funds, marketable investment securities, freestanding derivative contracts, repurchase and reverse repurchase agreements and other investments. We estimate that our annualized investment income would decrease by \$13.8 million, or 0.7% of the Treasury

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Liquidity Portfolio, if interest rates were to increase by one percentage point. This would be offset by an estimated increase in interest income of \$7.0 million on an annual basis from interest on floating rate assets.

### **Credit Risk**

Certain Blackstone Funds and the Investee Funds are subject to certain inherent risks through their investments.

The Treasury Liquidity Portfolio contains certain credit risks including, but not limited to, exposure to uninsured deposits with financial institutions, unsecured corporate bonds and mortgage-backed securities. These exposures are actively monitored on a continuous basis and positions are reallocated based on changes in risk profile, market or economic conditions.

We estimate that our investment income would decrease by \$12.1 million, or 0.6% of the Treasury Liquidity Portfolio, if credit spreads were to increase by one percentage point.

Certain of our entities hold derivative instruments that contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. We minimize our risk exposure by limiting the counterparties with which we enter into contracts to banks and investment banks who meet established credit and capital guidelines. We do not expect any counterparty to default on its obligations and therefore do not expect to incur any loss due to counterparty default.

### **ITEM 4. CONTROLS AND PROCEDURES**

We maintain disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective at the reasonable assurance level to accomplish their objectives of ensuring that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

No changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during our most recent quarter, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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### **PART II. OTHER INFORMATION**

#### **ITEM 1. LEGAL PROCEEDINGS**

We may from time to time be involved in litigation and claims incidental to the conduct of our business. Our businesses are also subject to extensive regulation, which may result in regulatory proceedings against us. See Part I. Item 1A. Risk Factors in our 2011 Annual Report on Form 10-K. We are not currently subject to any pending judicial, administrative or arbitration proceedings that we expect to have a material impact on our consolidated financial statements.

In December 2007, a purported class of shareholders in public companies acquired by one or more private equity firms filed a lawsuit against a number of private equity firms and investment banks, including The Blackstone Group L.P., in the United States District Court in Massachusetts (*Kirk Dahl, et al. v. Bain Capital Partners, LLC, et al.*). The suit alleges that, from mid-2003 through 2007, eleven defendants violated the antitrust laws by allegedly conspiring to rig bids, restrict the supply of private equity financing, fix the prices for target companies at artificially low levels, and divide up an alleged market for private equity services for leveraged buyouts. After the conclusion of discovery, the plaintiffs filed an amended complaint in June 2012, in which the plaintiffs seek damages on behalf of public shareholders that tendered their shares in connection with 17 leveraged buyouts. The court has dismissed claims against Blackstone with respect to four of these transactions because Blackstone was released from any and all claims by the same shareholders in prior litigation. Defendants have filed motions for summary judgment. The court has not yet established a schedule for determining whether to certify the shareholder class proposed by plaintiffs.

In the spring of 2008, six substantially identical complaints were brought against Blackstone and some of its executive officers purporting to be class actions on behalf of purchasers of common units in Blackstone's June 2007 initial public offering. These suits were subsequently consolidated into one complaint (*Landmen Partners Inc. v. The Blackstone Group L.P., et al.*) filed in the United States District Court for the Southern District of New York in October 2008 against Blackstone, Stephen A. Schwarzman (Blackstone's Chairman and Chief Executive Officer), Peter G. Peterson (Blackstone's former Senior Chairman), Hamilton E. James (Blackstone's President and Chief Operating Officer) and Michael A. Puglisi (Blackstone's Chief Financial Officer at the time of the IPO). The amended complaint alleged that (1) the IPO prospectus was false and misleading for failing to disclose that (a) one private equity investment would be adversely affected by trends in mortgage default rates, particularly for sub-prime mortgage loans, (b) another private equity investment was adversely affected by the loss of an exclusive manufacturing agreement, and (c) prior to the IPO the U.S. real estate market had started to deteriorate, adversely affecting the value of Blackstone's real estate investments; and (2) the financial statements in the IPO prospectus were materially inaccurate principally because they overstated the value of the investments referred to in clause (1).

In September 2009 the District Court judge dismissed the complaint with prejudice, ruling that even if the allegations in the complaint were assumed to be true, the alleged omissions were immaterial. Analyzing both quantitative and qualitative factors, the District Court reasoned that the alleged omissions were immaterial as a matter of law given the size of the investments at issue relative to Blackstone as a whole, and taking into account Blackstone's structure as an asset manager and financial advisory firm.

In February 2011, a three-judge panel of the Second Circuit reversed the District Court's decision, ruling that the District Court incorrectly found that plaintiffs' allegations were, if true, immaterial as a matter of law. The Second Circuit disagreed with the District Court, concluding that the complaint plausibly alleged that the initial public offering documents omitted material information concerning two of Blackstone funds' individual investments and inadequately disclosed information relating to market risks to their real estate investments. Because this was a motion to dismiss, in reaching this decision the Second Circuit accepted all of the complaint's factual allegations as true and drew every reasonable inference in plaintiffs' favor. The Second Circuit did not consider facts other than those in the plaintiffs' complaint. On June 28, 2011, defendants filed a petition for writ

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of certiorari with the United States Supreme Court, which was subsequently denied. On August 8, 2011, defendants filed their answer to the complaint and discovery commenced and is continuing in this action.

In June 2011, three related suits (*Walker, Truesdell, Roth & Assocs. v. The Blackstone Group L.P., et al.*) were filed against Blackstone, various Blackstone entities including some of its private equity and real estate funds, and specified Blackstone personnel relating to the sale of Extended Stay Hotels in June 2007 by certain entities in which such Blackstone funds owned significant equity interests (the 2007 Sale). Other defendants in such suits include the buyer of Extended Stay, financial advisors to both the sellers and the buyer and specified lenders for the purchase of Extended Stay. Extended Stay subsequently filed for bankruptcy in 2009, at which time it was still owned by the buyer pursuant to the 2007 Sale. The suits, which are in the U.S. Bankruptcy Court for the Southern District of New York, were brought by a litigation trust for the benefit of creditors of Extended Stay and allege that Extended Stay was rendered insolvent by the 2007 Sale. One suit includes asserted claims of fraudulent conveyance and seeks to recover \$2.1 billion allegedly transferred to the sellers in the 2007 Sale. The other two suits contain the same allegations as the first suit, assert claims for breach of fiduciary duty, unjust enrichment, illegal distributions and other claims, and seek \$2.1 billion in compensatory damages and \$6.3 billion in punitive damages.

Blackstone believes that all of the foregoing suits are totally without merit and intends to defend them vigorously.

### **ITEM 1A. RISK FACTORS**

For a discussion of our potential risks and uncertainties, see the information under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011 and in our subsequently filed Quarterly Reports on Form 10-Q, all of which are accessible on the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov).

See Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations "Business Environment" in this report for a discussion of the conditions in the financial markets and economic conditions affecting our businesses. This discussion updates, and should be read together with, the risk factor entitled "Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments made by our investment funds, reducing the ability of our investment funds to raise or deploy capital and reducing the volume of the transactions involving our financial advisory business, each of which could materially reduce our revenue and cash flows and adversely affect our financial condition" in our Annual Report on Form 10-K for the year ended December 31, 2011.

The risks described in our Form 10-K and in our subsequently filed Quarterly Reports on Form 10-Q are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

In January 2008, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to \$500 million of Blackstone common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased in open market transactions, in privately negotiated transactions or otherwise. This unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date. During the three months ended September 30, 2012, no units were repurchased. As of September 30, 2012, the amount remaining available for repurchases was \$335.8 million under this program. See Part I. Item 1. Financial Statements "Notes to Condensed Consolidated Financial Statements" Note 13. Net Income (Loss) Per Common Unit and Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations "Liquidity and Capital Resources" "Our Sources of Cash and Liquidity Needs" for further information regarding this unit repurchase program.

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As permitted by our policies and procedures governing transactions in our securities by our directors, executive officers and other employees, from time to time some of these persons may establish plans or arrangements complying with Rule 10b5-1 under the Exchange Act, and similar plans and arrangements relating to our common units and Holdings units.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

### **ITEM 5. OTHER INFORMATION**

None.

### **ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
4.1	Third Supplemental Indenture dated as of August 17, 2012 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on August 17, 2012).
4.2	Form of 4.75% Senior Note due 2023 (included in Exhibit 4.1 hereto).
4.3	Fourth Supplemental Indenture dated as of August 17, 2012 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.4 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on August 17, 2012).
4.4	Form of 6.25% Senior Note due 2042 (included in Exhibit 4.3 hereto).
10.1	Limited Liability Company Agreement of Blackstone Innovations L.L.C., dated November 2, 2012+.
10.2	Amended and Restated Agreement of Exempted Limited Partnership of Blackstone Innovations (Cayman) III L.P., dated November 2, 2012+.
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.



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<b>Exhibit Number</b>	<b>Exhibit Description</b>
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

+ Management contract or compensating plan or arrangement in which director or executive officers are eligible to participate. The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 2, 2012

**The Blackstone Group L.P.**

By: Blackstone Group Management L.L.C.,  
its General Partner

**Name:** /s/ LAURENCE A. TOSI  
**Title:** **Laurence A. Tosi**  
**Chief Financial Officer**  
**(Principal Financial Officer and Authorized Signatory)**