

Blackstone Group L.P.  
Form 10-Q  
November 07, 2018  
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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, 2018**  
**OR**

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

**The Blackstone Group L.P.**

(Exact name of Registrant as specified in its charter)

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

**20-8875684**  
(I.R.S. Employer  
Identification No.)

**345 Park Avenue**

**New York, New York 10154**

(Address of principal executive offices)(Zip Code)

**(212) 583-5000**

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(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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 November 1, 2018 was 662,286,997.

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### **Forward-Looking Statements**

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to, among other things, our operations, financial performance and unit repurchases and distribution activities. You can identify these forward-looking statements by the use of words such as outlook, indicator, believes, expects, potential, continues, may, will, should, seeks, approximately, predicts, intends, plans, estimates, version of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2017 and in this report, as such factors may be updated from time to time in our periodic filings with the United States Securities and Exchange Commission (SEC), which are accessible on the SEC's website at [www.sec.gov](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.

### **Website and Social Media Disclosure**

We use our website ([www.blackstone.com](http://www.blackstone.com)), Facebook page ([www.facebook.com/blackstone](http://www.facebook.com/blackstone)), Twitter ([www.twitter.com/blackstone](http://www.twitter.com/blackstone)), LinkedIn ([www.linkedin.com/company/blackstonegroup](http://www.linkedin.com/company/blackstonegroup)), Instagram ([www.instagram.com/blackstone](http://www.instagram.com/blackstone)), SoundCloud ([www.soundcloud.com/blackstone-300250613](http://www.soundcloud.com/blackstone-300250613)), PodBean ([www.blackstone.podbean.com](http://www.blackstone.podbean.com)), Spotify (<https://open.spotify.com/show/1PqaIgd12KgRN8rlijBhE7>) and YouTube ([www.youtube.com/user/blackstonegroup](http://www.youtube.com/user/blackstonegroup)) accounts as channels of distribution of company information. The information we post through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following our press releases, SEC filings and public conference calls and webcasts. In addition, you may automatically receive e-mail alerts and other information about Blackstone when you enroll your e-mail address by visiting the Contact Us/Email Alerts section of our website at <http://ir.blackstone.com>. The contents of our website, any alerts and social media channels are not, however, a part of this report.

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

Blackstone Funds, our funds and our investment funds refer to the private equity funds, real estate funds, funds of hedge funds, credit-focused funds, collateralized loan obligation (CLO), real estate investment trusts and registered investment companies that are managed by Blackstone.

Our carry funds refers to the private equity funds, real estate funds and certain of the hedge fund solutions and credit-focused funds (with multi-year drawdown, commitment-based structures that only pay carry on the realization of an investment) that are managed by Blackstone. We refer to our general corporate private equity funds as Blackstone Capital Partners (BCP) funds, our energy-focused private equity funds as Blackstone Energy Partners (BEP) funds, our core private equity fund as Blackstone Core Equity Partners (BCEP), our opportunistic investment platform that invests globally across asset classes, industries and geographies as Blackstone Tactical Opportunities (Tactical Opportunities), our secondary private equity fund of funds business as Strategic Partners Fund Solutions (Strategic Partners), our infrastructure-focused funds as Blackstone Infrastructure Partners (BIP), our multi-asset investment program for eligible high net worth investors offering exposure to certain of our key illiquid investment strategies through a single commitment as Blackstone Total Alternatives Solution (BTAS) and our capital markets services business as Blackstone Capital Markets (BXXM). We refer to our real estate opportunistic funds as Blackstone Real Estate

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Partners ( BREP ) funds and our real estate debt investment funds as Blackstone Real Estate Debt Strategies ( BREDS ) funds. We refer to our core+ real estate funds, which target substantially stabilized assets in prime markets, as Blackstone Property Partners ( BPP ) funds. We refer to our real estate investment trusts as REITs , to Blackstone Mortgage Trust, Inc., our NYSE-listed REIT, as BXMT , and to Blackstone Real Estate Income Trust, Inc., our non-exchange traded REIT, as BREIT . Our hedge funds refers to our funds of hedge funds, certain of our real estate debt investment funds, including a registered investment company, and certain other credit-focused funds which are managed by Blackstone. BIS refers to Blackstone Insurance Solutions, which partners with insurers to deliver bespoke, capital-efficient investments tailored to each insurer s needs and risk profile.

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 (1) the capital that we are entitled to call from investors in those funds and entities pursuant to the terms of their respective capital commitments, including capital commitments to funds that have yet to commence their investment periods, or (2) for certain credit-oriented funds the amounts available to be borrowed under asset based credit facilities,
- (b) the net asset value of (1) our hedge funds, real estate debt carry funds, open ended core+ real estate fund, certain co-investments managed by us, and our Hedge Fund Solutions carry and drawdown funds (plus, in each case, the capital that we are entitled to call from investors in those funds, including commitments yet to commence their investment periods), and (2) our funds of hedge funds, our Hedge Fund Solutions registered investment companies, and our non-exchange traded REIT,
- (c) the invested capital, fair value or net asset value of assets we manage pursuant to separately managed accounts,
- (d) the amount of debt and equity outstanding for our CLOs during the reinvestment period,
- (e) the aggregate par amount of collateral assets, including principal cash, for our CLOs after the reinvestment period,
- (f) the gross or net amount of assets (including leverage where applicable) for our credit-focused registered investment companies, and
- (g) the fair value of common stock, preferred stock, convertible debt, or similar instruments issued by BXMT.

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, hedge funds, funds structured like hedge funds and other open ended funds in our Hedge Fund Solutions, Credit and Real Estate segments generally have structures that afford an investor the right to withdraw or redeem their interests on a periodic basis (for example, annually or quarterly), typically with 30 to 95 days notice, depending on the fund and the liquidity profile of the underlying assets. Investment advisory agreements related to certain separately managed accounts in our Hedge Fund Solutions and Credit segments, excluding our BIS 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 fees and/or performance revenues. Our Fee-Earning Assets Under Management equals the sum of:

- (a) for our Private Equity segment funds and Real Estate segment carry funds including certain real estate debt investment funds and certain of our Hedge Fund Solutions funds, the amount of capital commitments, remaining invested capital, fair value, net asset value or par value of assets held, depending on the fee terms of the fund,

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

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- (c) the remaining invested capital or fair value of assets held in co-investment vehicles managed by us on which we receive fees,
- (d) the net asset value of our funds of hedge funds, hedge funds, open ended core+ real estate fund, certain co-investments managed by us, certain registered investment companies, our non-exchange traded REIT, and certain of our Hedge Fund Solutions drawdown funds,
- (e) the invested capital, fair value of assets or the net asset value we manage pursuant to separately managed accounts,
- (f) the net proceeds received from equity offerings and accumulated core earnings of BXMT, subject to certain adjustments,
- (g) the aggregate par amount of collateral assets, including principal cash, of our CLOs, and
- (h) the gross amount of assets (including leverage) or the net assets (plus leverage where applicable) for certain of our credit-focused registered investment companies.

Each of our segments may include certain Fee-Earning Assets Under Management on which we earn performance revenues but not management fees.

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 and fee-earning assets under management are not based on any definition of assets under management and 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, the remaining amount of invested capital at cost depending on whether the investment period has or has not expired or the fee terms of the fund. As such, fee-earning assets under management may be greater than total assets under management when the aggregate fair value of the remaining investments is less than the cost of those investments.

Perpetual Capital refers to the component of assets under management with an indefinite term, that is not in liquidation, and for which there is no requirement to return capital to investors through redemption requests in the ordinary course of business, except where funded by new capital inflows. Perpetual Capital includes co-investment capital with an investor right to convert into Perpetual Capital.

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, 2018</b>	<b>December 31, 2017</b>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 1,937,963	\$ 1,992,497
Cash Held by Blackstone Funds and Other	408,561	1,929,531
Investments (including assets pledged of \$231,620 and \$169,746 at September 30, 2018 and December 31, 2017, respectively)	22,094,920	24,434,049
Accounts Receivable	875,647	875,018
Due from Affiliates	2,017,637	2,028,137
Intangible Assets, Net	366,368	409,828
Goodwill	1,778,192	1,778,192
Other Assets	269,470	242,697
Deferred Tax Assets	711,599	725,970
<b>Total Assets</b>	<b>\$ 30,460,357</b>	<b>\$ 34,415,919</b>
<b>Liabilities and Partners' Capital</b>		
Loans Payable	\$ 10,161,886	\$ 14,815,436
Due to Affiliates	981,980	937,158
Accrued Compensation and Benefits	3,414,215	2,623,492
Securities Sold, Not Yet Purchased	166,309	154,380
Repurchase Agreements	199,488	118,840
Accounts Payable, Accrued Expenses and Other Liabilities	829,496	2,043,522
<b>Total Liabilities</b>	<b>15,753,374</b>	<b>20,692,828</b>
<b>Commitments and Contingencies</b>		
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<b>153,504</b>	<b>210,944</b>
<b>Partners' Capital</b>		
The Blackstone Group L.P. Partners' Capital		
Partners' Capital (common units: 669,411,215 issued and outstanding as of September 30, 2018; 659,526,093 issued and outstanding as of December 31, 2017)	7,024,079	6,668,511
Accumulated Other Comprehensive Loss	(36,562)	(34,018)
<b>Total The Blackstone Group L.P. Partners' Capital</b>	<b>6,987,517</b>	<b>6,634,493</b>
<b>Non-Controlling Interests in Consolidated Entities</b>	<b>3,673,135</b>	<b>3,253,148</b>
<b>Non-Controlling Interests in Blackstone Holdings</b>	<b>3,892,827</b>	<b>3,624,506</b>
<b>Total Partners' Capital</b>	<b>14,553,479</b>	<b>13,512,147</b>



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<b>Total Liabilities and Partners' Capital</b>	\$ 30,460,357	\$ 34,415,919
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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, 2018</b>	<b>December 31, 2017</b>
<b>Assets</b>		
Cash Held by Blackstone Funds	\$ 408,278	\$ 1,580,296
Investments	8,493,379	12,948,653
Accounts Receivable	273,966	470,156
Due from Affiliates	8,780	46,112
Other Assets	5,549	5,189
<b>Total Assets</b>	<b>\$ 9,189,952</b>	<b>\$ 15,050,406</b>
<b>Liabilities</b>		
Loans Payable	\$ 6,679,598	\$ 11,300,621
Due to Affiliates	122,836	86,393
Securities Sold, Not Yet Purchased	118,205	89,907
Repurchase Agreements	199,488	118,840
Accounts Payable, Accrued Expenses and Other Liabilities	265,397	1,562,534
<b>Total Liabilities</b>	<b>\$ 7,385,524</b>	<b>\$ 13,158,295</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)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Revenues</b>				
Management and Advisory Fees, Net	\$ 780,009	\$ 685,922	\$ 2,230,242	\$ 2,022,263
Incentive Fees	9,799	35,513	41,743	122,327
Investment Income				
Performance Allocations				
Realized	592,103	434,982	1,365,119	2,149,549
Unrealized	299,238	406,649	1,367,678	377,560
Principal Investments				
Realized	134,619	74,805	305,961	451,207
Unrealized	52,840	96,085	268,082	63,172
Total Investment Income	1,078,800	1,012,521	3,306,840	3,041,488
Interest and Dividend Revenue	48,604	36,974	124,062	99,172
Other	9,368	(35,572)	625,394	(99,448)
<b>Total Revenues</b>	<b>1,926,580</b>	<b>1,735,358</b>	<b>6,328,281</b>	<b>5,185,802</b>
<b>Expenses</b>				
Compensation and Benefits				
Compensation	419,285	359,209	1,236,167	1,078,001
Incentive Fee Compensation	7,251	18,332	23,656	61,829
Performance Allocations Compensation				
Realized	200,442	162,505	498,902	724,721
Unrealized	178,184	175,534	622,610	269,977
Total Compensation and Benefits	805,162	715,580	2,381,335	2,134,528
General, Administrative and Other	168,813	121,036	441,354	349,974
Interest Expense	41,355	41,545	119,346	122,880
Fund Expenses	2,302	26,350	74,909	100,095
<b>Total Expenses</b>	<b>1,017,632</b>	<b>904,511</b>	<b>3,016,944</b>	<b>2,707,477</b>
<b>Other Income</b>				
Net Gains from Fund Investment Activities	66,838	63,448	250,956	239,634
<b>Income Before Provision for Taxes</b>	<b>975,786</b>	<b>894,295</b>	<b>3,562,293</b>	<b>2,717,959</b>
<b>Provision for Taxes</b>	<b>26,798</b>	<b>59,512</b>	<b>220,024</b>	<b>146,557</b>
<b>Net Income</b>	<b>948,988</b>	<b>834,783</b>	<b>3,342,269</b>	<b>2,571,402</b>
<b>Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	<b>2,569</b>	<b>3,215</b>	<b>2,199</b>	<b>6,206</b>

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<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities</b>	143,101	113,446	427,678	365,075
<b>Net Income Attributable to Non-Controlling Interests in Blackstone Holdings</b>	360,576	340,202	1,359,736	1,032,885
<b>Net Income Attributable to The Blackstone Group L.P.</b>	\$ 442,742	\$ 377,920	\$ 1,552,656	\$ 1,167,236
<b>Net Income Per Common Unit</b>				
Common Units, Basic	\$ 0.65	\$ 0.57	\$ 2.28	\$ 1.76
Common Units, Diluted	\$ 0.64	\$ 0.55	\$ 2.27	\$ 1.73
<b>Weighted-Average Common Units Outstanding</b>				
Common Units, Basic	682,435,177	667,384,727	679,598,629	664,331,632
Common Units, Diluted	1,205,877,983	1,200,502,292	1,209,113,244	1,200,092,676

See notes to condensed consolidated financial statements.

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### THE BLACKSTONE GROUP L.P.

#### Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net Income	\$ 948,988	\$ 834,783	\$ 3,342,269	\$ 2,571,402
Other Comprehensive Income (Loss), Net of Tax    Currency Translation Adjustment	(7,412)	26,761	(33,660)	73,354
Comprehensive Income	941,576	861,544	3,308,609	2,644,756
Less:				
Comprehensive Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	2,569	3,215	2,199	6,206
Comprehensive Income Attributable to Non-Controlling Interests in Consolidated Entities	143,101	127,149	425,288	409,963
Comprehensive Income Attributable to Non-Controlling Interests in Blackstone Holdings	331,850	340,202	1,331,010	1,032,885
Comprehensive Income Attributable to The Blackstone Group L.P.	\$ 464,056	\$ 390,978	\$ 1,550,112	\$ 1,195,702

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.							
			Accumulated					Redeemable
	Common	Partners	Other	Total	Non-	Non-	Total	Non-
	Units	Capital	Compre-		Controlling	Controlling	Partners	Controlling
			hensive		Interests in	Interests in	Capital	Interests in
			Income		Consolidated	Blackstone		Consolidated
			(Loss)		Entities	Holdings		Entities
<b>Balance at June 30, 2018</b>	673,544,082	\$ 7,105,225	\$ (57,876)	\$ 7,047,349	\$ 3,492,621	\$ 3,936,827	\$ 14,476,797	\$ 158,799
Net Income		442,742		442,742	143,101	360,576	946,419	2,569
Currency Translation Adjustment			21,314	21,314		(28,726)	(7,412)	
Capital Contributions					193,213		193,213	1,880
Capital Distributions		(395,718)		(395,718)	(154,468)	(377,751)	(927,937)	(9,744)
Transfer of Non-Controlling Interests in Consolidated Entities					(1,332)		(1,332)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		1,221		1,221			1,221	
Equity-Based Compensation		54,245		54,245		42,775	97,020	
Net Delivery of Vested Blackstone Holdings Partnership Units and Blackstone Common Units	1,003,987	(3,389)		(3,389)		(2,740)	(6,129)	
Repurchase of Common Units and Blackstone Holdings Partnership Units	(6,000,000)	(218,381)		(218,381)			(218,381)	
Change in The Blackstone Group L.P.'s Ownership Interest		31,601		31,601		(31,601)		
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	863,146	6,533		6,533		(6,533)		
<b>Balance at September 30, 2018</b>	669,411,215	\$ 7,024,079	\$ (36,562)	\$ 6,987,517	\$ 3,673,135	\$ 3,892,827	\$ 14,553,479	\$ 153,504

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.							
			Accumulated					
	Common	Partners	Other	Total	Non-	Non-	Total	Redeemable
	Units	Capital	Compre-		Controlling	Controlling	Partners	Non-
			hensive		Interests in	Interests in	Capital	Controlling
			Income		Consolidated	Blackstone		Interests in
			(Loss)		Entities	Holdings		Consolidated
								Entities
<b>Balance at June 30, 2017</b>	653,801,394	\$ 6,540,478	\$ (47,479)	\$ 6,492,999	\$ 3,123,171	\$ 3,414,840	\$ 13,031,010	\$ 190,700
Net Income		377,920		377,920	113,446	340,202	831,568	3,215
Currency Translation Adjustment			13,058	13,058	13,703		26,761	
Capital Contributions					131,693		131,693	8,940
Capital Distributions		(358,828)		(358,828)	(203,927)	(314,155)	(876,910)	(1,478)
Transfer of Non-Controlling Interests in Consolidated Entities					(3,406)		(3,406)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		706		706			706	
Equity-Based Compensation		47,328		47,328		39,548	86,876	
Net Delivery of Vested Blackstone Holdings Partnership Units and Blackstone Common Units	3,209,675	(14,598)		(14,598)		(915)	(15,513)	
Change in The Blackstone Group L.P.'s Ownership Interest		(1,029)		(1,029)		1,029		
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	626,464	4,053		4,053		(4,053)		
<b>Balance at September 30, 2017</b>	657,637,533	\$ 6,596,030	\$ (34,421)	\$ 6,561,609	\$ 3,174,680	\$ 3,476,496	\$ 13,212,785	\$ 201,377

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	Accumulated Other Compre- hensive Income (Loss)	Total	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, 2017</b>	659,526,093	\$ 6,668,511	\$ (34,018)	\$ 6,634,493	\$ 3,253,148	\$ 3,624,506	\$ 13,512,147	\$ 210,944
Transfer Out Due to Deconsolidation of Fund Entities					(197,091)		(197,091)	
Net Income		1,552,656		1,552,656	427,678	1,359,736	3,340,070	2,199
Currency Translation Adjustment			(2,544)	(2,544)	(2,390)	(28,726)	(33,660)	
Capital Contributions					617,345		617,345	2,980
Capital Distributions		(1,202,488)		(1,202,488)	(446,431)	(1,060,315)	(2,709,234)	(62,619)
Transfer of Non-Controlling Interests in Consolidated Entities					20,876		20,876	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		12,143		12,143			12,143	
Equity-Based Compensation		154,764		154,764		122,675	277,439	
Net Delivery of Vested Blackstone Holdings Partnership Units and Blackstone Common Units	4,036,359	(17,885)		(17,885)		(3,575)	(21,460)	
Repurchase of Common Units and Blackstone Holdings Partnership Units	(8,200,000)	(290,066)		(290,066)			(290,066)	
Change in The Blackstone Group L.P.'s Ownership Interest		32,436		32,436		(32,436)		
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	13,298,024	89,038		89,038		(89,038)		
Issuance of Common Units	750,739	24,970		24,970			24,970	
<b>Balance at September 30, 2018</b>	669,411,215	\$ 7,024,079	\$ (36,562)	\$ 6,987,517	\$ 3,673,135	\$ 3,892,827	\$ 14,553,479	\$ 153,504

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	Accumulated Other Compre- hensive Income (Loss)	Total	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, 2016</b>	643,459,542	\$ 6,521,531	\$ (62,887)	\$ 6,458,644	\$ 2,428,964	\$ 3,434,483	\$ 12,322,091	\$ 185,390
Net Income		1,167,236		1,167,236	365,075	1,032,885	2,565,196	6,206
Currency Translation Adjustment			28,466	28,466	44,888		73,354	
Consolidation of a Fund Entity					387,006		387,006	
Capital Contributions					507,001		507,001	30,294
Capital Distributions		(1,241,717)		(1,241,717)	(552,440)	(1,068,553)	(2,862,710)	(20,513)
Transfer of Non-Controlling Interests in Consolidated Entities					(5,814)		(5,814)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		7,992		7,992			7,992	
Equity-Based Compensation		135,292		135,292		112,109	247,401	
Net Delivery of Vested Blackstone Holdings Partnership Units and Blackstone Common Units	6,985,219	(27,027)		(27,027)		(1,705)	(28,732)	
Change in The Blackstone Group L.P.'s Ownership Interest		(14,850)		(14,850)		14,850		
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	7,192,772	47,573		47,573		(47,573)		
<b>Balance at September 30, 2017</b>	657,637,533	\$ 6,596,030	\$ (34,421)	\$ 6,561,609	\$ 3,174,680	\$ 3,476,496	\$ 13,212,785	\$ 201,377

See notes to condensed consolidated financial statements.

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### THE BLACKSTONE GROUP L.P.

#### Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

	Nine Months Ended September 30,	
	2018	2017
<b>Operating Activities</b>		
Net Income	\$ 3,342,269	\$ 2,571,402
Adjustments to Reconcile Net Income to Net Cash Used in Operating Activities		
Blackstone Funds Related		
Net Realized Gains on Investments	(1,740,100)	(2,833,208)
Changes in Unrealized Gains on Investments	(343,488)	(71,122)
Non-Cash Performance Allocations	(1,367,678)	(377,560)
Non-Cash Performance Allocations and Incentive Fee Compensation	1,137,152	1,056,527
Equity-Based Compensation Expense	282,733	262,773
Amortization of Intangibles	43,460	32,891
Other Non-Cash Amounts Included in Net Income	110,103	210,644
Cash Flows Due to Changes in Operating Assets and Liabilities		
Cash Acquired with Consolidation of Fund Entity	31,422	13,822
Cash Relinquished with Deconsolidation of Fund Entities	(899,959)	(33,566)
Accounts Receivable	(118,225)	141,312
Reverse Repurchase Agreements		118,495
Due from Affiliates	(343,696)	(386,037)
Other Assets	(53,689)	237
Accrued Compensation and Benefits	(345,264)	(594,610)
Securities Sold, Not Yet Purchased	15,893	(112,921)
Accounts Payable, Accrued Expenses and Other Liabilities	(293,314)	(735,996)
Repurchase Agreements	80,647	(597)
Due to Affiliates	44,987	(15,433)
Investments Purchased	(11,609,707)	(12,853,487)
Cash Proceeds from Sale of Investments	10,686,644	12,375,565
Net Cash Used in Operating Activities	(1,339,810)	(1,230,869)
<b>Investing Activities</b>		
Purchase of Furniture, Equipment and Leasehold Improvements	(8,760)	(20,405)
Net Cash Used in Investing Activities	(8,760)	(20,405)

continued

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,	
	2018	2017
<b>Financing Activities</b>		
Distributions to Non-Controlling Interest Holders in Consolidated Entities	\$ (503,060)	\$ (535,072)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	615,561	528,175
Payments Under Tax Receivable Agreement		(59,667)
Net Settlement of Vested Common Units and Repurchase of Common and Blackstone Holdings Partnership Units	(311,526)	(28,732)
Proceeds from Loans Payable	3,218,399	3,846,577
Repayment and Repurchase of Loans Payable	(1,007,479)	(166,920)
Distributions to Unitholders	(2,262,803)	(2,310,270)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>(250,908)</b>	<b>1,274,091</b>
Effect of Exchange Rate Changes on Cash and Cash Equivalents, Cash Held by Blackstone Funds and Other, and Restricted Cash	9,513	105,716
<b>Cash and Cash Equivalents, Cash Held by Blackstone Funds and Other, and Restricted Cash</b>		
Net Increase (Decrease)	(1,589,965)	128,533
Beginning of Period	3,936,489	2,860,955
<b>End of Period</b>	<b>\$ 2,346,524</b>	<b>\$ 2,989,488</b>
<b>Supplemental Disclosure of Cash Flows Information</b>		
Payments for Interest	\$ 126,963	\$ 133,535
Payments for Income Taxes	\$ 136,686	\$ 77,059
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities</b>		
Non-Cash Contributions from Non-Controlling Interest Holders	\$	\$ 1,746
Non-Cash Distributions to Non-Controlling Interest Holders	\$ (5,924)	\$ (37,881)
Net Assets Related to the Consolidation of a Fund Entity	\$	\$ 387,006
Transfer of Interests to Non-Controlling Interest Holders	\$ 20,876	\$ (5,814)
Change in The Blackstone Group L.P.'s Ownership Interest	\$ 32,436	\$ (14,850)
Net Settlement of Vested Common Units	\$ 131,857	\$ 122,590
Conversion of Blackstone Holdings Units to Common Units	\$ 89,038	\$ 47,573
Acquisition of Ownership Interests from Non-Controlling Interest Holders		
Deferred Tax Asset	\$ (80,942)	\$ (53,151)

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Due to Affiliates	\$ 68,799	\$ 45,159
Partners Capital	\$ 12,143	\$ 7,992
Issuance of Common Units	\$ 24,970	\$

continued

See notes to condensed consolidated financial statements.

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**THE BLACKSTONE GROUP L.P.**

**Condensed Consolidated Statements of Cash Flows (Unaudited)**

**(Dollars in Thousands)**

The following table provides a reconciliation of Cash and Cash Equivalents, Cash Held by Blackstone Funds and Other, and Restricted Cash reported within the Condensed Consolidated Statements of Financial Condition:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Cash and Cash Equivalents	\$ 1,937,963	\$ 1,992,497
Cash Held by Blackstone Funds and Other	408,561	1,929,531
Restricted Cash included in Other Assets		14,461
	<b>\$ 2,346,524</b>	<b>\$ 3,936,489</b>

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. The alternative asset management business includes the management of private equity funds, real estate funds, real estate investment trusts ( REITs ), funds of hedge funds, hedge funds, credit-focused funds, collateralized loan obligation ( CLO ) vehicles, separately managed accounts and registered investment companies (collectively referred to as the Blackstone Funds ). Blackstone s business is organized into four segments: private equity, real estate, hedge fund solutions and credit.

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 by Blackstone s senior managing directors and controlled by one of Blackstone s founders, Stephen A. Schwarzman (the Founder ). The activities of the Partnership are conducted through its holding partnerships: Blackstone Holdings I L.P., Blackstone Holdings AI 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 ). The Partnership, through its wholly owned subsidiaries, is the sole general partner in each of these Holding Partnerships.

Generally, holders of the limited partner interests in the Holding Partnerships may, 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 from each of the 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 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, 2017 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.

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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)**

**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 has a controlling financial interest. The Partnership has a controlling financial interest in Blackstone Holdings because 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 control held 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.

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 determine (a) 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 (for example, management and performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment.

The Partnership determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a variable interest entity and continuously reconsiders that conclusion. In determining whether the Partnership is the primary beneficiary, Blackstone evaluates its control rights as well as economic interests in the entity held either directly or indirectly by the Partnership. 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.

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

**Revenue Recognition**

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

Management and advisory fees and incentive fees are accounted for as contracts with customers. Under the guidance for contracts with customers, an entity is required to (a) identify the contract(s) with a customer, (b) identify the performance obligations in the contract, (c) determine the transaction price, (d) allocate the transaction price to the performance obligations in the contract, and (e) recognize revenue when (or as) the entity satisfies a performance obligation. In determining the transaction price, an entity may include variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized would not occur when the uncertainty associated with the variable consideration is resolved. See Note 18. Segment Reporting for a disaggregated presentation of revenues from contracts with customers.

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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)**

Investment Income represents the unrealized and realized gains and losses on the Partnership's Performance Allocations and Principal Investments. Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by the Partnership. Other Revenue consists of miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

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

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. These customer contracts require the Partnership to provide investment management services, which represents a performance obligation that the Partnership satisfies over time. Management fees are a form of variable consideration because the fees the Partnership is entitled to vary based on fluctuations in the basis for the management fee. The amount recorded as revenue is generally determined at the end of the period because these management fees are payable on a regular basis (typically quarterly) and are not subject to clawback once paid.

Transaction, advisory and other fees (including monitoring fees) are principally fees charged to the limited partners of funds indirectly through the managed 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 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. These fees and associated management fee reductions are a component of the transaction price for the Partnership's performance obligation to provide investment management services to the limited partners of funds and are recognized as changes to the transaction price in the period in which they are charged and the services are performed.

Management fee offsets are reductions to management fees payable by the limited partners of the Blackstone Funds, which are based on the amount such limited partners reimburse the Blackstone Funds or the Partnership primarily for placement fees. Providing investment management services requires the Partnership to arrange for services on behalf of its customers. In those situations where the Partnership is acting as an agent on behalf of the limited partners of funds, it presents the cost of services as net against management fee revenue. In all other situations, the Partnership is primarily responsible for fulfilling the services and is therefore acting as a principal for those arrangements. As a result, the cost of those services is presented gross as Compensation or General, Administrative and Other expense, as appropriate, with any reimbursement from the limited partners of the funds recorded as Management and Advisory Fees, Net.

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.

*Incentive Fees* Contractual fees earned based on the performance of Blackstone Funds ( Incentive Fees ) are a form of variable consideration in Blackstone's contracts with customers to provide investment management services. Incentive Fees are earned 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 fund's governing agreements. Incentive Fees will not be recognized as revenue until (a) it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur, or (b) the uncertainty associated with the



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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)**

variable consideration is subsequently resolved. Incentive Fees are typically recognized as revenue when realized at the end of the measurement period. Once realized, such fees are not subject to clawback or reversal. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone Funds as of the reporting date are recorded within Due from Affiliates in the Condensed Consolidated Statements of Financial Condition.

*Investment Income (Loss)* Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership's Performance Allocations and Principal Investments.

In certain fund structures across private equity, real estate, hedge fund solutions and credit-focused funds ( "carry funds" ), Blackstone, through its subsidiaries, invests alongside its limited partners in a partnership and is entitled to its pro-rata share of the results of the fund (a "pro-rata allocation" ). In addition to a pro-rata allocation, and assuming certain investment returns are achieved, Blackstone is entitled to a disproportionate allocation of the income otherwise allocable to the limited partners, commonly referred to as carried interest ( "Performance Allocations" ).

Performance Allocations are made 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 balance of accrued Performance Allocations ( "Accrued Performance Allocations" ) 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 Accrued Performance Allocations to reflect either (a) positive performance resulting in an increase in the Accrued Performance Allocation 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 the Accrued Performance Allocation to the general partner. In each scenario, it is necessary to calculate the Accrued Performance Allocation on cumulative results compared to the Accrued Performance Allocation recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Performance Allocations once previously Accrued Performance Allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Performance Allocations over the life of a fund. Accrued Performance Allocations as of the reporting date are reflected in Investments in the Condensed Consolidated Statements of Financial Condition.

Performance Allocations are realized when an underlying investment is profitably disposed of and the fund's cumulative returns are in excess of the preferred return or, in limited instances, after certain thresholds for return of capital are met. Performance Allocations are subject to clawback to the extent that the Performance Allocation received to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received Performance Allocations, 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 carry 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. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain funds, including certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

Principal Investments include the unrealized and realized gains and losses on the Partnership's principal investments, including its investments in Blackstone Funds that are not consolidated and receive pro-rata allocations, its equity method investments, and other principal investments. Income (Loss) on Principal Investments

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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)**

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. Unrealized Income (Loss) on Principal Investments 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 miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

**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 types 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, including corporate bonds and loans held within CLO vehicles, government and agency securities, less liquid and restricted equity securities, and certain over-the-counter derivatives where the fair value is based on observable inputs. Senior and subordinated notes issued by CLO vehicles are classified within Level II of the fair value hierarchy.

**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-focused funds, distressed debt and non-investment grade residual interests in securitizations, certain corporate bonds and loans held within CLO vehicles, and certain over-the-counter derivatives where the fair value is based on unobservable inputs.

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



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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)**

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.

***Level II Valuation Techniques***

Financial instruments classified within Level II of the fair value hierarchy comprise debt instruments, including certain corporate loans and bonds held by Blackstone's consolidated CLO vehicles and debt securities sold, not yet purchased. 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.

Freestanding Derivatives are valued using contractual cash flows and observable inputs comprising yield curves, foreign currency rates and credit spreads.

Senior and subordinate notes issued by CLO vehicles are classified based on the more observable fair value of CLO assets less (a) the fair value of any beneficial interests held by Blackstone, and (b) the carrying value of any beneficial interests that represent compensation for services.

***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-focused 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 based on unaudited information at the time received. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (for example, 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. Where a discounted cash flow method is used, a terminal value is derived by reference to EBITDA or price/earnings exit multiples.



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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)**

***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 (for example, 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. Where a discounted cash flow method is used, a terminal value is derived by reference to an exit EBITDA multiple or capitalization rate. Additionally, where applicable, projected distributable cash flow through debt maturity will be considered in support of the investment's fair value.

***Credit-Focused Investments*** The fair values of credit-focused investments are generally determined on the basis of prices between market participants provided by reputable dealers or pricing services. For credit-focused investments that are not publicly traded or whose market prices are not readily available, Blackstone may utilize other valuation techniques, including the discounted cash flow method or a market approach. The discounted cash flow method projects the expected cash flows of the debt instrument based on contractual terms, and discounts such cash flows back to the valuation date using a market-based yield. The market-based yield is estimated using yields of publicly traded debt instruments issued by companies operating in similar industries as the subject investment, with similar leverage statistics and time to maturity.

The market approach is generally used to determine the enterprise value of the issuer of a credit investment, and considers valuation multiples of comparable companies or transactions. The resulting enterprise value will dictate whether or not such credit investment has adequate enterprise value coverage. In cases of distressed credit instruments, the market approach may be used to estimate a recovery value in the event of a restructuring.

#### **Investments, at Fair Value**

The Blackstone Funds are accounted for as investment companies under the American Institute of Certified Public Accountants Accounting and Auditing Guide, *Investment Companies*, and reflect their investments, including majority-owned and controlled investments (the Portfolio Companies ), at fair value. 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, at current market conditions (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 securities that otherwise would not have been carried at fair value with gains and losses recorded in net income. The methodology for measuring the fair value of such investments is consistent with the methodology applied to private equity, real estate, credit-focused and funds of hedge funds investments. Changes in the fair value of such instruments are recognized in Investment

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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.

The Partnership has elected the fair value option for the assets of consolidated CLO vehicles. As permitted under GAAP, the Partnership measures the liabilities of consolidated CLO vehicles as (a) the sum of the fair value of the consolidated CLO assets and the carrying value of any non-financial assets held temporarily, less (b) the sum of the fair value of any beneficial interests retained by the Partnership (other than those that represent compensation for services) and the Partnership's carrying value of any beneficial interests that represent compensation for services. As a result of this measurement alternative, there is no attribution of amounts to Non-Controlling Interests for consolidated CLO vehicles. 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. Changes in the fair value of consolidated CLO assets and liabilities and related interest, dividend and other income are presented within Net Gains from Fund Investment Activities. Expenses of consolidated CLO vehicles are presented in Fund Expenses.

The Partnership has elected the fair value option for certain proprietary investments that would otherwise have been accounted for using the equity method of accounting. The fair value of such investments is based on quoted prices in an active market or using the discounted cash flow method. Changes in fair value are recognized in Investment Income (Loss) in the Condensed Consolidated Statements of Operations.

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

The investments of consolidated Blackstone Funds in funds of hedge funds ( Investee Funds ) are valued at net asset value ( NAV ) per share of the Investee Fund. In limited circumstances, the Partnership may determine, based on its own due diligence and investment procedures, that NAV per share does not represent fair value. In such circumstances, the Partnership will estimate the fair value in good faith and in a manner that it reasonably chooses, in accordance with the requirements of GAAP.

Certain investments of Blackstone and of the consolidated Blackstone funds of hedge funds and credit-focused 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. 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 .

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

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

**Equity Method Investments**

Investments in which the Partnership is deemed to exert significant influence, but not control, are accounted for using the equity method of accounting except in cases where the fair value option has been elected. The Partnership has significant influence over all Blackstone Funds in which it invests but does not consolidate. Therefore, its investments in such Blackstone Funds, which include both a proportionate and disproportionate allocation of the profits and losses (as is the case with carry funds that include a Performance Allocation), are accounted for under the equity method. 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.

In cases where the Partnership's equity method investments provide for a disproportionate allocation of the profits and losses (as is the case with carry funds that include a Performance Allocation), the Partnership's share of earnings (losses) from equity method investments is determined using a balance sheet approach referred to as the hypothetical liquidation at book value (HLBV) method. Under the HLBV method, at the end of each reporting period the Partnership calculates the Accrued Performance Allocations 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 Accrued Performance Allocations to reflect either (a) positive performance resulting in an increase in the Accrued Performance Allocation 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 the Accrued Performance Allocation to the general partner. In each scenario, it is necessary to calculate the Accrued Performance Allocation on cumulative results compared to the Accrued Performance Allocation recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Performance Allocations once previously Accrued Performance Allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Performance Allocations over the life of a fund. The carrying amounts of equity method investments are reflected in Investments in the Condensed Consolidated Statements of Financial Condition.

**Compensation and Benefits**

*Compensation and Benefits Compensation* Compensation consists of (a) 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. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, and expensed over the vesting period on a straight-line basis, taking into consideration expected forfeitures, except in the case of (a) equity-based awards that do not require future service, which are expensed immediately, and (b) certain awards to recipients that meet criteria making them eligible for retirement (allowing such recipient to keep a percentage of those awards upon departure from Blackstone after becoming eligible for retirement), for which the expense for the portion of the award that would be retained in the event of retirement is either expensed immediately or amortized to the retirement date. Cash settled equity-based awards are classified as liabilities and are remeasured at the end of each reporting period.

*Compensation and Benefits Incentive Fee Compensation* Incentive Fee Compensation consists of compensation paid based on Incentive Fees.

*Compensation and Benefits Performance Allocations Compensation* Performance Allocation Compensation consists of compensation paid based on Performance Allocations (which may be distributed in cash



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or in-kind). Such compensation expense is subject to both positive and negative adjustments. Unlike Performance Allocations, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis. These amounts may also include allocations of investment income from Blackstone's principal investments, to senior managing directors and employees participating in certain profit sharing initiatives.

**Repurchase Agreements**

Securities sold under agreements to repurchase ( repurchase agreements ), comprised primarily of U.S. and non-U.S. government and agency securities are asset-backed securities and corporate debt and 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 carrying value of repurchase agreements approximates fair value.

The Partnership manages credit exposure arising from 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 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 in the Condensed Consolidated Statements of Financial Condition. Additional disclosures relating to repurchase agreements are discussed in Note 10. Repurchase Agreements .

Blackstone does not offset assets and liabilities relating to repurchase agreements in its Condensed Consolidated Statements of Financial Condition. Additional disclosures relating to offsetting are discussed in Note 11. Offsetting of Assets and Liabilities .

**Securities Sold, Not Yet Purchased**

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

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

**Derivative Instruments**

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

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

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. Gains or losses on a derivative instrument that is designated as, and is effective as, an economic hedge of a net investment in a foreign operation are reported in the cumulative translation adjustment section of other comprehensive income to the extent it is effective as a hedge. The ineffective portion of a net investment hedge is 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. For net investment hedges, the Partnership uses a method based on changes in spot rates to measure effectiveness. If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued. The Partnership may also at any time remove a designation of a fair value hedge. The fair values of hedging derivative instruments are 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 from Fund 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 of the consolidated Blackstone Funds are recorded within Investments, the fair value of freestanding derivative assets that are not part of the consolidated Blackstone Funds are recorded within Other Assets and the fair value of freestanding derivative liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Condensed Consolidated Statements of Financial Condition.

The Partnership has elected to not offset derivative assets and liabilities or financial assets in its Condensed Consolidated Statements of Financial Condition, including cash, that may be received or paid as part of collateral arrangements, even when an enforceable master netting agreement is in place that provides the Partnership, in the event of counterparty default, the right to liquidate collateral and the right to offset a counterparty's rights and obligations.

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

Blackstone's disclosures regarding offsetting are discussed in Note 11. Offsetting of Assets and Liabilities .

**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 declared.

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**Recent Accounting Developments**

In May 2014, the Financial Accounting Standards Board ( FASB ) issued amended guidance on revenue from contracts with customers. The new guidance was effective for Blackstone beginning January 1, 2018 and was adopted on a full retrospective basis. The guidance requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity is required to (a) identify the contract(s) with a customer, (b) identify the performance obligations in the contract, (c) determine the transaction price, (d) allocate the transaction price to the performance obligations in the contract, and (e) recognize revenue when (or as) the entity satisfies a performance obligation. In determining the transaction price, an entity may include variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized would not occur when the uncertainty associated with the variable consideration is resolved.

Blackstone has concluded that its Management and Advisory Fees and Incentive Fees are within the scope of the amended revenue recognition guidance. The adoption of the amended guidance did not have a material impact on the recognition of Management and Advisory Fees. For Incentive Fees, the amended guidance changes the presentation and delays the recognition of revenues compared to the prior accounting treatment. These amounts were previously recognized within Realized and Unrealized Performance Fees Incentive Fees in the Condensed Consolidated Statements of Operations. Under the amended guidance, these amounts will be recognized separately within Incentive Fees. Blackstone recorded a net reduction to Partners Capital of \$2.4 million and \$1.9 million as of December 31, 2016 and December 31, 2017, respectively, as a result of adopting the amended guidance. For the three months ended September 30, 2017, the impact on Total Revenues, Net Income Attributable to The Blackstone Group L.P., Net Income Per Common Unit Basic, and Net Income Per Common Unit Diluted was a reduction of \$11.4 million, \$6.7 million, \$0.01 per common unit, and \$0.01 per common unit, respectively. For the nine months ended September 30, 2017, the impact on Total Revenues, Net Income Attributable to The Blackstone Group L.P., Net Income Per Common Unit Basic, and Net Income Per Common Unit Diluted was a reduction of \$51.1 million, \$22.0 million, \$0.03 per common unit, and \$0.03 per common unit, respectively. Also, the reimbursement of certain costs incurred in the process of providing investment management services, primarily travel costs, that were previously presented net in the Condensed Consolidated Statements of Operations are presented gross under the amended guidance. For the three and nine months ended September 30, 2017, these costs were \$5.3 million and \$12.9 million, respectively, and are presented in General, Administrative and Other Expenses with the related reimbursement presented in Management and Advisory Fees, Net in the Condensed Consolidated Statements of Operations.

Blackstone has concluded that investments made alongside its limited partners in a partnership which entitle Blackstone to a pro-rata allocation and a disproportionate Performance Allocation represent equity method investments that are not in the scope of the amended revenue recognition guidance. Therefore, effective January 1, 2018, Blackstone amended the recognition and measurement of Performance Allocations. This accounting change will not change the timing or amount of revenue recognized related to Performance Allocation arrangements. These amounts were previously recognized within Realized and Unrealized Performance Fees Carried Interest and Incentive Fees in the Condensed Consolidated Statements of Operations. Under the equity method of accounting Blackstone recognizes Performance Allocations within Investment Income along with the allocations proportionate to Blackstone s ownership interests in the Blackstone Funds. Blackstone applied a retrospective application consistent with the requirements for presentation of a change in accounting principle.

In January 2016, the FASB issued amended guidance on the classification and measurement of financial instruments. The new guidance was effective for Blackstone beginning on January 1, 2018 and was adopted on a modified retrospective basis. However, changes to the accounting for equity securities without a readily

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determinable fair value were applied prospectively as permitted under the guidance. Adoption did not have a material impact on Blackstone's condensed consolidated financial statements.

In February 2016, the FASB issued amended guidance on the accounting for leases. The guidance requires the recognition of lease assets and lease liabilities for those leases classified as operating leases under previous GAAP. The guidance retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases under previous GAAP. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly from previous GAAP.

For operating leases, a lessee is required to do the following: (a) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the Statement of Financial Condition, (b) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis, and (c) classify all cash payments within operating activities in the statement of cash flows.

The guidance is effective for fiscal periods beginning after December 15, 2018. In July 2018, the FASB issued targeted improvements to the amended guidance, which included a new transition method allowing entities to initially apply the new leases standard at the adoption date (January 1, 2019 for Blackstone) and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Prior to that issuance, adoption was required on a modified retrospective basis. Blackstone expects to elect the new transition alternative upon adoption, and also expects to elect a package of practical expedients made available earlier by the FASB which result in no requirement to reassess (a) whether any expired or existing contracts are or contain leases, (b) the lease classification for any expired or existing leases or (c) the recognition requirements for initial direct costs for any existing leases. Blackstone is evaluating the impact of the amended guidance on the Condensed Consolidated Statement of Financial Condition, which is expected to result in recognition of an operating liability equal to the present value of the remaining lease payments on existing leases as of January 1, 2019 and a corresponding right-of-use asset. The amended guidance is not expected to have a material impact on the Condensed Consolidated Statements of Operations or the Condensed Consolidated Statements of Cash Flows.

In November 2016, the FASB issued amended guidance on classification and presentation of restricted cash on the statement of cash flows. The new guidance was effective for Blackstone beginning on January 1, 2018 and was adopted on a retrospective basis. Under the new guidance, reporting entities are required to explain the changes in the combined total of restricted and unrestricted balances in the statement of cash flows. Therefore, amounts generally described as restricted cash or restricted cash equivalents (hereinafter referred to as "restricted cash") should be combined with unrestricted cash and cash equivalents when reconciling the beginning and end of period balances on the statement of cash flows. Reporting entities are also required to disclose how the statement of cash flows reconciles to the balance sheet in any situation in which the balance sheet includes more than one line item of cash, cash equivalents, and restricted cash. For the nine months ended September 30, 2017 the new guidance resulted in a decrease in Net Cash Used in Operating Activities of \$573.4 million, an increase in Net Cash Used in Investing Activities of \$11.4 million, and an increase in Effect of Exchange Rate Changes on Cash and Cash Equivalents, Cash Held by Blackstone Funds, and Restricted Cash of \$88.1 million. Additionally, the new guidance increased the December 31, 2016 Beginning of Period and September 30, 2017 End of Period balances by \$1.0 billion and \$1.7 billion, respectively, in the Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2017.

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In August 2018, the FASB issued amended guidance on the disclosure requirements for fair value measurement. The amended guidance added, eliminated and modified disclosures for investments measured at fair value. The guidance is effective January 1, 2020. However, Blackstone has early adopted the amendments, as is permitted, for the period ended September 30, 2018. The impact of the amended guidance on Blackstone was the removal of the requirements to disclose (a) the amount and reasons for transfers between Level I and Level II investments of the fair value hierarchy, (b) the policy for timing of transfers between levels and (c) the valuation process for Level III fair value measurements. The amended guidance also required modification to Blackstone's disclosure to clarify that information regarding measurement uncertainty is provided as of the relevant reporting date. The requirements to provide additional disclosures did not impact Blackstone as those disclosures had already been provided in prior periods.

**3. INTANGIBLE ASSETS**

Intangible Assets, Net consists of the following:

	September 30, 2018	December 31, 2017
Finite-Lived Intangible Assets / Contractual Rights	\$ 1,594,876	\$ 1,594,876
Accumulated Amortization	(1,228,508)	(1,185,048)
<b>Intangible Assets, Net</b>	<b>\$ 366,368</b>	<b>\$ 409,828</b>

Amortization expense associated with Blackstone's intangible assets was \$14.5 million and \$43.5 million for the three and nine month periods ended September 30, 2018, respectively, and \$11.0 million and \$32.9 million for the three and nine month periods ended September 30, 2017, respectively.

Amortization of Intangible Assets held at September 30, 2018 is expected to be \$57.9 million, \$57.9 million, \$57.9 million, \$57.9 million, and \$50.2 million for each of the years ending December 31, 2018, 2019, 2020, 2021 and 2022, respectively. Blackstone's intangible assets as of September 30, 2018 are expected to amortize over a weighted-average period of 8.6 years.

**4. INVESTMENTS**

Investments consist of the following:

	September 30, 2018	December 31, 2017
Investments of Consolidated Blackstone Funds	\$ 8,503,423	\$ 12,954,121
Equity Method Investments		
Partnership Investments	3,690,841	3,263,131
Accrued Performance Allocations	6,722,430	5,328,280
Corporate Treasury Investments	2,883,610	2,566,043
Other Investments	294,616	322,474

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	\$ 22,094,920	\$ 24,434,049
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Blackstone's share of Investments of Consolidated Blackstone Funds totaled \$413.7 million and \$488.4 million at September 30, 2018 and December 31, 2017, respectively.

**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)****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 and a reconciliation to Other Income Net Gains from Fund Investment Activities in the Condensed Consolidated Statements of Operations:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Realized Gains	\$ 23,475	\$ 2,664	\$ 57,853	\$ 110,349
Net Change in Unrealized Gains	415	16,990	75,378	7,951
Realized and Net Change in Unrealized Gains from Consolidated Blackstone Funds	23,890	19,654	133,231	118,300
Interest and Dividend Revenue Attributable to Consolidated Blackstone Funds	42,948	43,794	117,725	121,334
Other Income Net Gains from Fund Investment Activities	\$ 66,838	\$ 63,448	\$ 250,956	\$ 239,634

**Equity Method Investments**

Blackstone's equity method investments include Partnership Investments, which represent the pro rata investments, and any associated Accrued Performance Allocations, in private equity funds, real estate funds, funds of hedge funds and credit-focused funds. Partnership Investments also includes the 40% non-controlling interest in Pátria Investments Limited and Pátria Investimentos Ltda. (collectively, Pátria ).

Blackstone evaluates each of its equity method investments, excluding Accrued Performance Allocations, 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, 2018 and 2017, no individual equity method investment held by Blackstone met the significance criteria. As such, Blackstone is not required to present separate financial statements for any of its equity method investments.

*Partnership Investments*

Blackstone recognized net gains related to its Partnership Investments accounted for under the equity method of \$137.6 million and \$152.1 million for the three months ended September 30, 2018 and 2017, respectively. The Partnership recognized net gains related to its equity method investments of \$465.6 million and \$444.7 million for the nine months ended September 30, 2018 and 2017, respectively.

**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)***Accrued Performance Allocations*

Accrued Performance Allocations to the Partnership in respect of performance of certain Blackstone Funds were as follows:

	<b>Private Equity</b>	<b>Real Estate</b>	<b>Hedge Fund Solutions</b>	<b>Credit</b>	<b>Total</b>
Accrued Performance Allocations, December 31, 2017	\$ 1,916,971	\$ 2,859,307	\$ 13,802	\$ 538,200	\$ 5,328,280
Performance Allocations as a Result of Changes in Fund Fair Values	1,643,509	917,619	30,694	160,961	2,752,783
Foreign Exchange Loss		(20,143)			(20,143)
Fund Distributions	(403,531)	(809,249)	(7,196)	(118,514)	(1,338,490)
Accrued Performance Allocations, September 30, 2018	\$ 3,156,949	\$ 2,947,534	\$ 37,300	\$ 580,647	\$ 6,722,430

**Corporate Treasury Investments**

The portion of corporate treasury investments included in Investments represents the Partnership's investments into primarily fixed income securities, mutual fund interests, and other fund interests. These strategies are managed by a combination of Blackstone personnel and third party advisors. The following table presents the Realized and Net Change in Unrealized Gains (Losses) on these investments:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Realized Gains (Losses)	\$ (2,504)	\$ 7,424	\$ 4,609	\$ 3,995
Net Change in Unrealized Gains (Losses)	14,691	8,258	(205)	51,553
	\$12,187	\$15,682	\$4,404	\$55,548

**Other Investments**

Other Investments consist primarily of proprietary investment securities held by Blackstone. Other investments include equity investments without readily determinable fair values which have a carrying value of \$44.9 million as of September 30, 2018. 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>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Realized Gains	\$ 30,618	\$ 2,955	\$ 46,937	\$ 5,825
Net Change in Unrealized Gains (Losses)	3,683	(1,783)	49,094	8,508



\$ 34,301	\$ 1,172	\$ 96,031	\$ 14,333
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A summary of fair value by strategy type alongside the remaining unfunded commitments and ability to redeem such investments as of September 30, 2018 is presented below:

Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Diversified Instruments	\$ 211,301	\$ 130	(a)	(a)
Credit Driven	115,365	268	(b)	(b)
Equity	38,309		(c)	(c)
Commodities	1,826		(d)	(d)
	\$ 366,801	\$ 398		

- (a) Diversified Instruments include investments in funds that invest across multiple strategies. Investments representing 3% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date. The remaining 97% of investments in this category are redeemable as of the reporting date.
- (b) The Credit Driven category includes investments in hedge funds that invest primarily in domestic and international bonds. Investments representing 40% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date. The remaining 60% of investments in this category are redeemable as of the reporting date.
- (c) The Equity category includes investments in hedge funds that invest primarily in domestic and international equity securities. Investments representing 100% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date. As of the reporting date, the investee fund manager had elected to side-pocket 9% of Blackstone's investments in the category.
- (d) The Commodities category includes investments in commodities-focused funds that primarily invest in futures and physical-based commodity driven strategies. Investments representing 100% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date.

**6. DERIVATIVE FINANCIAL INSTRUMENTS**

Blackstone and the consolidated Blackstone Funds enter into derivative contracts in the normal course of business to achieve certain risk management objectives and for general investment purposes. Blackstone may enter into derivative contracts in order to hedge its interest rate risk exposure against the effects of interest rate changes. Additionally, Blackstone may also enter into derivative contracts in order to hedge its foreign currency risk exposure against the effects of a portion of its non-U.S. dollar denominated currency net investments. 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.

**Net Investment Hedges**

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To manage the potential exposure from adverse changes in currency exchange rates arising from Blackstone's net investment in foreign operations, during December 2014, Blackstone entered into several foreign currency forward contracts to hedge a portion of the net investment in Blackstone's non-U.S. dollar denominated foreign operations.

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Blackstone uses foreign currency forward contracts to hedge portions of Blackstone's net investments in foreign operations. The gains and losses due to change in fair value attributable to changes in spot exchange rates on foreign currency derivatives designated as net investment hedges were recognized in Other Comprehensive Income, Net of Tax - Currency Translation Adjustment. For the three months ended September 30, 2018 there was no resulting gain or loss. For the nine months ended September 30, 2018 the resulting loss was \$1.4 million.

**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 interest rate swaps, foreign exchange contracts, equity swaps, options, futures and other derivative contracts.

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

	September 30, 2018				December 31, 2017			
	Assets		Liabilities		Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
<b>Net Investment Hedges</b>								
Foreign Currency Contracts	\$	\$	\$	\$	\$	\$	\$ 50,857	\$ 453
<b>Freestanding Derivatives</b>								
Blackstone								
Interest Rate Contracts	967,128	36,660	908,553	58,097	225,550	2,042	1,530,751	27,275
Foreign Currency Contracts	26,614	961	327,124	2,190	279,050	2,097	296,252	2,975
Credit Default Swaps			28,509	1,687	2,073	304	2,073	304
Investments of Consolidated Blackstone Funds								
Foreign Currency Contracts	107,009	1,906	25,081	1,504	493,181	24,087	264,693	5,628
Credit Default Swaps	22,961	170	50,242	3,599	45,670	3,731	45,582	5,163
Total Return Swaps	31,492	233			25,645	526		
Equity Options	1	122	1	67				
	1,155,205	40,052	1,339,510	67,144	1,071,169	32,787	2,139,351	41,345
	\$ 1,155,205	\$ 40,052	\$ 1,339,510	\$ 67,144	\$ 1,071,169	\$ 32,787	\$ 2,190,208	\$ 41,798

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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>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Net Investment Hedges</b>	<b>Foreign Currency Contracts</b>				
Hedge Ineffectiveness		\$	\$ (37)	\$ (8)	\$ (72)
<b>Freestanding Derivatives</b>					
Realized Gains (Losses)					
Interest Rate Contracts		\$ 401	\$ (1,195)	\$ 2,471	\$ (5,142)
Foreign Currency Contracts		3,583	17,002	11,821	13,690
Credit Default Swaps		(333)	(1,964)	(841)	(3,622)
Total Return Swaps		(37)	293	137	293
Equity Options			(258)		(258)
		\$ 3,614	\$ 13,878	\$ 13,588	\$ 4,961
<b>Net Change in Unrealized Gains (Losses)</b>					
Interest Rate Contracts		\$ 7,076	\$ (6,273)	\$ 7,037	\$ (6,916)
Foreign Currency Contracts		(5,248)	4,638	(7,520)	17,320
Credit Default Swaps		2,368	1,966	2,856	5,127
Total Return Swaps		(173)	(397)	(121)	(397)
Equity Options		(99)	38	(99)	38
		\$ 3,924	\$ (28)	\$ 2,153	\$ 15,172

As of September 30, 2018 and December 31, 2017, the Partnership had not designated any derivatives as cash flow hedges.

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

**7. FAIR VALUE OPTION**

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

	September 30, 2018	December 31, 2017
<b>Assets</b>		
Loans and Receivables	\$ 419,803	\$ 239,659
Equity and Preferred Securities	473,778	475,485
Debt Securities	523,556	418,061
Assets of Consolidated CLO Vehicles		
Corporate Loans	6,917,711	10,825,759
Corporate Bonds		690,125
Other		458
	\$ 8,334,848	\$ 12,649,547
<b>Liabilities</b>		
Liabilities of Consolidated CLO Vehicles		
Senior Secured Notes		
Loans Payable	\$ 6,520,975	\$ 10,594,656
Due to Affiliates	3,273	996
Subordinated Notes		
Loans Payable	158,623	703,164
Due to Affiliates	65,259	40,390
	\$ 6,748,130	\$ 11,339,206

The following tables 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,			
	2018	Net Change in Unrealized Gains (Losses)	2017	Net Change in Unrealized Gains (Losses)
<b>Assets</b>				
Equity and Preferred Securities	\$	\$ 20,329	\$ 18	\$ 3,599
Debt Securities	(2,461)	325	3,171	(1,425)
Assets of Consolidated CLO Vehicles				
Corporate Loans	(3,030)	(14,095)	(4,358)	(29,172)
Corporate Bonds			326	(12,732)
Other				356

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\$ (5,491)	\$	6,559	\$	(843)	\$	(39,374)
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## Liabilities

Liabilities of Consolidated CLO Vehicles

Subordinated Notes	\$	\$	36,021	\$	\$	39,007
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(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

	Nine Months Ended September 30,			
	2018		2017	
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
<b>Assets</b>				
Loans and Receivables	\$	\$	\$	\$ 7,418
Equity and Preferred Securities		18,462	19	23,824
Debt Securities	(1,634)	(1,973)	3,515	(3,300)
Assets of Consolidated CLO Vehicles				
Corporate Loans	(7,429)	(21,134)	(2,778)	(16,974)
Corporate Bonds	(24,056)	9,693	8,011	(19,477)
Other		6		500
	\$ (33,119)	\$ 5,054	\$ 8,767	\$ (8,009)
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles				
Subordinated Notes	\$	\$ 96,481	\$	\$ 71,719

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

	September 30, 2018			December 31, 2017		
	For Financial Assets Past Due (a)			For Financial Assets Past Due (a)		
	Excess (Deficiency) of Fair Value Over Principal	Fair Value	Excess of Fair Value Over Principal	Excess (Deficiency) of Fair Value Over Principal	Fair Value	(Deficiency) of Fair Value Over Principal
Loans and Receivables	\$ 1,060	\$	\$	\$ 1,207	\$	\$
Debt Securities	(2,168)			(372)		
Assets of Consolidated CLO Vehicles						
Corporate Loans	(29,513)			(13,495)	57,778	(19,633)
Corporate Bonds				(21,455)		
	\$ (30,621)	\$	\$	\$ (34,115)	\$ 57,778	\$ (19,633)

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

As of September 30, 2018 and December 31, 2017, no Loans and Receivables for which the fair value option was elected were past due or in non-accrual status. As of September 30, 2018 and December 31, 2017, no Corporate Bonds included within the Assets of Consolidated CLO Vehicles 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:

		September 30, 2018				
		Level I	Level II	Level III	NAV	Total
<b>Assets</b>						
Cash and Cash Equivalents	Money Market Funds	\$ 471,940	\$	\$	\$	\$ 471,940
<b>Investments</b>						
Investments of Consolidated Blackstone Funds (a)						
Investment Funds					85,287	85,287
Equity Securities		67,442	44,256	190,692		302,390
Partnership and LLC Interests			6,714	329,474		336,188
Debt Instruments			758,340	101,076		859,416
<b>Freestanding Derivatives</b>						
Foreign Currency Contracts			1,906			1,906
Credit Default Swaps			170			170
Total Return Swaps			233			233
Equity Options			122			122
Assets of Consolidated CLO Vehicles	Corporate Loans		6,368,295	549,416		6,917,711
Total Investments of Consolidated Blackstone Funds		67,442	7,180,036	1,170,658	85,287	8,503,423
<b>Corporate Treasury Investments</b>						
Equity Securities		316,771				316,771
Debt Instruments		406,164	1,880,805	17,038		2,304,007
Other					262,832	262,832
Total Corporate Treasury Investments		722,935	1,880,805	17,038	262,832	2,883,610
Other Investments		202,453		73,481	18,682	294,616
Total Investments		992,830	9,060,841	1,261,177	366,801	11,681,649
Accounts Receivable	Loans and Receivables			419,803		419,803
<b>Other Assets</b>						
<b>Freestanding Derivatives</b>						
Interest Rate Contracts		2,109	34,551			36,660
Foreign Currency Contracts			961			961
Total Other Assets		2,109	35,512			37,621
		\$ 1,466,879	\$ 9,096,353	\$ 1,680,980	\$ 366,801	\$ 12,611,013



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	September 30, 2018			
	Level I	Level II	Level III	Total
<b>Liabilities</b>				
Loans Payable Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes (b)	\$	\$ 6,520,975	\$	\$ 6,520,975
Subordinated Notes (b)		158,623		158,623
Total Loans Payable		6,679,598		6,679,598
Due to Affiliates Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes (b)		3,273		3,273
Subordinated Notes (b)		65,259		65,259
Total Due to Affiliates		68,532		68,532
Securities Sold, Not Yet Purchased	35,374	130,936		166,310
Accounts Payable, Accrued Expenses and Other Liabilities				
Liabilities of Consolidated Blackstone Funds Freestanding Derivatives (a)				
Foreign Currency Contracts		1,504		1,504
Credit Default Swaps		3,599		3,599
Equity Options		67		67
Total Liabilities of Consolidated Blackstone Funds		5,170		5,170
Freestanding Derivatives				
Interest Rate Contracts	875	57,222		58,097
Foreign Currency Contracts		2,190		2,190
Credit Default Swaps		1,687		1,687
Total Freestanding Derivatives	875	61,099		61,974
Total Accounts Payable, Accrued Expenses and Other Liabilities	875	66,269		67,144
	\$ 36,249	\$ 6,945,335	\$	\$ 6,981,584

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		Level I	Level II	December 31, 2017 Level III	NAV	Total
<b>Assets</b>						
Cash and Cash Equivalents	Money Market Funds	\$ 853,680	\$	\$	\$	\$ 853,680
<b>Investments</b>						
Investments of Consolidated Blackstone Funds (a)						
Investment Funds					130,339	130,339
Equity Securities		67,443	44,026	131,867		243,336
Partnership and LLC Interests			2,549	331,448		333,997
Debt Instruments			643,608	58,155		701,763
<b>Freestanding Derivatives</b>						
Foreign Currency Contracts			101			101
Credit Default Swaps			3,731			3,731
Total Return Swaps			526			526
<b>Assets of Consolidated CLO Vehicles</b>						
Corporate Loans			10,318,316	507,443		10,825,759
Corporate Bonds			690,125			690,125
Freestanding Derivatives			23,986			23,986
Other				458		458
Total Investments of Consolidated Blackstone Funds		67,443	11,726,968	1,029,371	130,339	12,954,121
<b>Corporate Treasury Investments</b>						
Equity Securities		282,866				282,866
Debt Instruments			1,943,654	24,249		1,967,903
Other					315,274	315,274
Total Corporate Treasury Investments		282,866	1,943,654	24,249	315,274	2,566,043
Other Investments		193,072	14,162	95,393	19,847	322,474
Total Investments		543,381	13,684,784	1,149,013	465,460	15,842,638
Accounts Receivable	Loans and Receivables			239,659		239,659
<b>Other Assets</b>						
<b>Freestanding Derivatives</b>						
Interest Rate Contracts		575	1,467			2,042
Foreign Currency Contracts			2,097			2,097
Credit Default Swaps			304			304
Total Other Assets		575	3,868			4,443
		\$ 1,397,636	\$ 13,688,652	\$ 1,388,672	\$ 465,460	\$ 16,940,420



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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)

	December 31, 2017			
	Level I	Level II	Level III	Total
<b>Liabilities</b>				
Loans Payable Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes (b)	\$	\$ 10,594,656	\$	\$ 10,594,656
Subordinated Notes (b)		703,164		703,164
Total Loans Payable		11,297,820		11,297,820
Due to Affiliates Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes (b)		996		996
Subordinated Notes (b)		40,390		40,390
Total Due to Affiliates		41,386		41,386
Securities Sold, Not Yet Purchased		154,380		154,380
Accounts Payable, Accrued Expenses and Other Liabilities				
Liabilities of Consolidated Blackstone Funds Freestanding Derivatives (a)				
Foreign Currency Contracts		5,628		5,628
Credit Default Swaps		5,163		5,163
Total Liabilities of Consolidated Blackstone Funds		10,791		10,791
Freestanding Derivatives				
Interest Rate Contracts	415	26,860		27,275
Foreign Currency Contracts		2,975		2,975
Credit Default Swaps		304		304
Total Freestanding Derivatives	415	30,139		30,554
Net Investment Hedges Foreign Currency Contracts		453		453
Total Accounts Payable, Accrued Expenses and Other Liabilities	415	41,383		41,798
	\$ 415	\$ 11,534,969	\$	\$ 11,535,384

- (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 certain CLO vehicles and other funds in which a consolidated entity of the Partnership, as the general partner of the fund, has a controlling financial interest. 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.
- (b) Senior and subordinate notes issued by CLO vehicles are classified based on the more observable fair value of CLO assets less (1) the fair value of any beneficial interests held by Blackstone, and (2) the carrying value of any beneficial interests that represent compensation

for services.



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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, 2018:

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted-Average (a)
<b>Financial Assets</b>					
Investments of Consolidated Blackstone Funds					
Equity Securities	\$ 128,731	Discounted Cash Flows	Discount Rate	7.1% - 26.1%	12.4%
			Revenue CAGR	-12.2% - 45.4%	7.3%
			Book Value Multiple	1.1x - 9.5x	8.4x
			Exit Capitalization Rate	5.0% - 11.4%	8.0%
			Exit Multiple - EBITDA	2.6x - 17.5x	10.4x
			Exit Multiple - NOI	8.8x - 12.8x	11.9x
			Exit Multiple - P/E	10.0x - 17.0x	14.2x
	1,516	Market Comparable Companies	Book Value Multiple	0.8x - 8.0x	1.4x
	34,220	Other	N/A	N/A	N/A
	26,225	Transaction Price	N/A	N/A	N/A
Partnership and LLC Interests	279,686	Discounted Cash Flows	Discount Rate	4.5% - 26.5%	9.7%
			Revenue CAGR	-3.0% - 45.5%	7.5%
			Book Value Multiple	8.5x - 9.3x	9.2x
			Exit Capitalization Rate	1.5% - 12.3%	6.1%
			Exit Multiple - EBITDA	0.1x - 15.2x	9.5x
			Exit Multiple - NOI	13.3x	N/A
	626	Market Comparable Companies	Book Value Multiple	1.1x	N/A
	10,755	Other	N/A	N/A	N/A
	609	Third Party Pricing	N/A	N/A	N/A
	37,798	Transaction Price	N/A	N/A	N/A
Debt Instruments	5,510	Discounted Cash Flows	Discount Rate	7.8% - 16.7%	9.7%
			Exit Capitalization Rate	3.9%	N/A
	93,648	Third Party Pricing	N/A	N/A	N/A
	1,918	Transaction Price	N/A	N/A	N/A
Assets of Consolidated CLO Vehicles	41	Discounted Cash Flows	Discount Rate	6.0%	N/A
	549,375	Third Party Pricing	N/A	N/A	N/A
Total Investments of Consolidated Blackstone Funds					
	1,170,658				
Corporate Treasury Investments					
	7,541	Discounted Cash Flows	Discount Rate	5.2% - 6.2%	5.6%
			Default Rate	2.0%	N/A
			Pre-payment Rate	20.0%	N/A
			Recovery Lag	12 Months	N/A
			Recovery Rate	30.0% - 70.0%	68.0%
			Reinvestment Rate	LIBOR + 400 bps	N/A
	9,497	Third Party Pricing	N/A	N/A	N/A
Loans and Receivables	353,494	Discounted Cash Flows	Discount Rate	4.4% - 12.9%	8.9%
	66,309	Transaction Price	N/A	N/A	N/A
Other Investments	27,758	Discounted Cash Flows	Discount Rate	0.8% - 9.6%	2.0%
			Default Rate	2.0%	N/A
			Pre-payment Rate	20.0%	N/A
			Recovery Lag	12 Months	N/A
			Recovery Rate	70.0%	N/A

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			Reinvestment Rate	LIBOR + 400 bps	N/A
45,723	Transaction Price		N/A	N/A	N/A

\$ 1,680,980

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The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of December 31, 2017:

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted-Average (a)
<b>Financial Assets</b>					
Investments of Consolidated Blackstone Funds					
Equity Securities	\$ 91,753	Discounted Cash Flows	Discount Rate	7.1% - 31.4%	12.6%
			Revenue CAGR	1.0% - 49.4%	7.1%
			Exit Capitalization Rate	5.0% - 11.4%	8.5%
			Exit Multiple - EBITDA	4.0x - 16.0x	9.9x
			Exit Multiple - NOI	8.8x - 12.5x	10.5x
			Exit Multiple - P/E	9.5x - 17.0x	11.0x
	862	Market Comparable Companies	Book Value Multiple	0.8x - 0.9x	0.9x
			Exit Multiple - EBITDA	8.0x	N/A
	17,536	Other	N/A	N/A	N/A
	21,716	Transaction Price	N/A	N/A	N/A
Partnership and LLC Interests	293,744	Discounted Cash Flows	Discount Rate	4.6% - 26.5%	9.8%
			Revenue CAGR	-22.2% - 71.5%	8.4%
			Exit Capitalization Rate	3.1% - 10.0%	5.7%
			Exit Multiple - EBITDA	0.1x - 15.0x	8.6x
			Exit Multiple - NOI	12.5x	N/A
	530	Market Comparable Companies	Book Value Multiple	1.0x	N/A
	22,346	Other	N/A	N/A	N/A
	758	Third Party Pricing	N/A	N/A	N/A
	14,070	Transaction Price	N/A	N/A	N/A
Debt Instruments	6,122	Discounted Cash Flows	Discount Rate	6.6% - 18.4%	9.6%
			Revenue CAGR	7.7%	N/A
			Exit Capitalization Rate	8.3%	N/A
			Exit Multiple - NOI	12.0x	N/A
	50,136	Third Party Pricing	N/A	N/A	N/A
	1,897	Transaction Price	N/A	N/A	N/A
Assets of Consolidated CLO Vehicles	8,277	Market Comparable Companies	EBITDA Multiple	7.0x	N/A
	499,624	Third Party Pricing	N/A	N/A	N/A
Total Investments of Consolidated Blackstone Funds	1,029,371				
Corporate Treasury Investments					
	8,886	Discounted Cash Flows	Discount Rate	5.1% - 6.3%	5.4%
			Default Rate	2.0%	N/A
			Pre-payment Rate	20%	N/A
			Recovery Lag	12 Months	N/A
			Recovery Rate	30.0% - 70.0%	68.1%
			Reinvestment Rate	LIBOR + 400 bps	N/A
	15,363	Third Party Pricing	N/A	N/A	N/A
Loans and Receivables	239,659	Discounted Cash Flows	Discount Rate	7.1% - 10.3%	8.8%
Other Investments	65,821	Discounted Cash Flows	Discount Rate	0.7% - 13.0%	2.2%
			Default Rate	2.0%	N/A
			Pre-payment Rate	20.0%	N/A
			Recovery Lag	12 Months	N/A
			Recovery Rate	70.0%	N/A

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		Reinvestment Rate	LIBOR + 400 bps - LIBOR + 413 bps	LIBOR + 401 bps
29,572	Transaction Price	N/A	N/A	N/A
\$ 1,388,672				

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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)**

N/A	Not applicable.
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.
NOI	Net operating income.
P/E	Price-earnings ratio.
Third Party Pricing	Third Party Pricing is generally determined on the basis of unadjusted prices between market participants provided by reputable dealers or pricing services.
Transaction Price	Includes recent acquisitions or transactions.
(a)	Unobservable inputs were weighted based on the fair value of the investments included in the range.
The significant unobservable inputs used in the fair value measurement of corporate treasury investments, debt instruments and other investments as of the reporting date are discount rates, default rates, recovery lag, recovery rates, 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 have resulted in a lower (higher) fair value measurement. Increases (decreases) in any of the recovery rates and reinvestment rates in isolation would have resulted 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 limited liability company ( LLC ) interests, debt instruments, assets of consolidated CLO vehicles and loans and receivables are discount rates, exit capitalization rates, exit multiples, EBITDA multiples and revenue compound annual growth rates. Increases (decreases) in any of discount rates and exit capitalization rates in isolation could have resulted in a lower (higher) fair value measurement. Increases (decreases) in any of exit multiples and revenue compound annual growth rates in isolation could have resulted in a higher (lower) fair value measurement.

Since December 31, 2017, 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.

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 respective reporting period. Total realized and unrealized gains and losses recorded for Level III investments are reported in either Investment Income (Loss) or Net Gains from Fund Investment Activities in the Condensed Consolidated Statements of Operations.

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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)

	2018				2017			
	Investments of Consolidated Funds	Loans and Receivables	Other Investments (a)	Total	Investments of Consolidated Funds	Loans and Receivables	Other Investments (a)	Total
Balance, Beginning of Period	\$ 1,086,724	\$ 346,603	\$ 114,723	\$ 1,548,050	\$ 715,744	\$ 306,279	\$ 115,689	\$ 1,137,712
Transfer In to Level III (b)	255,398		5,299	260,697	145,810		5,859	151,669
Transfer Out of Level III (b)	(221,162)		(11,192)	(232,354)	(62,821)		(721)	(63,542)
Purchases	156,527	347,890	15,754	520,171	300,037	241,006	3,250	544,293
Sales	(119,593)	(274,817)						