Blackstone Group L.P.
Form 10-Q
November 09, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011**

OR

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

Commission File Number: 001-33551

The Blackstone Group L.P.

(Exact name of Registrant as specified in its charter)

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

345 Park Avenue

New York, New York 10154

(Address of principal executive offices)(Zip Code)

(212) 583-5000

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of the Registrant s voting common units representing limited partner interests outstanding as of October 28, 2011 was 370,529,222. The number of the Registrant s non-voting common units representing limited partner interests outstanding as of October 28, 2011 was 109,083,468.

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Forward-Looking Statements

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as outlook, believes, expects, potential, continues, may, wil should, seeks, approximately, predicts, intends, plans, estimates, anticipates or the negative version of these words or other compara Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled Risk Factors in our annual report on Form 10-K for the year ended December 31, 2010 and in this report, as such factors may be updated from time to time in our periodic filings with the SEC, which are accessible on the SEC s website at www.sec.gov. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

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

Blackstone Funds, our funds and our investment funds refer to the private equity funds, real estate funds, funds of hedge funds, credit-oriented funds, collateralized loan obligation (CLO) vehicles, and closed-end mutual funds and management investment companies that are managed by Blackstone. Our carry funds refer to the private equity funds, real estate funds and certain of the credit-oriented funds (with multi-year drawdown, commitment-based structures that only pay carry on the realization of an investment) that are managed by Blackstone. Our hedge funds refer to our funds of hedge funds, certain of our real estate debt investment funds and certain other credit-oriented funds (including three publicly registered closed-end management investment companies), which are managed by Blackstone.

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

(a) the fair value of the investments held by our carry funds plus the capital that we are entitled to call from investors in those funds pursuant to the terms of their capital commitments to those funds (plus the fair value of co-investments arranged by us that were made by limited partners of our funds in portfolio companies of such funds and on which we receive fees or a carried interest allocation);

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

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

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

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

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

(a) for our Blackstone Capital Partners (BCP) and Blackstone Real Estate Partners (BREP) funds where the investment period has not expired, the amount of capital commitments;

(b) for our BCP and BREP funds where the investment period has expired, the remaining amount of invested capital plus binding investment commitments;

(c) for our real estate debt investment funds (BREDS), the remaining amount of invested capital;

(d) for our credit-oriented carry funds, the amount of invested capital (which may be calculated to include leverage) or net asset value;

(e) the invested capital of co-investments arranged by us that were made by limited partners of our funds in portfolio companies of such funds and on which we receive fees;

(f) the net asset value of our funds of hedge funds, hedge funds (except our credit-oriented closed-end registered investment companies) and our closed-end mutual funds;

(g) the fair value of assets we manage pursuant to separately managed accounts;

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(h) the gross amount of underlying assets of our CLOs at cost; and

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

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

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Financial Condition (Unaudited)

(Dollars in Thousands, Except Unit Data)

	September 30, 2011	December 31, 2010
Assets		
Cash and Cash Equivalents	$ 592,982	$ 588,621
Cash Held by Blackstone Funds and Other	1,066,613	790,399
Investments (including assets pledged of $210,154 and $62,670 at September 30, 2011 and December 31, 2010, respectively)	14,848,396	11,974,472
Accounts Receivable	441,671	495,893
Reverse Repurchase Agreements	194,931	181,425
Due from Affiliates	743,618	795,395
Intangible Assets, Net	678,291	779,311
Goodwill	1,703,602	1,703,602
Other Assets	330,975	293,194
Deferred Tax Assets	1,467,717	1,242,293
Total Assets	$ 22,068,796	$ 18,844,605
Liabilities and Partners Capital		
Loans Payable	$ 9,412,191	$ 7,198,898
Due to Affiliates	1,944,273	1,762,287
Accrued Compensation and Benefits	1,035,342	821,568
Securities Sold, Not Yet Purchased	195,557	116,688
Repurchase Agreements	210,591	62,672
Accounts Payable, Accrued Expenses and Other Liabilities	698,583	629,135
Total Liabilities	13,496,537	10,591,248
Commitments and Contingencies		
Redeemable Non-Controlling Interests in Consolidated Entities	723,948	600,836
Partners Capital		
Partners Capital (common units: 482,011,358 issued and outstanding as of September 30, 2011; 416,092,022 issued and outstanding as of December 31, 2010)	4,181,368	3,888,211
Appropriated Partners Capital (Deficit)	(50,111)	470,583
Accumulated Other Comprehensive Income	1,845	4,302
Non-Controlling Interests in Consolidated Entities	1,337,180	870,908
Non-Controlling Interests in Blackstone Holdings	2,378,029	2,418,517
Total Partners Capital	7,848,311	7,652,521
Total Liabilities and Partners Capital	$ 22,068,796	$ 18,844,605

continued

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Financial Condition (Unaudited)

(Dollars in Thousands)

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

	September 30, 2011	December 31, 2010
Assets		
Cash Held by Blackstone Funds and Other	$ 773,736	$ 707,622
Investments	9,000,078	7,424,329
Accounts Receivable	35,333	22,380
Due from Affiliates	35,925	30,182
Other Assets	27,569	19,823
Total Assets	$ 9,872,641	$ 8,204,336
Liabilities		
Loans Payable	$ 8,348,099	$ 6,154,179
Due to Affiliates	347,299	304,969
Accounts Payable, Accrued Expenses and Other	252,666	330,675
Total Liabilities	$ 8,948,064	$ 6,789,823

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Operations (Unaudited)

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenues				
Management and Advisory Fees	$ 425,193	$ 362,521	$ 1,335,971	$ 1,123,403
Performance Fees				
Realized	6,605	66,142	164,571	171,941
Unrealized	(462,902)	199,824	659,987	312,304
Total Performance Fees	(456,297)	265,966	824,558	484,245
Investment Income (Loss)				
Realized	45,596	13,542	77,682	29,493
Unrealized	(145,990)	127,428	70,116	371,691
Total Investment Income (Loss)	(100,394)	140,970	147,798	401,184
Interest and Dividend Revenue	9,085	10,075	27,423	25,922
Other	(1,666)	4,468	1,721	573
Total Revenues	(124,079)	784,000	2,337,471	2,035,327
Expenses				
Compensation and Benefits				
Compensation	494,478	664,004	1,853,393	2,556,665
Performance Fee Compensation				
Realized	10,542	24,962	52,797	55,582
Unrealized	(111,435)	104,324	169,188	158,032
Total Compensation and Benefits	393,585	793,290	2,075,378	2,770,279
General, Administrative and Other	124,929	114,291	380,433	341,853
Interest Expense	13,785	11,766	41,773	26,633
Fund Expenses	8,635	6,422	19,045	15,484
Total Expenses	540,934	925,769	2,516,629	3,154,249
Other Income (Loss)				
Net Gains (Losses) from Fund Investment Activities	(329,399)	285,071	(449,244)	397,625
Income (Loss) Before Provision (Benefit) for Taxes	(994,412)	143,302	(628,402)	(721,297)
Provision (Benefit) for Taxes	(7,637)	(4,225)	95,412	24,802
Net Income (Loss)	(986,775)	147,527	(723,814)	(746,099)
Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	(44,776)	23,623	(22,891)	47,171
Net Income (Loss) Attributable to Non- Controlling Interests in Consolidated Entities	(265,353)	242,723	(450,842)	320,816
Net Loss Attributable to Non-Controlling Interests in Blackstone Holdings	(402,079)	(74,461)	(104,455)	(755,031)

Net Loss Attributable to The Blackstone Group L.P.	$	(274,567)	$	(44,358)	$	(145,626)	$	(359,055)
Net Loss Per Common Unit Basic and Diluted	$	(0.56)	$	(0.12)	$	(0.31)	$	(1.02)
Weighted-Average Common Units Outstanding Basic and Diluted		487,189,657		370,101,582		470,551,727		352,794,385
Revenues Earned from Affiliates								
Management and Advisory Fees	$	56,900	$	34,242	$	245,854	$	110,356

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, 2011	Nine Months Ended September 30, 2010
Operating Activities		
Net Loss	$ (723,814)	$ (746,099)
Adjustments to Reconcile Net Loss to Net Cash Provided by (Used in) Operating Activities:		
Blackstone Funds Related:		
Unrealized Depreciation (Appreciation) on Investments Allocable to Non-Controlling Interests in Consolidated Entities	603,613	(533,466)
Net Realized Gains on Investments	(468,588)	(140,095)
Changes in Unrealized Gains on Investments Allocable to The Blackstone Group L.P.	(66,607)	(352,506)
Unrealized Depreciation (Appreciation) on Hedge Activities	(1,544)	(4,060)
Non-Cash Performance Fees	(492,930)	(192,208)
Non-Cash Performance Fee Compensation	221,985	213,614
Equity-Based Compensation Expense	1,075,012	1,924,358
Amortization of Intangibles	124,764	121,206
Other Non-Cash Amounts Included in Net Income (Loss)	(4,559)	19,349
Cash Flows Due to Changes in Operating Assets and Liabilities:		
Cash Held by Blackstone Funds and Other	215,051	(48,376)
Cash Relinquished with Continuing Liquidation of Partnership	(666)	(3,136)
Accounts Receivable	87,655	(79,622)
Reverse Repurchase Agreements	(13,506)	(287,445)
Due from Affiliates	24,359	13,107
Other Assets	53,585	(47,374)
Accrued Compensation and Benefits	(15,460)	62,520
Securities Sold, Not Yet Purchased	75,907	262,395
Accounts Payable, Accrued Expenses and Other Liabilities	(233,579)	114,530
Repurchase Agreements	147,920	139,456
Due to Affiliates	(111,613)	(33,600)
Short Term Investments Purchased	(2,428,326)	(1,785,838)
Proceeds from Sale of Investments	2,256,425	1,390,991
Blackstone Funds Related:		
Investments Purchased	(4,639,948)	(2,344,140)
Proceeds from Sale of Investments	5,073,303	2,652,554
Net Cash Provided by Operating Activities	758,439	316,115
Investing Activities		
Purchase of Furniture, Equipment and Leasehold Improvements	(25,963)	(30,587)
Net Cash Paid for Acquisition of Management Contracts	(23,744)	(21,898)
Changes in Restricted Cash	331	35
Net Cash Used in Investing Activities	(49,376)	(52,450)

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)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Financing Activities		
Distributions to Non-Controlling Interest Holders in Consolidated Entities	$ (294,755)	$ (77,039)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	742,940	117,896
Purchase of Interests from Certain Non-Controlling Interest Holders	(2,099)	(153)
Net Settlement of Vested Common Units and Repurchase of Common and Holdings Units	(33,814)	(21,955)
Proceeds from Loans Payable	16,977	408,574
Repayment of Loans Payable	(27,981)	(34,207)
Distributions to Unitholders	(592,536)	(489,271)
Blackstone Funds Related:		
Proceeds from Loans Payable	342,183	14,014
Repayment of Loans Payable	(855,601)	(93,099)
Net Cash Used in Financing Activities	(704,686)	(175,240)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(16)	(24,292)
Net Increase in Cash and Cash Equivalents	4,361	64,133
Cash and Cash Equivalents, Beginning of Period	588,621	952,096
Cash and Cash Equivalents, End of Period	$ 592,982	$ 1,016,229
Supplemental Disclosure of Cash Flows Information		
Payments for Interest	$ 2,399	$ 2,966
Payments for Income Taxes	$ 40,147	$ 51,319
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Net Activities Related to Capital Transactions of Consolidated Blackstone Funds	$ (2,817)	$ 4,037
Net Assets Related to the Consolidation of CLO Vehicles	$ 73,984	$ 406,914
Reclassification of Capital Due to Non-Controlling Interest Holders	$	$ (60,197)
In-kind Redemption of Capital	$ (2,433)	$
In-kind Contribution of Capital	$ 2,433	$ 75,516
Notes Issuance Costs	$	$ 2,000
Transfer of Interests to Non-Controlling Interest Holders	$ 1,924	$ (15,927)
Change in The Blackstone Group L.P. s Ownership Interest	$ (6,245)	$ (8,460)

Net Settlement of Vested Common Units	$ 107,365	$ 133,907
Conversion of Blackstone Holdings Units to Common Units	$ 217,275	$ 120,880
Exchange of Founders and Non-Controlling Interest Holders Interests in Blackstone Holdings:		
Deferred Tax Asset	$ (288,229)	$ (184,831)
Due to Affiliates	$ 234,365	$ 150,416
Partners Capital	$ 53,864	$ 34,415

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements

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

1. ORGANIZATION

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements (Continued)

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

statements, including these notes, are unaudited and exclude some of the disclosures required in audited financial statements. Management believes it has made all necessary adjustments (consisting of only normal recurring items) so that the condensed consolidated financial statements are presented fairly and that estimates made in preparing its condensed consolidated financial statements are reasonable and prudent. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Partnership s Annual Report on Form 10-K for the year ended December 31, 2010 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.

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

In January 2011, Blackstone separated its Credit and Marketable Alternatives segment into two new segments: Hedge Fund Solutions and Credit Businesses. The Hedge Fund Solutions segment is comprised primarily of Blackstone Alternative Asset Management, an institutional solutions provider utilizing hedge funds across a variety of strategies, and the Indian-focused and Asian-focused closed-end mutual funds. The Credit Businesses segment, which is comprised principally of GSO Capital Partners LP (GSO), manages credit-oriented funds, CLOs, credit-focused separately managed accounts and publicly registered debt-focused investment companies. This change in Blackstone s segment reporting aligns it to its management reporting and organization structure and is consistent with the manner in which resource deployment and compensation decisions are made. Blackstone s segment results have been retrospectively presented for all periods reported.

As of March 31, 2011, Blackstone elected to aggregate changes in assets and liabilities relating to hedging activities within Unrealized Depreciation (Appreciation) on Hedge Activities in the Condensed Consolidated Statements of Cash Flows. Previously, amounts relating to changes in hedging instruments had been presented in Cash Flows Due to Changes in Operating Assets and Liabilities Other Assets. The reclassification of amounts in 2010 had no impact on Net Cash Provided by Operating Activities.

As of June 30, 2011, Blackstone elected to separately present Repurchase Agreements in the Condensed Consolidated Statements of Financial Condition. Previously, these amounts were included in Accounts Payable, Accrued Expenses and Other Liabilities. The reclassification had no impact on Total Liabilities.

As of June 30, 2011, Blackstone elected to separately present changes in operating assets and liabilities relating to repurchase agreements in the Condensed Consolidated Statements of Cash Flows. Previously, amounts relating to changes in repurchase agreements had been presented in Cash Flows Due to Changes in Operating Assets and Liabilities Accounts Payable, Accrued Expenses and Other Liabilities. The reclassification had no impact on Net Cash Provided by Operating Activities.

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 is presumed to have control. Although the Partnership has a non-controlling interest in the Blackstone Holdings partnerships, the limited partners do not have the right to dissolve the partnerships or have substantive kick out rights or participating rights that would overcome the presumption of control by the Partnership. Accordingly, the Partnership consolidates Blackstone Holdings and records non-controlling interests to reflect the economic interests of the limited partners of Blackstone Holdings.

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 variable interest entity 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 variable interest entity. The consolidation guidance requires an analysis to (a) determine whether an entity in which the Partnership holds a variable interest is a variable interest entity and (b) whether the Partnership s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., management and performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment. Variable interest entities qualify for the deferral of this consolidation guidance if all of the following conditions have been met:

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

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

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

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

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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)

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 .

Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

In certain cases, debt and equity securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices, market transactions in comparable investments and various relationships between investments.

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 or certain funds of hedge funds. The valuation technique for each of these investments is described below:

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

Real Estate Investments The fair values of real estate investments are determined by considering projected operating cash flows, sales of comparable assets, if any, and replacement costs among other measures. The methods used to estimate the fair value of real estate investments include the discounted cash flow method and/or capitalization rates (cap rates) analysis. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (e.g., multiplying a key performance metric of the investee company or asset, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Additionally, where applicable, projected distributable cash flow through debt maturity will also be considered in support of the investment s carrying value.

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

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

Investments, at Fair Value

The Blackstone Funds are accounted for as investment companies under the Investment Company Guide, and reflect their investments, including majority-owned and controlled investments (the Portfolio Companies), at fair value. Blackstone has retained the specialized accounting for the consolidated Blackstone Funds. Thus, such consolidated funds investments are reflected in Investments on the Condensed Consolidated Statements of

Financial Condition at fair value, with unrealized gains and losses resulting from changes in fair value reflected as a component of Net Gains from Fund Investment Activities in the Condensed Consolidated Statements of Operations. Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price).

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

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

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

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

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

Equity Method Investments

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

Repurchase and Reverse Repurchase Agreements

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

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

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

Securities Sold, Not Yet Purchased

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

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

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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 the fair value of the hedged asset or liability attributable to the hedged risk, in current period earnings in the same caption in the Condensed Consolidated Statements of Operations as the hedged item. 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. For freestanding derivative contracts, the Partnership presents changes in fair value in current period earnings.

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

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

Affiliates

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

Distributions

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

Recent Accounting Developments

In January 2010, the FASB issued guidance on improving disclosures about fair value measurements. The guidance required additional disclosure on transfers in and out of Levels I and II fair value measurements in the fair value hierarchy and the reasons for such transfers. In addition, for fair value measurements using significant unobservable inputs (Level III), the guidance required the reconciliation of beginning and ending balances be presented on a gross basis, with separate disclosure of gross purchases, sales, issuances and settlements and transfers in and transfers out of Level III. The guidance also required enhanced disclosures on the fair value hierarchy to disaggregate disclosures by each class of assets and liabilities. In addition, the guidance required an entity to provide further disclosures on valuation techniques and inputs used to measure fair value for fair value measurements that fall in either Level II or Level III. The guidance was effective for interim and annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements

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in the roll forward of activity in Level III fair value measurements, which was effective for fiscal years beginning after December 15, 2010. Adoption of the guidance, including the gross presentation of activity in Level III, did not have a material impact on the Partnership s financial statements.

In December 2010, the FASB issued enhanced guidance on when to perform step two of the goodwill impairment test for reporting units with zero or negative carrying amounts. The updated guidance modified existing requirements under step one of the goodwill impairment test for reporting units with zero or negative carrying amounts and required step two to be performed if it is more likely than not that a goodwill impairment exists. The guidance was effective for interim and annual reporting periods beginning after December 15, 2010. Adoption did not have a material impact on the Partnership s financial statements.

In December 2010, the FASB issued guidance on disclosures around business combinations for public entities that present comparative financial statements. The guidance specified that an entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. The guidance was effective prospectively for business combinations for which the acquisition date was on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. As the Partnership has not had any business combinations since January 2011, adoption did not have a material impact on the Partnership s financial statements.

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

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

The guidance also requires enhanced disclosures about fair value measurements, including, among other things, (a) for fair value measurements categorized within Level III of the fair value hierarchy, (1) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, (2) the valuation process used

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by the reporting entity, and (3) a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, if any, and (b) the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position but for which the fair value is required to be disclosed (for example, a financial instrument that is measured at amortized cost in the statement of financial position but for which fair value is disclosed). The guidance also amends disclosure requirements for significant transfers between Level I and Level II and now requires disclosure of all transfers between Levels I and II in the fair value hierarchy.

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

In June 2011, the FASB issued amended guidance on the presentation of comprehensive income. The amendments provide an entity with an option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The guidance is effective for fiscal years, and interim periods within those years beginning after December 15, 2011 and should be applied on a retrospective basis. As the amendments are limited to presentation only, adoption is not expected to have a material impact on the Partnership s financial statements.

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

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3. ACQUISITION, GOODWILL AND INTANGIBLE ASSETS

Acquisition

On May 16, 2011, the Partnership, through GSO, completed the acquisition of management agreements relating to four collateralized loan obligation vehicles previously managed by Allied Irish Bank for net consideration of $23.4 million. The assets acquired are finite-lived contractual rights.

Goodwill and Intangible Assets

In January 2011, Blackstone separated its Credit and Marketable Alternatives segment into two new segments. Goodwill previously allocated to the Credit and Marketable Alternatives segment has been reallocated to the Hedge Fund Solutions and Credit Businesses segments. Goodwill has been allocated to each of the Partnership s five segments as follows: Private Equity ($694.5 million), Real Estate ($421.7 million), Hedge Fund Solutions ($172.1 million), Credit Businesses ($346.4 million) and Financial Advisory ($68.9 million).

The carrying value of goodwill was $1.7 billion as of September 30, 2011 and December 31, 2010. As of September 30, 2011 and December 31, 2010, the fair value of the Partnership s operating segments substantially exceeded their respective carrying values.

Intangible Assets, Net consists of the following:

	September 30, 2011	December 31, 2010
Finite-Lived Intangible Assets / Contractual Rights	$ 1,394,026	$ 1,370,255
Accumulated Amortization	(715,735)	(590,944)
Intangible Assets, Net	$ 678,291	$ 779,311

Amortization expense associated with Blackstone s intangible assets was $42.4 million and $124.8 million for the three and nine month periods ended September 30, 2011, respectively, and $40.9 million and $121.2 million for the three and nine month periods ended September 30, 2010, respectively.

Amortization of Intangible Assets held at September 30, 2011 is expected to be $167.1 million, $114.6 million, $63.1 million, $58.2 million, and $52.0 million for each of the years ending December 31, 2011, 2012, 2013, 2014, and 2015, respectively. Blackstone s intangible assets as of September 30, 2011 are expected to amortize over a weighted-average period of 9.6 years.

4. INVESTMENTS

Investment

Investments consist of the following:

	September 30, 2011	December 31, 2010
Investments of Consolidated Blackstone Funds	$ 10,161,033	$ 8,192,327
Equity Method Investments	2,042,710	1,921,665
Blackstone s Treasury Cash Management Strategies	1,080,232	896,367
Performance Fees	1,535,637	937,227
Other Investments	28,784	26,886
	$ 14,848,396	$ 11,974,472

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Blackstone s share of Investments of Consolidated Blackstone Funds totaled $449.5 million and $500.2 million at September 30, 2011 and December 31, 2010, respectively.

At September 30, 2011 and December 31, 2010, consideration was given as to whether any individual investment, including derivative instruments, had a fair value which exceeded 5% of Blackstone s net assets. At September 30, 2011 and December 31, 2010, no investment exceeded the 5% threshold.

Investments of Consolidated Blackstone Funds

Net Gains (Losses) from Fund Investment Activities on the Condensed Consolidated Statements of Operations includes net realized gains (losses) from realizations and sales of investments and the net change in unrealized gains (losses) resulting from changes in the fair value of the consolidated Blackstone Funds investments. The following table presents the realized and net change in unrealized gains (losses) on investments held by the consolidated Blackstone Funds:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Realized Gains (Losses)	$ 121,297	$ (40,063)	$ 228,052	$ (60,500)
Net Change in Unrealized Gains (Losses)	(496,696)	296,049	(774,527)	387,571
	$ (375,399)	$ 255,986	$ (546,475)	$ 327,071

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Realized and Net Change in Unrealized Gains (Losses) from Blackstone Funds	$ (375,399)	$ 255,986	$ (546,475)	$ 327,071
Interest, Dividend and Other Revenue Attributable to Consolidated Blackstone Funds	46,000	29,085	97,231	70,554
Other Income Net Gains (Losses) from Fund Investment Activities	$ (329,399)	$ 285,071	$ (449,244)	$ 397,625

Equity Method Investments

The Partnership recognized net gains related to its equity method investments of $97.2 million and $343.6 million for the nine months ended September 30, 2011 and 2010, respectively.

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

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Blackstone evaluates each of its equity method investments to determine if any were significant. As of September 30, 2011, one investment met this criteria. The summarized financial information for this investment is shown below:

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Statements of Income		
Interest Income	$ 251	$ 212
Other Income	34,401	
Interest Expense	(315)	(387)
Other Expenses	(1,410)	(1,646)
Net Realized and Unrealized Gain from Investments	537,432	1,014,488
Net Income	$ 570,359	$ 1,012,667

Blackstone s Treasury Cash Management Strategies

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Realized Gains	$ 6,002	$ 1,080	$ 7,022	$ 2,652
Net Change in Unrealized Gains (Losses)	(746)	8,205	1,475	15,096
	$ 5,256	$ 9,285	$ 8,497	$ 17,748

Performance Fees

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

	Private Equity	Real Estate	Hedge Fund Solutions	Credit Businesses	Total
Performance Fees, December 31, 2010	$ 573,042	$ 65,477	$ 9,534	$ 289,174	$ 937,227
Change in Fair Value of Funds	25,152	676,413	1,890	97,491	800,946
Fund Cash Distributions	(85,353)	(33,446)	(10,506)	(73,231)	(202,536)
Performance Fees, September 30, 2011	$ 512,841	$ 708,444	$ 918	$ 313,434	$ 1,535,637

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Other Investments

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Realized Gains (Losses)	$ 421	$ 36	$ 820	$ 978
Net Change in Unrealized Gains (Losses)	(22,292)	(335)	(21,000)	592
	$ (21,871)	$ (299)	$ (20,180)	$ 1,570

5. NET ASSET VALUE AS FAIR VALUE

Certain of the consolidated Blackstone funds of hedge funds and credit-oriented funds measure their investments in underlying funds at fair value using NAV per share without adjustment. The terms of the investee s investment generally provide for minimum holding periods or lock-ups, the institution of gates on redemptions or the suspension of redemptions or an ability to side-pocket investments, at the discretion of the investee s fund manager, and as a result, investments may not be redeemable at, or within three months of, the reporting date. A side-pocket is used by hedge funds and funds of hedge funds to separate investments that may lack a readily ascertainable value, are illiquid or are subject to liquidity restriction. Redemptions are generally not permitted until the investments within a side pocket are liquidated or it is deemed that the conditions existing at the time that required the investment to be included in the side-pocket no longer exist. As the timing of either of these events is uncertain, the timing at which the Partnership may redeem an investment held in a side-pocket cannot be estimated. A summary of fair value by strategy type alongside the consolidated funds of hedge funds remaining unfunded commitments and ability to redeem such investments as of September 30, 2011 is presented below:

Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Diversified Instruments	$ 205,680	$ 7,697	(a)	(a)
Credit Driven	194,979	1,980	(b)	(b)
Event Driven	119,239		(c)	(c)
Equity	251,179		(d)	(d)
Commodities	51,071		(e)	(e)
	$ 822,148	$ 9,677		

(a)

Diversified Instruments include investments in hedge funds that invest across multiple strategies. Investments representing 98% of the value of the investments in this category are subject to redemption restrictions at the discretion of the investee fund manager who may choose (but may not have exercised such ability) to side-pocket such investments. As of the reporting date, the investee fund manager had elected to side-pocket 18% of Blackstone s investments. The time at which this redemption restriction may lapse cannot be estimated. The remaining 2% of investments within this category represent investments in hedge funds that are in the process of liquidating. Distributions from these funds will be received as underlying investments are liquidated.

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(b) The Credit Driven category includes investments in hedge funds that invest primarily in domestic and international bonds. Investments representing 59% of the value of the investments in this category may not be redeemed at, or within three months of, the reporting date. Investments representing 20% of the value in the credit driven category are subject to redemption restrictions at the discretion of the investee fund manager who may choose (but may not have exercised such ability) to side-pocket such investments. Investments representing 3% of the value in the credit driven category represents an investment in a fund of hedge funds that is in the process of liquidation. Distributions from this fund will be received as underlying investments are liquidated. The remaining 18% of investments within this category are redeemable as of the reporting date.

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

(d) The Equity category includes investments in hedge funds that invest primarily in domestic and international equity securities. Investments representing 83% of the total value of investments in this category may not be redeemed at, or within three months of, the reporting date. The remaining 17% are subject to redemption restrictions at the discretion of the investee fund manager who may choose (but may not have elected such ability) to side-pocket such investments. As of the reporting date, the investee fund manager had not elected to side-pocket Blackstone s investments.

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

6. DERIVATIVE FINANCIAL INSTRUMENTS

Blackstone enters into derivative contracts in order to hedge its interest rate risk exposure against the effects of interest rate changes. Additionally, Blackstone and the Blackstone Funds enter into derivative contracts in the normal course of business to achieve certain other risk management objectives and for general investment purposes. As a result of the use of derivative contracts, Blackstone and the consolidated Blackstone Funds are exposed to the risk that counterparties will fail to fulfill their contractual obligations. To mitigate such counterparty risk, Blackstone and the consolidated Blackstone Funds enter into contracts with certain major financial institutions, all of which have investment grade ratings. Counterparty credit risk is evaluated in determining the fair value of derivative instruments.

Fair Value Hedges

The Partnership uses interest rate swaps to hedge a portion of the interest rate risk associated with its fixed rate borrowings. The Partnership has designated these financial instruments as fair value hedges. Changes in the fair value of the derivative and, to the extent that it is highly effective, changes in the fair value of the hedged liability, are recorded within General, Administrative and Other in the Condensed Consolidated Statements of Operations. The fair value of the derivative instrument is reflected within Other Assets in the Condensed Consolidated Statements of Financial Condition.

Freestanding Derivatives

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

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

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 based on each contract s fair value at the reporting date.

	September 30, 2011				December 31, 2010			
	Assets		Liabilities		Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
Fair Value Hedges								
Interest Rate Swaps	$ 450,000	$ 57,820	$	$	$ 450,000	$ 26,192	$	$
Freestanding Derivatives								
Blackstone Other								
Interest Rate Contracts	485,885	735	551,650	858	57,200	56	366,857	922
Foreign Currency Contracts	34,681	1,451	12,169	371	10,088	283	13,221	74
Credit Default Swaps	10,000	1,336						
Investments of Consolidated Blackstone Funds								
Foreign Currency Contracts	287,434	35,738	103,995	3,492				
Interest Rate Contracts	81,109	6,113	162,500	12,425				
Other	266	1	217	137	409	2	212	2
Freestanding Derivatives	899,375	45,374	830,531	17,283	67,697	341	380,290	998
Total	$ 1,349,375	$ 103,194	$ 830,531	$ 17,283	$ 517,697	$ 26,533	$ 380,290	$ 998

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Fair Value Hedges Interest Rate Swaps				
Hedge Ineffectiveness	$ 4,191	$ 2,065	$ 4,788	$ 6,704
Excluded from Assessment of Effectiveness	(10,490)	(7,639)	(10,864)	(9,743)
Freestanding Derivatives				
Realized Gains (Losses)				
Interest Rate Contracts	$ (2,558)	$ (1,119)	$ (3,578)	$ (1,920)
Foreign Currency Contracts	944	(867)	137	363
Other	(43)	(35)	(65)	(160)
Total	$ (1,657)	$ (2,021)	$ (3,506)	$ (1,717)
Net Change in Unrealized Gain (Loss)				
Interest Rate Contracts	$ 3,822	$ 1,849	$ 6,007	$ 489
Foreign Currency Contracts	(19,075)	383	(15,087)	(76)
Credit Default Swaps	42		42	
Other	(83)	87	(101)	64
Total	$ (15,294)	$ 2,319	$ (9,139)	$ 477

As of September 30, 2011 and December 31, 2010, the Partnership had not designated any derivatives as cash flow hedges or hedges of net investments in foreign operations.

7. FAIR VALUE OPTION

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

	September 30, 2011	December 31, 2010
Assets		
Loans and Receivables	$ 65,186	$ 131,290
Assets of Consolidated CLO Vehicles		
Corporate Loans	7,999,853	6,351,966
Corporate Bonds	140,436	157,997
Other	40,830	12,076
	$ 8,246,305	$ 6,653,329

Liabilities		
Liabilities of Consolidated CLO Vehicles		
Senior Secured Notes	$ 7,869,252	$ 5,877,957
Subordinated Notes	790,962	555,632
	$ 8,660,214	$ 6,433,589

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

The following tables present 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,			
	2011		2010	
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
Assets				
Loans and Receivables	$	$ 50	$ 5,310	$ (1,837)
Equity Securities			(349)	(501)
Assets of Consolidated CLO Vehicles				
Corporate Loans	16,928	(453,095)	(8,133)	62,484
Corporate Bonds	65	(11,129)	(1,005)	9,695
Other	10,996	(16,205)		(2,171)
	$ 27,989	$ (480,379)	$ (4,177)	$ 67,670
Liabilities				
Liabilities of Consolidated CLO Vehicles				
Senior Secured Notes	$ 1,915	$ 222,379	$ (1,139)	$ 106,708
Subordinated Notes	(4,694)	(32,581)		(267)
	$ (2,779)	$ 189,798	$ (1,139)	$ 106,441

	Nine Months Ended September 30,			
	2011		2010	
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
Assets				
Loans and Receivables	$	$ (237)	$ 5,695	$ (101)
Debt Securities			(16)	
Equity Securities			(350)	
Assets of Consolidated CLO Vehicles				
Corporate Loans	82,040	(486,816)	(14,935)	123,770
Corporate Bonds	2,214	(12,452)	(1,005)	3,255
Other	11,476	(12,077)	702	(2,469)
	$ 95,730	$ (511,582)	$ (9,909)	$ 124,455
Liabilities				
Liabilities of Consolidated CLO Vehicles				
Senior Secured Notes	$ (5,798)	$ (110,097)	$ (2,513)	$ 105,194
Subordinated Notes	(4,694)	(100,285)		(87,423)

$ (10,492)	$ (210,382)	$ (2,513)	$ 17,771

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The following table presents for those financial instruments on which the fair value option was elected, the uncollected principal balance on the financial instruments that exceeded the fair value and the fair value and principal balance on the financial instruments that were past due:

	As of September 30, 2011			As of December 31, 2010		
		For Financial Assets Past Due (a)			For Financial Assets Past Due (a)	
	Excess (Deficiency) of Fair Value Over Principal	Fair Value	Excess (Deficiency) of Fair Value Over Principal	Excess (Deficiency) of Fair Value Over Principal	Fair Value	Excess (Deficiency) of Fair Value Over Principal
Loans and Receivables	$ 1,214	$	$	$ 1,391	$	$
Assets of Consolidated CLO Vehicles						
Corporate Loans	(762,368)	11,059	(24,138)	(244,233)	5,393	(2,164)
Corporate Bonds	(14,438)	8,057	(3,409)	(1,545)	5,630	(2,082)
	$ (775,592)	$ 19,116	$ (27,547)	$ (244,387)	$ 11,023	$ (4,246)

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

As of September 30, 2011 and December 31, 2010, no Loans and Receivables on which the fair value option was elected were past due or in non-accrual status.

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8. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The following tables summarize the valuation of the Partnership s financial assets and liabilities by the fair value hierarchy as of September 30, 2011 and December 31, 2010, respectively:

	September 30, 2011			
	Level I	Level II	Level III	Total
Assets				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	$	$ 5,549	$ 816,599	$ 822,148
Equity Securities	72,414	22,053	135,947	230,414
Partnership and LLC Interests	37,296		532,444	569,740
Debt Instruments	100	348,075	9,437	357,612
Assets of Consolidated CLO Vehicles				
Corporate Loans		7,638,311	319,691	7,958,002
Corporate Bonds		140,436		140,436
Freestanding Derivatives Foreign Currency Contracts		35,738		35,738
Freestanding Derivatives Interest Rate Contracts		6,113		6,113
Other		36,543	4,287	40,830
Total Investments of Consolidated Blackstone Funds	109,810	8,232,818	1,818,405	10,161,033
Blackstone s Treasury Cash Management Strategies	303,887	776,145	200	1,080,232
Money Market Funds	163,417			163,417
Freestanding Derivatives				
Interest Rate Contracts	628	107		735
Foreign Currency Contracts		1,451		1,451
Credit Default Swaps		1,336		1,336
Derivative Instruments Used as Fair Value Hedges		57,820		57,820
Loans and Receivables			65,186	65,186
Other Investments	9,020	649	19,115	28,784
	$ 586,762	$ 9,070,326	$ 1,902,906	$ 11,559,994
Liabilities				
Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes	$	$	$ 7,869,252	$ 7,869,252
Subordinated Notes			790,962	790,962
Freestanding Derivatives Foreign Currency Contracts		3,492		3,492
Freestanding Derivatives Interest Rate Contracts		12,425		12,425
Freestanding Derivatives				
Interest Rate Contracts	553	305		858
Foreign Currency Contracts		371		371
Securities Sold, Not Yet Purchased	761	194,796		195,557
	$ 1,314	$ 211,389	$ 8,660,214	$ 8,872,917

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

	December 31, 2010			
	Level I	**Level II**	**Level III**	**Total**
Assets				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	$	$ 2,333	$ 723,583	$ 725,916
Equity Securities	133,483	24,007	136,614	294,104
Partnership and LLC Interests			500,162	500,162
Debt Instruments	107	138,518	11,481	150,106
Assets of Consolidated CLO Vehicles				
Corporate Loans		6,131,106	220,860	6,351,966
Corporate Bonds		157,997		157,997
Other		2,405	9,671	12,076
Total Investments of Consolidated Blackstone Funds	133,590	6,456,366	1,602,371	8,192,327
Blackstone s Treasury Cash Management Strategies	442,700	453,667		896,367
Money Market Funds	165,957			165,957
Freestanding Derivatives				
Interest Rate Contracts	13	43		56
Foreign Currency Contracts		283		283
Derivative Instruments Used as Fair Value Hedges		26,192		26,192
Loans and Receivables			131,290	131,290
Other Investments	6,852	362	19,672	26,886
	$ 749,112	$ 6,936,913	$ 1,753,333	$ 9,439,358
Liabilities				
Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes	$	$	$ 5,877,957	$ 5,877,957
Subordinated Notes			555,632	555,632
Freestanding Derivatives				
Interest Rate Contracts	19	903		922
Foreign Currency Contracts		74		74
Securities Sold, Not Yet Purchased	531	116,157		116,688
	$ 550	$ 117,134	$ 6,433,589	$ 6,551,273

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

There were no significant transfers between Level I and Level II during the three months ended September 30, 2011.

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The following table summarizes the valuation methodology used in the determination of the fair value of financial instruments for which Level III inputs were used as of September 30, 2011:

Valuation Methodology	Private Equity	Real Estate	Hedge Fund Solutions	Credit Businesses	Total
Third-Party Fund Managers			41%		41%
Specific Valuation Metrics	14%	24%	1%	20%	59%
	14%	24%	42%	20%	100%

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

Level III Financial Assets at Fair Value
Three Months Ended September 30,

	2011				2010			
	Investments of Consolidated Funds	Loans and Receivables	Other Investments	Total	Investments of Consolidated Funds	Loans and Receivables	Other Investments	Total
Balance, Beginning of Period	$ 1,837,853	$ 127,108	$ 138,713	$ 2,103,674	$ 1,414,606	$ 26,844	$ 18,875	$ 1,460,325
Transfer In Due to Consolidation and Acquisition (a)	13,506			13,506	200			200
Transfer In to Level III (b)	120,184			120,184	11,526			11,526
Transfer Out of Level III (b)	(13,153)			(13,153)	(7,782)			(7,782)
Purchases	135,916	58,153		194,069	N/A	N/A	N/A	N/A
Sales	(178,082)	(120,315)	(118,175)	(416,572)	N/A	N/A	N/A	N/A
Settlements		(92)		(92)	N/A	N/A	N/A	N/A
Purchases (Sales), Net	N/A	N/A	N/A	N/A	(60,156)	(29,126)	(233)	(89,515)
Realized Gains (Losses), Net	39,601		947	40,548	(11,938)	5,310	(851)	(7,479)
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	(137,420)	332	(2,170)	(139,258)	126,132	(3,028)	(291)	122,813
Balance, End of Period	$ 1,818,405	$ 65,186	$ 19,315	$ 1,902,906	$ 1,472,588	$	$ 17,500	$ 1,490,088

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	Level III Financial Assets at Fair Value Nine Months Ended September 30,							
	2011				2010			
	Investments of Consolidated Funds	Loans and Receivables	Other Investments	Total	Investments of Consolidated Funds	Loans and Receivables	Other Investments	Total
Balance, Beginning of Period	$ 1,602,371	$ 131,290	$ 19,672	$ 1,753,333	$ 1,192,464	$ 68,549	$ 46,578	$ 1,307,591
Transfer In Due to Consolidation and Acquisition (a)	23,076			23,076	227,794			227,794
Transfer In to Level III (b)	126,398			126,398	11,706			11,706
Transfer Out of Level III (b)	(129,330)			(129,330)	(28,329)			(28,329)
Purchases	526,796	184,243	117,200	828,239	N/A	N/A	N/A	N/A
Sales	(350,261)	(250,214)	(118,706)	(719,181)	N/A	N/A	N/A	N/A
Settlements		(1,391)		(1,391)	N/A	N/A	N/A	N/A
Purchases (Sales), Net	N/A	N/A	N/A	N/A	(145,720)	(74,244)	(29,701)	(249,665)
Realized Gains (Losses), Net	43,598		1,706	45,304	(29,331)	5,695	104	(23,532)
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	(24,243)	1,258	(557)	(23,542)	244,004		519	244,523
Balance, End of Period	$ 1,818,405	$ 65,186	$ 19,315	$ 1,902,906	$ 1,472,588	$	$ 17,500	$ 1,490,088

	Level III Financial Liabilities at Fair Value Three Months Ended September 30,					
	2011			2010		
	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total
Balance, Beginning of Period	$ 7,859,527	$ 706,649	$ 8,566,176	$ 5,483,483	$ 443,847	$ 5,927,330
Transfer In Due to Consolidation and Acquisition (a)	625,480	57,170	682,650	102,631		102,631
Issuances	360,007	42,026	402,033	N/A	N/A	N/A
Settlements	(640,049)	(31,033)	(671,082)	N/A	N/A	N/A
Purchases (Sales), Net	N/A	N/A	N/A	(55,875)		(55,875)
Realized Gains (Losses), Net	(1,915)	4,694	2,779			
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	(333,798)	11,456	(322,342)	(75,482)	2,297	(73,185)
Balance, End of Period	$ 7,869,252	$ 790,962	$ 8,660,214	$ 5,454,757	$ 446,144	$ 5,900,901

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	Level III Financial Liabilities at Fair Value					
	Nine Months Ended September 30,					
	2011			2010		
	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total
Balance, Beginning of Period	$ 5,877,957	$ 555,632	$ 6,433,589	$	$	$
Transfer In Due to Consolidation and Acquisition (a)	2,455,379	152,736	2,608,115	5,751,806	364,829	6,116,635
Issuances	360,411	42,026	402,437	N/A	N/A	N/A
Settlements	(875,322)	(43,513)	(918,835)	N/A	N/A	N/A
Purchases (Sales), Net	N/A	N/A	N/A	(79,085)		(79,085)
Realized Gains (Losses), Net	5,798	4,694	10,492			
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	45,029	79,387	124,416	(217,964)	81,315	(136,649)
Balance, End of Period	$ 7,869,252	$ 790,962	$ 8,660,214	$ 5,454,757	$ 446,144	$ 5,900,901

N/A Not applicable.

(a) Represents the transfer into Level III of financial assets and liabilities held by CLO vehicles as a result of the application of consolidation guidance effective January 1, 2010 and as a result of the acquisition of management contracts on April 1, 2010, July 20, 2010 and May 16, 2011.

(b) Transfers in and out of Level III financial assets and liabilities were due to changes in the observability of inputs used in the valuation of such assets and liabilities.

9. VARIABLE INTEREST ENTITIES

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

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Notes to Condensed Consolidated Financial Statements (Continued)

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The assets and liabilities of the consolidated VIEs included in the Condensed Consolidated Statements of Financial Condition were as follows:

	September 30, 2011			December 31, 2010		
	Consolidated CLO Vehicles	All Other Consolidated Blackstone Funds	Total	Consolidated CLO Vehicles	All Other Consolidated Blackstone Funds	Total
Assets						
Cash Held by Blackstone Funds and Other	$ 647,597	$ 126,139	$ 773,736	$ 662,776	$ 44,846	$ 707,622
Investments	8,181,120	818,958	9,000,078	6,522,038	902,291	7,424,329
Accounts Receivable	35,127	206	35,333	21,669	711	22,380
Due from Affiliates		35,925	35,925		30,182	30,182
Other Assets	26,395	1,174	27,569	17,651	2,172	19,823
Total Assets	$ 8,890,239	$ 982,402	$ 9,872,641	$ 7,224,134	$ 980,202	$ 8,204,336
Liabilities						
Loans Payable	$ 8,330,711	$ 17,388	$ 8,348,099	$ 6,144,490	$ 9,689	$ 6,154,179
Due to Affiliates	329,503	17,796	347,299	289,099	15,870	304,969
Accounts Payable, Accrued Expenses and Other	246,702	5,964	252,666	311,965	18,710	330,675
Total Liabilities	$ 8,906,916	$ 41,148	$ 8,948,064	$ 6,745,554	$ 44,269	$ 6,789,823

There is no recourse to the Partnership for the consolidated VIEs liabilities including the liabilities of the consolidated CLO vehicles. The assets and liabilities of consolidated VIEs comprise primarily investments and notes payable and are included within Investments, Loans Payable and Due to Affiliates, respectively, in the Condensed Consolidated Statements of Financial Condition.

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

	September 30, 2011	December 31, 2010
Investments	$ 193,567	$ 89,743
Receivables	72,554	178,719
Total VIE Assets	266,121	268,462
VIE Liabilities		168
Potential Clawback Obligation	8,545	4,717

Maximum Exposure to Loss	$ 274,666	$ 273,347

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Notes to Condensed Consolidated Financial Statements (Continued)

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10. REVERSE REPURCHASE AND REPURCHASE AGREEMENTS

At September 30, 2011, the Partnership received securities, primarily U.S. and non-U.S. government and agency securities, asset-backed securities and corporate debt, with a fair value of $194.8 million and cash as collateral for reverse repurchase agreements that could be repledged, delivered or otherwise used. Securities with a fair value of $194.8 million were repledged, delivered or used to settle Securities Sold, Not Yet Purchased. The Partnership also pledged securities with a carrying value of $210.2 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

11. BORROWINGS

On April 8, 2011, indirect subsidiaries of Blackstone entered into an amendment to the $1.02 billion revolving credit facility (the Credit Facility) with Citibank, N.A., as Administrative Agent. The amendment extended the maturity date of the Credit Facility from March 23, 2013 to April 8, 2016. As of September 30, 2011, Blackstone had no outstanding borrowings under the Credit Facility.

The carrying value and fair value of the Blackstone issued notes as of September 30, 2011 and December 31, 2010 were:

	September 30, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Blackstone Issued 5.875%, $400 Million Par, Notes Due 3/15/2021	$ 398,201	$ 401,680	$ 398,097	$ 398,097
Blackstone Issued 6.625%, $600 Million Par, Notes Due 8/15/2019	$ 650,786	$ 638,040	$ 612,814	$ 612,814

Included within Loans Payable and Due to Affiliates are amounts due to holders of debt securities issued by Blackstone s consolidated CLO vehicles. At September 30, 2011 and December 31, 2010, the Partnership s borrowings through consolidated CLO vehicles consisted of the following:

	September 30, 2011			December 31, 2010		
	Borrowing Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years	Borrowing Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years
Senior Secured Notes	$ 8,513,974	1.68%	4.2	$ 6,466,794	1.33%	5.2
Subordinated Notes	1,170,076	(a)	6.4	895,300	(a)	7.7
	$ 9,684,050			$ 7,362,094		

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

Included within Senior Secured Notes and Subordinated Notes as of September 30, 2011 are amounts due to non-consolidated affiliates of $112.8 million and $300.0 million, respectively. The fair value of Senior Secured and Subordinated Notes as of September 30, 2011 was

$7.9 billion and $791.0 million, respectively, of which $109.4 million and $220.1 million represents the amounts due to affiliates.

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Included within Senior Secured Notes and Subordinated Notes as of December 31, 2010 are amounts due to non-consolidated affiliates of $99.3 million and $293.4 million, respectively. The fair value of Senior Secured and Subordinated Notes as of December 31, 2010 was $5.9 billion and $555.6 million, respectively, of which $78.0 million and $211.1 million represents the amounts due to affiliates.

The Loans Payable of the consolidated CLO vehicles are collateralized by assets held by each respective CLO vehicle and assets of one vehicle may not be used to satisfy the liabilities of another. As of September 30, 2011 and December 31, 2010, the fair value of the consolidated CLO assets was $8.9 billion and $7.2 billion, respectively. This collateral consisted of Cash, Corporate Loans, Corporate Bonds and other securities.

Scheduled principal payments for borrowings as of September 30, 2011 were as follows:

	Operating Borrowings	Blackstone Fund Facilities / CLO Vehicles	Total Borrowings
2011	$ 297	$	$ 297
2012	7,849	13,489	21,338
2013	1,920	83,558	85,478
2014	5,041	350,607	355,648
2015		680,746	680,746
Thereafter	1,000,000	8,573,038	9,573,038
Total	$ 1,015,107	$ 9,701,438	$ 10,716,545

12. INCOME TAXES

Blackstone s effective tax rate was 0.77% and (2.95)% for the three months ended September 30, 2011 and 2010, respectively, and (15.18)% and (3.44)% for the nine months ended September 30, 2011 and 2010, respectively. Blackstone s income tax provision was a benefit of $7.6 million and a benefit of $4.2 million for the three months ended September 30, 2011 and 2010, respectively, and an expense of $95.4 million and an expense of $24.8 million for the nine months ended September 30, 2011 and 2010, respectively.

Blackstone s effective tax rate for the three and nine months ended September 30, 2011 and 2010 was substantially due to the following: (a) certain corporate subsidiaries are subject to federal, state, local and foreign income taxes as applicable and other subsidiaries are subject to New York City unincorporated business taxes, and (b) a portion of compensation charges are not deductible for tax purposes.

13. NET INCOME (LOSS) PER COMMON UNIT

Basic and diluted net income (loss) per common unit for the three and nine months ended September 30, 2011 and September 30, 2010 was calculated as follows:

Three Months Ended September 30,		Nine Months Ended September 30,	
2011	2010	2011	2010

Net Income (Loss) Attributable to The Blackstone Group L.P.	$ (274,567)	$ (44,358)	$ (145,626)	$ (359,055)
Net (Loss) Per Common Unit	$ (0.56)	$ (0.12)	$ (0.31)	$ (1.02)
Total Weighted-Average Common Units Outstanding	487,189,657	370,101,582	470,551,727	352,794,385

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

The following table summarizes the anti-dilutive securities for the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
Weighted-Average Unvested Deferred Restricted Common Units	20,767,022	23,636,653	23,121,018	26,542,362
Weighted-Average Blackstone Holdings Partnership Units	616,168,175	727,528,593	633,174,021	745,006,116

Unit Repurchase Program

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

During the nine months ended September 30, 2011, Blackstone repurchased 116,270 vested Blackstone Holdings Partnership Units as part of the unit repurchase program for a total cost of $2.1 million. The repurchase resulted in a decrease in Blackstone s ownership interest in Blackstone Holdings equity of $1.7 million. As of September 30, 2011, the amount remaining available for repurchases under this program was $335.8 million.

During the nine months ended September 30, 2010, Blackstone repurchased 84,888 vested Blackstone Common Units as part of the unit repurchase program for a total cost of $1.2 million.

14. EQUITY-BASED COMPENSATION

The Partnership has granted equity-based compensation awards to Blackstone s senior managing directors, non-partner professionals, non-professionals and selected external advisors under the Partnership s 2007 Equity Incentive Plan (the Equity Plan), the majority of which to date were granted in connection with the IPO. The Equity Plan allows for the granting of options, unit appreciation rights or other unit-based awards (units, restricted units, restricted common units, deferred restricted common units, phantom restricted common units or other unit-based awards based in whole or in part on the fair value of the Blackstone Common Units or Blackstone Holdings Partnership Units) which may contain certain service or performance requirements. As of January 1, 2011, the Partnership had the ability to grant 162,380,981 units under the Equity Plan.

For the three and nine months ended September 30, 2011, the Partnership recorded compensation expense of $240.1 million and $1.1 billion, respectively, in relation to its equity-based awards with corresponding tax benefits of $5.1 million and $13.8 million, respectively. For the three and nine months ended September 30, 2010, the Partnership recorded compensation expense of $457.4 million and $1.9 billion, respectively, in relation to its equity-based awards with corresponding tax benefits of $2.8 million and $7.4 million, respectively. As of September 30, 2011, there was $2.8 billion of estimated unrecognized compensation expense related to unvested awards. This cost is expected to be recognized over a weighted-average period of 3.5 years.

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Total vested and unvested outstanding units, including Blackstone Common Units, Blackstone Holdings Partnership Units and deferred restricted common units, were 1,123,891,420 as of September 30, 2011. Total outstanding unvested phantom units were 218,583 as of September 30, 2011.

A summary of the status of the Partnership s unvested equity-based awards as of September 30, 2011 and a summary of changes during the period January 1, 2011 through September 30, 2011 is presented below:

	Blackstone Holdings		The Blackstone Group L.P.			
			Equity Settled Awards		Cash Settled Awards	
Unvested Units	Partnership Units	Weighted-Average Grant Date Fair Value	Deferred Restricted Common Units and Options	Weighted-Average Grant Date Fair Value	Phantom Units	Weighted-Average Grant Date Fair Value
Balance, December 31, 2010	149,225,318	$ 30.58	19,118,949	$ 21.00	225,841	$ 13.98
Granted	3,077,026	14.49	3,793,917	15.10	532	14.84
Vested	(49,803,927)	30.63	(4,298,032)	24.98	(2,842)	13.98
Forfeited	(9,339,015)	30.41	(1,163,904)	21.50	(4,948)	15.81
Balance, September 30, 2011	93,159,402	$ 30.04	17,450,930	$ 18.69	218,583	$ 12.62

Units Expected to Vest

The following unvested units, after expected forfeitures, as of September 30, 2011, are expected to vest:

	Units	Weighted-Average Service Period in Years
Blackstone Holdings Partnership Units	86,866,268	3.6
Deferred Restricted Blackstone Common Units and Options	14,508,043	2.9
Total Equity-Based Awards	101,374,311	3.5
Phantom Units	200,164	3.7

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15. RELATED PARTY TRANSACTIONS

Affiliate Receivables and Payables

As of September 30, 2011 and December 31, 2010, Due from Affiliates and Due to Affiliates comprised the following:

	September 30, 2011	December 31, 2010
Due from Affiliates		
Accrual for Potential Clawback of Previously Distributed Carried Interest	$ 162,731	$ 180,672
Primarily Interest Bearing Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees for Investments in Blackstone Funds	230,283	169,413
Amounts Due from Portfolio Companies and Funds	169,268	175,872
Investments Redeemed in Non-Consolidated Funds of Funds	4,384	43,790
Management and Performance Fees Due from Non-Consolidated Funds of Funds	71,631	107,547
Payments Made on Behalf of Non-Consolidated Entities	95,675	81,689
Advances Made to Certain Non-Controlling Interest Holders and Blackstone Employees	9,646	36,412
	$ 743,618	$ 795,395

	September 30, 2011	December 31, 2010
Due to Affiliates		
Due to Certain Non-Controlling Interest Holders in Connection with the Tax Receivable Agreements	$ 1,301,227	$ 1,114,609
Accrual for Potential Repayment of Previously Received Performance Fees	261,956	273,829
Due to Note-Holders of Consolidated CLO Vehicles	329,502	274,020
Distributions Received on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees	22,136	77,362
Distributions Received on Behalf of Non-Consolidated Entities	18,704	15,970
Payments Made by Non-Consolidated Entities	10,748	6,497
	$ 1,944,273	$ 1,762,287

Interests of the Founder, Senior Managing Directors and Employees

The founder, senior managing directors and employees invest on a discretionary basis in the Blackstone Funds both directly and through consolidated entities. Their investments may be subject to preferential management fee and performance fee arrangements. As of September 30, 2011 and December 31, 2010, the founder s, other senior managing directors and employees investments aggregated $883.5 million and $832.8 million, respectively, and the founder s, other senior managing directors and employees share of the Net Income Attributable to Redeemable Non-Controlling and Non-Controlling Interests in Consolidated Entities aggregated $(36.2) million and $60.4 million for the three months ended September 30, 2011 and 2010, respectively, and $95.6 million and $142.1 million for the nine months ended September 30, 2011 and 2010, respectively.

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Revenues Earned from Affiliates

Management and Advisory Fees earned from affiliates totaled $56.9 million and $34.2 million for the three months ended September 30, 2011 and 2010, respectively. Management and Advisory Fees earned from affiliates totaled $245.9 million and $110.4 million for the nine months ended September 30, 2011 and 2010, respectively. Fees relate primarily to transaction and monitoring fees which are made in the ordinary course of business and under terms that would have been obtained from unaffiliated third parties.

Loans to Affiliates

Loans to affiliates consist of interest-bearing advances to certain Blackstone individuals to finance their investments in certain Blackstone Funds. These loans earn interest at Blackstone s cost of borrowing and such interest totaled $0.6 million and $0.4 million for the three months ended September 30, 2011 and 2010, respectively, and $1.9 million and $1.5 million for the nine months ended September 30, 2011 and 2010, respectively. No such loans to any director or executive officer of Blackstone have been made or were outstanding since March 22, 2007, the date of Blackstone s initial filing with the Securities and Exchange Commission of a registration statement relating to its initial public offering.

Contingent Repayment Guarantee

Blackstone and its personnel who have received Carried Interest distributions have guaranteed payment on a several basis (subject to a cap) to the Carry Funds of any clawback obligation with respect to the excess Carried Interest allocated to the general partners of such funds and indirectly received thereby to the extent that either Blackstone or its personnel fails to fulfill its clawback obligation, if any. The Accrual for Possible Repayment of Previously Received Performance Fees represents amounts previously paid to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Carry Funds were to be liquidated based on the fair value of their underlying investments as of September 30, 2011. See Note 16. Commitments and Contingencies Contingencies Contingent Obligations (Clawback) .

Aircraft and Other Services

In the normal course of business, Blackstone personnel have made use of aircraft owned as personal assets by Stephen A. Schwarzman (Personal Aircraft). In addition, on occasion, Mr. Schwarzman and his family have made use of an aircraft in which Blackstone owns a fractional interest, as well as other assets of Blackstone. Mr. Schwarzman paid for his purchases of the aircraft himself and bears all operating, personnel and maintenance costs associated with their operation. In addition, Mr. Schwarzman is charged for his and his family s personal use of Blackstone assets based on market rates and usage. Payment by Blackstone for the use of the Personal Aircraft by other Blackstone employees are made at market rates. Personal use of Blackstone resources are also reimbursed to Blackstone at market rates. The transactions described herein are not material to the Condensed Consolidated Financial Statements.

Tax Receivable Agreements

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

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

Assuming no material changes in the relevant tax law and that the corporate taxpayers earn sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, the expected future payments under the tax receivable agreements (which are taxable to the recipients) will aggregate $1,301.2 million over the next 15 years. The after-tax net present value of these estimated payments totals $350.3 million assuming a 15% discount rate and using Blackstone s most recent projections relating to the estimated timing of the benefit to be received. Future payments under the tax receivable agreements in respect of subsequent exchanges would be in addition to these amounts. The payments under the tax receivable agreements are not conditioned upon continued ownership of Blackstone equity interests by the pre-IPO owners and the others mentioned above.

Other

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

16. COMMITMENTS AND CONTINGENCIES

Commitments

Investment Commitments

Blackstone had $1.4 billion of investment commitments as of September 30, 2011 representing general partner capital funding commitments to the Blackstone Funds, limited partner capital funding to other funds and Blackstone principal investment commitments. The consolidated Blackstone Funds had signed investment commitments of $29.9 million as of September 30, 2011 which includes $9.8 million of signed investment commitments for portfolio company acquisitions in the process of closing.

Contingencies

Guarantees

Certain of Blackstone s consolidated real estate funds guarantee payments to third parties in connection with the on-going business activities and/or acquisitions of their Portfolio Companies. There is no direct recourse to the Partnership to fulfill such obligations. To the extent that underlying funds are required to fulfill guarantee obligations, the Partnership s invested capital in such funds is at risk. Total investments at risk in respect of guarantees extended by consolidated real estate funds was $5.2 million as of September 30, 2011.

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Contingent Performance Fees

There were $103.5 million of segment level Performance Fees related to the hedge funds in the Hedge Fund Solutions, Credit Businesses and Real Estate segments through the period ended September 30, 2011 attributable to arrangements where the measurement period had not ended. Measurement periods may be greater than the current reporting period. On a consolidated basis, after eliminations, such Performance Fees were $103.5 million for the nine months ended September 30, 2011.

Litigation

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

Contingent Obligations (Clawback)

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

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

The following table presents the clawback obligations by segment:

	September 30, 2011			December 31, 2010		
Segment	**Blackstone Holdings**	**Current and Former Personnel**	**Total**	**Blackstone Holdings**	**Current and Former Personnel**	**Total**
Private Equity	$ 68,601	$ 122,430	$ 191,031	$ 62,534	$ 118,845	$ 181,379
Real Estate	30,624	40,301	70,925	30,623	61,827	92,450
Total	$ 99,225	$ 162,731	$ 261,956	$ 93,157	$ 180,672	$ 273,829

A portion of the Carried Interest paid to current and former Blackstone personnel is held in segregated accounts in the event of a cash clawback obligation. These segregated accounts are not included in the Condensed Consolidated Financial Statements of the Partnership, except to the extent a portion of the assets held in the segregated accounts may be allocated to a consolidated Blackstone fund of hedge funds. At September 30, 2011, $492.8 million was held in segregated accounts for the purpose of meeting any clawback obligations of current and former personnel if such payments are required.

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17. SEGMENT REPORTING

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

As described in Note 2. Summary of Significant Accounting Policies Basis of Presentation , in January 2011, Blackstone separated its Credit and Marketable Alternatives segment into two new segments: Hedge Fund Solutions and Credit Businesses.

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

Private Equity Blackstone s Private Equity segment comprises its management of private equity funds.

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

Hedge Fund Solutions Blackstone s Hedge Fund Solutions segment is comprised of Blackstone Alternative Asset Management (BAAM), an institutional solutions provider utilizing hedge funds across a variety of strategies and the Indian-focused and Asian-focused closed-end mutual funds.

Credit Businesses Blackstone s Credit Businesses segment is comprised principally of GSO and manages credit-oriented funds, CLOs, credit-focused separately managed accounts and publicly registered debt-focused investment companies.

Financial Advisory Blackstone s Financial Advisory segment comprises its financial advisory services, restructuring and reorganization advisory services and Park Hill Group, which provides fund placement services for alternative investment funds.

These business segments are differentiated by their various sources of income. The Private Equity, Real Estate, Hedge Fund Solutions and Credit Businesses segments primarily earn their income from management fees and investment returns on assets under management, while the Financial Advisory segment primarily earns its income from fees related to investment banking services and advice and fund placement services.

Blackstone uses Economic Net Income (ENI) as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its five segments. ENI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges arise from Blackstone s IPO and other corporate actions, including acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration associated with acquisitions. ENI presents revenues and expenses on a basis that deconsolidates the investment funds Blackstone manages.

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

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The following table presents the financial data for Blackstone s five segments for the three months ended September 30, 2011 and 2010:

	Three Months Ended September 30, 2011					
	Private Equity	**Real Estate**	**Hedge Fund Solutions**	**Credit Businesses**	**Financial Advisory**	**Total Segments**
Segment Revenues						
Management and Advisory Fees						
Base Management Fees	$ 85,534	$ 97,925	$ 79,355	$ 59,557	$	$ 322,371
Advisory Fees					86,178	86,178
Transaction and Other Fees, Net	21,430	19,551	740	(26)	98	41,793
Management Fee Offsets	(6,498)	(880)	(258)	(67)		(7,703)
Total Management and Advisory Fees	100,466	116,596	79,837	59,464	86,276	442,639
Performance Fees						
Realized	(17,966)	5,308	5,764	14,791		7,897
Unrealized	(270,014)	(120,176)	(19,861)	(55,125)		(465,176)
Total Performance Fees	(287,980)	(114,868)	(14,097)	(40,334)		(457,279)
Investment Income (Loss)						
Realized	20,548	7,313	1,023	2,807	(44)	31,647
Unrealized	(121,688)	(26,060)	(10,034)	(7,800)	(171)	(165,753)
Total Investment Income (Loss)	(101,140)	(18,747)	(9,011)	(4,993)	(215)	(134,106)
Interest and Dividend Revenue	3,396	3,195	500	1,404	1,615	10,110
Other	141	(1,390)	18	(132)	(304)	(1,667)
Total Revenues	(285,117)	(15,214)	57,247	15,409	87,372	(140,303)
Expenses						
Compensation and Benefits						
Compensation	54,220	55,259	31,319	41,512	61,530	243,840
Performance Fee Compensation						
Realized	(2,443)	2,251	2,257	8,478		10,543
Unrealized	(44,955)	(30,510)	(7,214)	(28,756)		(111,435)
Total Compensation and Benefits	6,822	27,000	26,362	21,234	61,530	142,948
Other Operating Expenses	27,588	23,495	14,421	11,210	20,218	96,932
Total Expenses	34,410	50,495	40,783	32,444	81,748	239,880
Economic Net Income	$ (319,527)	$ (65,709)	$ 16,464	$ (17,035)	$ 5,624	$ (380,183)

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	Three Months Ended September 30, 2010					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit Businesses	Financial Advisory	Total Segments
Segment Revenues						
Management and Advisory Fees						
Base Management Fees	$ 66,077	$ 83,232	$ 69,305	$ 50,820	$	$ 269,434
Advisory Fees					84,541	84,541
Transaction and Other Fees, Net	13,348	8,538	846	216		22,948
Management Fee Offsets	(91)	(401)	(163)	(19)		(674)
Total Management and Advisory Fees	79,334	91,369	69,988	51,017	84,541	376,249
Performance Fees						
Realized	44,814	5,010	872	15,343		66,039
Unrealized	45,499	69,910	14,137	63,199		192,745
Total Performance Fees	90,313	74,920	15,009	78,542		258,784
Investment Income (Loss)						
Realized	9,940	2,159	1,050	658	469	14,276
Unrealized	30,491	83,968	7,831	5,350	607	128,247
Total Investment Income (Loss)	40,431	86,127	8,881	6,008	1,076	142,523
Interest and Dividend Revenue	3,802	3,026	498	1,252	1,609	10,187
Other	1,061	2,330	270	330	477	4,468
Total Revenues	214,941	257,772	94,646	137,149	87,703	792,211
Expenses						
Compensation and Benefits						
Compensation	47,552	43,219	24,506	28,774	66,531	210,582
Performance Fee Compensation						
Realized	10,783	1,806	3,313	9,060		24,962
Unrealized	18,306	46,182	5,075	34,760		104,323
Total Compensation and Benefits	76,641	91,207	32,894	72,594	66,531	339,867
Other Operating Expenses	26,359	18,584	12,388	9,669	17,253	84,253
Total Expenses	103,000	109,791	45,282	82,263	83,784	424,120
Economic Net Income	$ 111,941	$ 147,981	$ 49,364	$ 54,886	$ 3,919	$ 368,091

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THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements (Continued)

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

The following table reconciles the Total Segments to Blackstone s Income (Loss) Before Provision for Taxes for the three months ended September 30, 2011 and 2010:

	Three Months Ended September 30, 2011			Three Months Ended September 30, 2010		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	$ (140,303)	$ 16,224(a)	$ (124,079)	$ 792,211	$ (8,211)(a)	$ 784,000
Expenses	$ 239,880	$ 301,054(b)	$ 540,934	$ 424,120	$ 501,649(b)	$ 925,769
Other Income	$	$ (329,399)(c)	$ (329,399)	$	$ 285,071(c)	$ 285,071
Economic Net Income (Loss)	$ (380,183)	$ (614,229)(d)	$ (994,412)	$ 368,091	$ (224,789)(d)	$ 143,302

(a) The Revenues adjustment principally represents management and performance fees earned from Blackstone Funds which were eliminated in consolidation to arrive at Blackstone consolidated revenues.

(b) The Expenses adjustment represents the addition of expenses of the consolidated Blackstone Funds to the Blackstone unconsolidated expenses, amortization of intangibles and expenses related to transaction-related equity-based compensation to arrive at Blackstone consolidated expenses.

(c) The Other Income adjustment results from the following:

	Three Months Ended September 30, 2011	2010
Fund Management Fees and Performance Fees Eliminated in Consolidation	$ (18,164)	$ (4,764)
Fund Expenses Added in Consolidation	9,843	7,851
Non-Controlling Interests in Income (Loss) of Consolidated Entities	(310,129)	266,347
Transaction-Related Other Income	(10,949)	15,637
Total Consolidation Adjustments and Reconciling Items	$ (329,399)	$ 285,071

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

	Three Months Ended September 30, 2011	2010
Economic Net Income	$ (380,183)	$ 368,091
Adjustments		
Amortization of Intangibles	(45,665)	(40,872)
IPO and Acquisition-Related Charges	(258,435)	(438,568)
Non-Controlling Interests in Income (Loss) of Consolidated Entities	(310,129)	254,651

Total Consolidation Adjustments and Reconciling Items	(614,229)	(224,789)
Income (Loss) Before Provision (Benefit) for Taxes	$ (994,412)	$ 143,302

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THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements (Continued)

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

The following table presents financial data for Blackstone s five segments for the nine months ended September 30, 2011 and 2010:

	September 30, 2011 and the Nine Months Then Ended					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit Businesses	Financial Advisory	Total Segments
Segment Revenues						
Management and Advisory Fees						
Base Management Fees	$ 247,766	$ 290,831	$ 234,257	$ 171,578	$	$ 944,432
Advisory Fees					258,673	258,673
Transaction and Other Fees, Net	109,125	90,382	2,328	1,568	314	203,717
Management Fee Offsets	(22,016)	(2,130)	(578)	(190)		(24,914)
Total Management and Advisory Fees	334,875	379,083	236,007	172,956	258,987	1,381,908
Performance Fees						
Realized	65,785	28,733	7,324	61,870		163,712
Unrealized	(50,287)	677,386	2,833	22,932		652,864
Total Performance Fees	15,498	706,119	10,157	84,802		816,576
Investment Income (Loss)						
Realized	41,476	21,626	15,219	7,278	279	85,878
Unrealized	(15,615)	72,678	(15,778)	2,169	207	43,661
Total Investment Income (Loss)	25,861	94,304	(559)	9,447	486	129,539
Interest and Dividend Revenue	10,098	9,472	1,488	2,759	5,024	28,841
Other	1,617	(15)	84	(81)	115	1,720
Total Revenues	387,949	1,188,963	247,177	269,883	264,612	2,358,584
Expenses						
Compensation and Benefits						
Compensation	177,168	185,378	92,264	106,007	191,659	752,476
Performance Fee Compensation						
Realized	5,324	12,863	2,810	31,800		52,797
Unrealized	(10,182)	167,012	1,099	11,258		169,187
Total Compensation and Benefits	172,310	365,253	96,173	149,065	191,659	974,460
Other Operating Expenses	86,425	74,832	43,504	36,793	57,716	299,270
Total Expenses	258,735	440,085	139,677	185,858	249,375	1,273,730
Economic Net Income	$ 129,214	$ 748,878	$ 107,500	$ 84,025	$ 15,237	$ 1,084,854

Segment Assets	$ 4,199,920	$ 4,057,776	$ 834,493	$ 1,622,194	$ 684,178	$ 11,398,561

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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)

	Nine Months Ended September 30, 2010					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit Businesses	Financial Advisory	Total Segments
Segment Revenues						
Management and Advisory Fees						
Base Management Fees	$ 198,304	$ 249,208	$ 198,704	$ 138,103	$	$ 784,319
Advisory Fees					295,208	295,208
Transaction and Other Fees, Net	61,687	13,459	2,525	1,051	103	78,825
Management Fee Offsets	(91)	(1,000)	(235)	(705)		(2,031)
Total Management and Advisory Fees	259,900	261,667	200,994	138,449	295,311	1,156,321
Performance Fees						
Realized	92,095	27,277	4,010	42,912		166,294
Unrealized	67,028	102,418	21,954	112,940		304,340
Total Performance Fees	159,123	129,695	25,964	155,852		470,634
Investment Income						
Realized	12,586	8,691	6,238	7,182	607	35,304
Unrealized	132,450	210,403	12,962	9,741	1,398	366,954
Total Investment Income	145,036	219,094	19,200	16,923	2,005	402,258
Interest and Dividend Revenue	9,958	7,922	1,326	2,328	4,273	25,807
Other	1,621	64	147	(461)	(797)	574
Total Revenues	575,638	618,442	247,631	313,091	300,792	2,055,594
Expenses						
Compensation and Benefits Compensation	141,074	127,897	71,636	84,099	197,175	621,881
Performance Fee Compensation						
Realized	16,916	12,225	4,440	22,001		55,582
Unrealized	14,354	69,118	7,881	66,678		158,031
Total Compensation and Benefits	172,344	209,240	83,957	172,778	197,175	835,494
Other Operating Expenses	79,467	50,521	36,026	30,126	49,296	245,436
Total Expenses	251,811	259,761	119,983	202,904	246,471	1,080,930
Economic Net Income	$ 323,827	$ 358,681	$ 127,648	$ 110,187	$ 54,321	$ 974,664

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THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements (Continued)

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

The following table reconciles the Total Segments to Blackstone s Income (Loss) Before Provision for Taxes and Total Assets as of and for the nine months ended September 30, 2011 and 2010:

	September 30, 2011 and the Nine Months Then Ended			Nine Months Ended September 30, 2010		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	$ 2,358,584	$ (21,113)(a)	$ 2,337,471	$ 2,055,594	$ (20,267)(a)	$ 2,035,327
Expenses	$ 1,273,730	$ 1,242,899(b)	$ 2,516,629	$ 1,080,930	$ 2,073,319(b)	$ 3,154,249
Other Income	$	$ (449,244)(c)	$ (449,244)	$	$ 397,625(c)	$ 397,625
Economic Net Income (Loss)	$ 1,084,854	$ (1,713,256)(d)	$ (628,402)	$ 974,664	$ (1,695,961)(d)	$ (721,297)
Total Assets	$ 11,398,561	$ 10,670,235(e)	$ 22,068,796			

(a) The Revenues adjustment principally represents management and performance fees earned from Blackstone Funds which were eliminated in consolidation to arrive at Blackstone consolidated revenues.

(b) The Expenses adjustment represents the addition of expenses of the consolidated Blackstone Funds to the Blackstone unconsolidated expenses, amortization of intangibles and expenses related to transaction-related equity-based compensation to arrive at Blackstone consolidated expenses.

(c) The Other Income adjustment results from the following:

	Nine Months Ended September 30, 2011	2010
Fund Management Fees and Performance Fees Eliminated in Consolidation	$ 15,355	$ (10,430)
Fund Expenses Added in Consolidation	22,459	18,631
Non-Controlling Interests in Income (Loss) of Consolidated Entities	(473,733)	367,988
Transactional Other Income	(13,325)	21,436
Total Consolidation Adjustments and Reconciling Items	$ (449,244)	$ 397,625

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

	Nine Months Ended September 30, 2011	2010
Economic Net Income	$ 1,084,854	$ 974,664
Adjustments		
Amortization of Intangibles	(134,744)	(121,206)
IPO and Acquisition-Related Charges	(1,104,779)	(1,915,220)
Non-Controlling Interests in Income (Loss) of Consolidated Entities	(473,733)	340,465

Total Consolidation Adjustments and Reconciling Items	(1,713,256)	(1,695,961)
Income (Loss) Before Provision for Taxes	$ (628,402)	$ (721,297)

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

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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)

18. SUBSEQUENT EVENTS

On October 6, 2011, Blackstone, through GSO, entered into an acquisition agreement for Harbourmaster Capital, a European secured bank loan manager based in Dublin, Ireland. The transaction is expected to close in early 2012 following regulatory and certain third party approvals. Harbourmaster Capital manages various credit products including CLO vehicles and certain of these CLOs may have to be consolidated which would have an impact on Blackstone s Condensed Consolidated Statement of Financial Condition, Condensed Consolidated Statement of Operations and the Condensed Consolidated Statement of Cash Flows.

On November 4, 2011, the agreement of limited partnership of The Blackstone Group L.P. was amended to provide that the common units purchased by China Investment Corporation and its affiliates (CIC) subsequent to Blackstone s IPO will no longer be non-voting. As a result, the 7.7 million non-voting units held by CIC that they purchased subsequent to the IPO will be identical to the units held by all other public unitholders. This amendment does not affect the 101,334,234 non-voting common units purchased by CIC at the time of Blackstone s IPO, which common units remain non-voting.

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ITEM 1A. UNAUDITED SUPPLEMENTAL PRESENTATION OF STATEMENTS OF FINANCIAL CONDITION
THE BLACKSTONE GROUP L.P.

Unaudited Consolidating Statements of Financial Condition

(Dollars in Thousands)

	September 30, 2011			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
Assets				
Cash and Cash Equivalents	$ 592,982	$	$	$ 592,982
Cash Held by Blackstone Funds and Other	145,795	920,818		1,066,613
Investments	5,183,629	10,135,925	(471,158)	14,848,396
Accounts Receivable	395,129	46,542		441,671
Reverse Repurchase Agreements	194,931			194,931
Due from Affiliates	729,922	41,930	(28,234)	743,618
Intangible Assets, Net	678,291			678,291
Goodwill	1,703,602			1,703,602
Other Assets	306,565	27,691	(3,281)	330,975
Deferred Tax Assets	1,467,717			1,467,717
Total Assets	$ 11,398,563	$ 11,172,906	$ (502,673)	$ 22,068,796
Liabilities and Partners Capital				
Loans Payable	$ 1,064,093	$ 8,348,098	$	$ 9,412,191
Due to Affiliates	1,601,759	397,360	(54,846)	1,944,273
Accrued Compensation and Benefits	1,035,342			1,035,342
Securities Sold, Not Yet Purchased	194,769	788		195,557
Repurchase Agreements	210,591			210,591
Accounts Payable, Accrued Expenses and Other Liabilities	306,735	398,171	(6,323)	698,583
Total Liabilities	4,413,289	9,144,417	(61,169)	13,496,537
Redeemable Non-Controlling Interests in Consolidated Entities		723,948		723,948
Partners Capital				
Partners Capital	4,181,368	441,550	(441,550)	4,181,368
Appropriated Partners Capital		(50,111)		(50,111)
Accumulated Other Comprehensive Income	1,499	346		1,845
Non-Controlling Interests in Consolidated Entities	424,378	912,756	46	1,337,180
Non-Controlling Interests in Blackstone Holdings	2,378,029			2,378,029
Total Partners Capital	6,985,274	1,304,541	(441,504)	7,848,311
Total Liabilities and Partners Capital	$ 11,398,563	$ 11,172,906	$ (502,673)	$ 22,068,796

Included within Investments of the Consolidated Operating Partnerships is $1.5 billion representing Performance Fees due from the Blackstone Funds.

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THE BLACKSTONE GROUP L.P.

Unaudited Consolidating Statements of Financial Condition (Continued)

(Dollars in Thousands)

	December 31, 2010			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
Assets				
Cash and Cash Equivalents	$ 588,621	$	$	$ 588,621
Cash Held by Blackstone Funds and Other	57,945	732,454		790,399
Investments	4,301,905	8,141,965	(469,398)	11,974,472
Accounts Receivable	454,752	41,149	(8)	495,893
Reverse Repurchase Agreements	181,425			181,425
Due from Affiliates	753,056	66,627	(24,288)	795,395
Intangible Assets, Net	779,311			779,311
Goodwill	1,703,602			1,703,602
Other Assets	275,021	18,173		293,194
Deferred Tax Assets	1,242,293			1,242,293
Total Assets	$ 10,337,931	$ 9,000,368	$ (493,694)	$ 18,844,605
Liabilities and Partners Capital				
Loans Payable	$ 1,044,719	$ 6,154,179	$	$ 7,198,898
Due to Affiliates	1,470,881	330,773	(39,367)	1,762,287
Accrued Compensation and Benefits	819,925	1,643		821,568
Securities Sold, Not Yet Purchased	116,153	535		116,688
Repurchase Agreements	62,672			62,672
Accounts Payable, Accrued Expenses and Other Liabilities	251,351	377,792	(8)	629,135
Total Liabilities	3,765,701	6,864,922	(39,375)	10,591,248
Redeemable Non-Controlling Interests in Consolidated Entities		600,836		600,836
Partners Capital				
Partners Capital	3,888,211	458,012	(458,012)	3,888,211
Appropriated Partners Capital		470,583		470,583
Accumulated Other Comprehensive Income	4,302			4,302
Non-Controlling Interests in Consolidated Entities	261,200	606,015	3,693	870,908
Non-Controlling Interests in Blackstone Holdings	2,418,517			2,418,517
Total Partners Capital	6,572,230	1,534,610	(454,319)	7,652,521
Total Liabilities and Partners Capital	$ 10,337,931	$ 9,000,368	$ (493,694)	$ 18,844,605

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

Blackstone Market Opportunities Fund L.P.

Blackstone Strategic Alliance Fund L.P.

Blackstone Strategic Alliance Fund II L.P.*

Blackstone Strategic Equity Fund L.P.

Blackstone Value Recovery Fund L.P.

Blackstone/GSO Market Neutral Credit Fund L.P.*

Blackstone/GSO Secured Trust Ltd

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BTD CP Holdings, LP

GSO Co-Investment Partners LLC

GSO Legacy Associates II LLC

GSO Legacy Associates LLC

Shanghai Blackstone Equity Investment Partnership L.P.*

The Asia Opportunities Fund L.P.

Private equity side-by-side investment vehicles

Real estate side-by-side investment vehicles

Mezzanine side-by-side investment vehicles

Collateralized loan obligation vehicles

* Consolidated as of September 30, 2011 only.

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

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

Our Business

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

In January 2011, Blackstone separated its Credit and Marketable Alternatives segment into two new segments: Hedge Fund Solutions and Credit Businesses. Please see Part I. Item 1. Financial Statements Note 2. Summary of Significant Accounting Policies Basis of Presentation for additional information.

Our business is organized into five business segments:

Private Equity. We are a world leader in private equity investing, having managed five general private equity funds, as well as two sector focused funds and a regionally focused fund, since we established this business in 1987. In January 2011, we commenced the investment period on our sixth general private equity fund. Through our private equity funds we pursue transactions throughout the world, including leveraged buyout acquisitions of seasoned companies, transactions involving growth equity or start-up businesses in established industries, minority investments, corporate partnerships, distressed debt, structured securities and industry consolidations, in all cases in strictly friendly transactions.

Real Estate. We are a world leader in real estate investing with an assortment of real estate funds that are diversified geographically and across a variety of sectors. We launched our first real estate fund in 1994 and have managed six opportunistic real estate funds, three European focused real estate funds, and a number of real estate debt investment funds. In addition, in November 2010, we commenced our management of the Bank of America Merrill Lynch Asia real estate platform and in August 2011, we held our initial closing of our next opportunistic real estate fund, BREP VII. Our real estate funds have made significant investments in lodging, major urban office buildings and a variety of real estate operating companies. In addition, our debt investment funds target high yield real estate debt related investment opportunities in the public and private markets, primarily in the United States and Europe.

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

Credit Businesses. Our Credit Businesses segment is comprised principally of GSO Capital Partners LP (GSO). GSO manages a variety of credit-oriented funds including senior credit-oriented funds, distressed debt funds, mezzanine funds and general credit-oriented funds. GSO is a world-wide leader in credit oriented products.

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

We generate our revenues from fees earned pursuant to contractual arrangements with funds, fund investors and fund portfolio companies (including management, transaction and monitoring fees), and from financial advisory services, restructuring and reorganization advisory services and fund placement services for alternative investment funds. We invest in the funds we manage and, in most cases, receive a preferred allocation of income (i.e., a Carried Interest) or an incentive fee from an investment fund in the event that specified cumulative investment returns are achieved. The composition of our revenues will vary based on market conditions and the cyclicality of the different businesses in which we operate. Net investment gains and investment income generated by the Blackstone Funds, principally private equity and real estate funds, are driven by value created by our operating and strategic initiatives as well as overall market conditions. Our funds initially record fund investments at cost and then such investments are subsequently recorded at fair value. Fair values are affected by changes in the fundamentals of the portfolio company, the portfolio company s industry, the overall economy and other market conditions.

Business Environment

Global equity markets declined sharply in the third quarter of 2011. The MSCI World Index fell 17% and volatility increased markedly. Equity fund outflows increased to levels not seen since late 2008, adding to technical pressures in global markets. In credit, high yield spreads meaningfully widened to levels well above their long-term average. Investor caution regarding Europe s sovereign debt crisis and its impact on the regions banks increased, while a deterioration in global economic data increased concerns of slowing growth or another recession. While corporate earnings and liquidity have remained resilient, companies have been hesitant to hire, resulting in sustained high unemployment.

The operating and investment environment remained favorable during the third quarter of 2011. Despite the slowing economy, real estate fundamentals were stable across virtually every major sector, underpinned by a pronounced lack of new supply. In the investment markets, recent volatility in the public debt and equity markets resulted in a decline in disposition activity, as publicly traded REITs suspended acquisition programs due to the deterioration of their share prices in conjunction with the retreat of the major equity indices. While our disposition activity slowed, we continue to see attractive investment opportunities for our funds, with a growing number of distressed sellers with broken capital structures seeking to recapitalize or exit the market entirely, while potential investors with significant levels of readily available capital remain limited.

In the office sector, steady leasing activity coupled with virtually no new supply has allowed many of the major U.S. office markets to stabilize, and in some markets, such as midtown Manhattan, rents have grown significantly over the past 12 months. In the hospitality sector, although publicly traded lodging stocks declined by 20-30% during the third quarter, operating fundamentals remained steady, with U.S. RevPAR up 8% during the third quarter. The retail sector was also stable, supported by growth in U.S. retail sales and leasing demand from national tenants.

Blackstone s businesses are materially affected by the global macroeconomic environment and conditions in the financial markets.

Key Financial Measures and Indicators

Our key financial measures and indicators are discussed below.

Revenues

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other. Please refer to Part I. Item 1. Business Incentive Arrangements / Fee Structure and Part I. Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Revenue Recognition in our 2010 Annual Report on Form 10-K for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

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

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

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

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

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

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

Performance Fees Performance Fees earned on the performance of Blackstone s hedge fund structures are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund s governing agreements. Accrued but unpaid performance fees charged directly to investors in Blackstone s offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Condensed Consolidated Statements of Financial Condition. Performance fees arising on Blackstone s onshore hedge funds are allocated to the general partner. Accrued but unpaid performance fees on onshore funds as of the reporting date are reflected in Investments in the Condensed Consolidated Statements of Financial Condition.

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

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

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

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

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

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

Other Revenue Other Revenue comprises primarily foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

Expenses

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

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

Compensation and Benefits Performance Fee Performance Fee Compensation and Benefits consists of Carried Interest and performance fee allocations to employees, including senior managing directors, participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and performance fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis.

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

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

Non-Controlling Interests in Consolidated Entities

Non-Controlling Interests in Consolidated Entities represent the component of Partners Capital in consolidated entities held by third party investors. Such interests are adjusted for general partner allocations and by subscriptions and redemptions in funds of hedge funds and certain credit-oriented funds which occur during the reporting period. Non-controlling interests related to funds of hedge funds and certain other credit-oriented funds are subject to annual, semi-annual or quarterly redemption by investors in these funds following the expiration of a specified period of time (typically between one and three years), or may be withdrawn subject to a redemption fee in the funds of hedge funds and certain credit-oriented funds during the period when capital may not be withdrawn. As limited partners in these types of funds have been granted redemption rights, amounts relating to third party interests in such consolidated funds are presented as Redeemable Non-Controlling Interests in Consolidated Entities within the Condensed Consolidated Statements of Financial Condition. When redeemable amounts become legally payable to investors, they are classified as a liability and included in Accounts Payable, Accrued Expenses and Other in the Condensed Consolidated Statements of Financial Condition. For all consolidated funds in which redemption rights have not been granted, non-controlling interests are presented within Partners Capital in the Condensed Consolidated Statements of Financial Condition as Non-Controlling Interests in Consolidated Entities.

Income Taxes

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

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

Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining tax expense and in evaluating tax positions including evaluating uncertainties under accounting principles generally accepted in the United States of America (GAAP). Blackstone reviews its tax positions quarterly and adjusts its tax balances as new information becomes available.

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

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There remains some uncertainty regarding Blackstone s future taxation levels. In 2007, Congress considered legislation that would have taxed as corporations publicly traded partnerships that directly or indirectly derived income from investment adviser or asset management services.

In 2008, the U.S. House of Representatives passed a bill that would have generally (a) treated Carried Interest as non-qualifying income under the tax rules applicable to publicly traded partnerships, which would have generally required us to hold interests in entities earning such income through taxable subsidiary corporations by the end of 2010, and (b) taxed Carried Interest as ordinary income for U.S. federal income tax purposes, rather than in accordance with the character of income derived by the underlying fund, which is in many cases capital gain, starting with our 2008 taxable year.

In December 2009, the U.S. House of Representatives passed substantially similar legislation. Such legislation would have taxed Carried Interest as ordinary income starting in 2010. However, under a transition rule, the portion of such legislation treating Carried Interest as non-qualifying income under the tax rules applicable to publicly traded partnerships would not have applied until our first taxable year beginning ten years after the date of the enactment of the legislation.

In May 2010, the U.S. House of Representatives passed similar legislation that would have generally taxed, after 2010, income and gains, including gain on sale, attributable to an investment services partnership interest, or ISPI , as income subject to a new blended tax rate that is higher than the capital gains rate applicable to such income under current law, except to the extent an ISPI would have been considered to be a qualified capital interest under the legislation. The interests we hold in entities that are entitled to receive Carried Interest would have likely been classified as ISPIs for purposes of this legislation. The legislation provided that, for taxable years beginning ten years after the date of enactment, income derived with respect to an ISPI that is not a qualified capital interest and that is treated as ordinary income under this legislation would not be qualifying income under the tax rules applicable to publicly traded partnerships. Therefore, if similar legislation were to be enacted, we generally would be required to hold interests in entities earning income from Carried Interest through taxable subsidiary corporations following such ten-year period. In June 2010, the U.S. Senate considered but did not pass legislation that is generally similar to the legislation passed by the U.S. House of Representatives in May 2010. In September 2010, this previously considered legislation was reintroduced in the U.S. Senate. It is unclear whether or when the U.S. Congress will reconsider similar legislation or if enacted, what provision will be included in any final legislation.

On September 12, 2011, the Obama administration submitted similar legislation to Congress in the American Jobs Act that would tax income and gain, including gain on sale, attributable to an ISPI at ordinary rates, with an exception for certain qualified capital interests. The proposed legislation would also characterize certain income and gain in respect of ISPIs as non-qualifying income under the tax rules applicable to publicly traded partnerships after a ten-year transition period from the effective date, with an exception for certain qualified capital interests. This proposed legislation follows several prior statements by the Obama administration in support of changing the taxation of Carried Interest. The Obama administration supported the adoption of the May 2010 legislation or legislation that would similarly change the treatment of Carried Interest for U.S. federal income tax purposes. In its published revenue proposal for 2012, the Obama administration proposed that the current law regarding the treatment of Carried Interest be changed to subject such income to ordinary income tax (which would be taxed at a higher rate than the proposed blended rate under the House legislation). President Obama reiterated his support for such a change during the course of the deficit reduction deliberations among the President and Congressional leaders from April through July 2011. The Obama administration proposed similar changes in its published revenue proposals for 2010 and 2011.

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

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

Economic Net Income

Blackstone uses Economic Net Income (ENI) as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its five segments. ENI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges arise from Blackstone s initial public offering (IPO) and other corporate actions, including acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration associated with acquisitions. ENI presents revenues and expenses on a basis that deconsolidates the investment funds we manage. (See Note 17. Segment Reporting in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements.)

Distributable Earnings

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

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

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Net Fee Related Earnings from Operations

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

Operating Metrics

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

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

(a) the fair value of the investments held by our carry funds plus the capital that we are entitled to call from investors in those funds pursuant to the terms of their capital commitments to those funds (plus the fair value of co-investments arranged by us that were made by limited partners of our funds in portfolio companies of such funds and on which we receive fees or a Carried Interest allocation);

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

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

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

Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election. Interests related to our funds of hedge funds and certain of our credit-oriented funds are generally subject to annual, semi-annual or quarterly withdrawal or redemption by investors upon advance written notice, with the majority of our funds requiring from 60 days up to 95 days notice, depending on the fund and the liquidity profile of the underlying assets. Investment advisory agreements related to separately managed accounts may generally be terminated by an investor on 30 to 90 days notice.

Fee-Earning Assets Under Management. Fee-Earning Assets Under Management refers to the assets we manage on which we derive management and / or incentive fees. Our Fee-Earning Assets Under Management generally equal the sum of:

(a) for our Blackstone Capital Partners (BCP) and Blackstone Real Estate Partners (BREP) funds where the investment period has not expired, the amount of capital commitments;

(b)

for our BCP and BREP funds where the investment period has expired, the remaining amount of invested capital plus binding investment commitments;

(c) for our real estate debt investment funds (BREDS), the remaining amount of invested capital;

(d) for our credit-oriented carry funds, the amount of invested capital (which may be calculated to include leverage) or net asset value;

(e) the invested capital of co-investments arranged by us that were made by limited partners of our funds in portfolio companies of such funds and on which we receive fees;

(f) the net asset value of our funds of hedge funds, hedge funds (except our credit-oriented closed-end registered investment companies) and our closed-end mutual funds;

(g) the fair value of assets we manage pursuant to separately managed accounts;

(h) the gross amount of underlying assets of our CLOs at cost; and

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

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

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

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

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

Consolidated Results of Operations

Following is a discussion of our consolidated results of operations for the three and nine months ended September 30, 2011 and 2010. For a more detailed discussion of the factors that affected the results of our five business segments (which are presented on a basis that deconsolidates the investment funds we manage) in these periods, see Segment Analysis below.

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The following table sets forth information regarding our consolidated results of operations and certain key operating metrics for the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended September 30,		2011 vs. 2010		Nine Months Ended September 30,		2011 vs. 2010	
	2011	2010	$	%	2011	2010	$	%
	(Dollars in Thousands)							
Revenues								
Management and Advisory Fees	$ 425,193	$ 362,521	$ 62,672	17%	$ 1,335,971	$ 1,123,403	$ 212,568	19%
Performance Fees								
Realized	6,605	66,142	(59,537)	-90%	164,571	171,941	(7,370)	-4%
Unrealized	(462,902)	199,824	(662,726)	N/M	659,987	312,304	347,683	111%
Total Performance Fees	(456,297)	265,966	(722,263)	N/M	824,558	484,245	340,313	70%
Investment Income (Loss)								
Realized	45,596	13,542	32,054	N/M	77,682	29,493	48,189	163%
Unrealized	(145,990)	127,428	(273,418)	N/M	70,116	371,691	(301,575)	-81%
Total Investment Income (Loss)	(100,394)	140,970	(241,364)	N/M	147,798	401,184	(253,386)	-63%
Interest and Dividend Revenue	9,085	10,075	(990)	-10%	27,423	25,922	1,501	6%
Other	(1,666)	4,468	(6,134)	N/M	1,721	573	1,148	N/M
Total Revenues	(124,079)	784,000	(908,079)	N/M	2,337,471	2,035,327	302,144	15%
Expenses								
Compensation and Benefits								
Compensation	494,478	664,004	(169,526)	-26%	1,853,393	2,556,665	(703,272)	-28%
Performance Fee Compensation								
Realized	10,542	24,962	(14,420)	-58%	52,797	55,582	(2,785)	-5%
Unrealized	(111,435)	104,324	(215,759)	N/M	169,188	158,032	11,156	7%
Total Compensation and Benefits	393,585	793,290	(399,705)	-50%	2,075,378	2,770,279	(694,901)	-25%
General, Administrative and Other	124,929	114,291	10,638	9%	380,433	341,853	38,580	11%
Interest Expense	13,785	11,766	2,019	17%	41,773	26,633	15,140	57%
Fund Expenses	8,635	6,422	2,213	34%	19,045	15,484	3,561	23%
Total Expenses	540,934	925,769	(384,835)	-42%	2,516,629	3,154,249	(637,620)	-20%
Other Income (Loss)								
Net Gains (Losses) from Fund Investment Activities	(329,399)	285,071	(614,470)	N/M	(449,244)	397,625	(846,869)	N/M
Income (Loss) Before Provision (Benefit) for Taxes	(994,412)	143,302	(1,137,714)	N/M	(628,402)	(721,297)	92,895	13%
Provision (Benefit) for Taxes	(7,637)	(4,225)	(3,412)	-81%	95,412	24,802	70,610	N/M
Net Income (Loss)	(986,775)	147,527	(1,134,302)	N/M	(723,814)	(746,099)	22,285	3%
Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	(44,776)	23,623	(68,399)	N/M	(22,891)	47,171	(70,062)	N/M

Net Income (Loss) Attributable to Non- Controlling Interests in Consolidated Entities	(265,353)	242,723	(508,076)	N/M	(450,842)	320,816	(771,658)	N/M
Net Loss Attributable to Non-Controlling Interests in Blackstone Holdings	(402,079)	(74,461)	(327,618)	N/M	(104,455)	(755,031)	650,576	86%
Net Loss Attributable to The Blackstone Group L.P.	$ (274,567)	$ (44,358)	$ (230,209)	N/M	$ (145,626)	$ (359,055)	$ 213,429	59%

N/M = not meaningful.

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Revenues

Total Revenues were $(124.1) million for the three months ended September 30, 2011, a decrease of $908.1 million compared to Total Revenues for the three months ended September 30, 2010 of $784.0 million. The decrease in revenues was primarily driven by a decrease of $722.3 million in Performance Fees and a decrease of $241.4 million in Investment Income (Loss), partially offset by an increase of $62.7 million in Management and Advisory Fees. The decrease in Performance Fees across our investment segments was largely driven by the volatility in the public markets as a result of global economic uncertainty. In our Real Estate segment, a material portion of the decrease in Performance Fees was due to the reversal of previously recognized profit allocations, amplified by the catch-up provisions of the funds. The increase in Management and Advisory Fees was primarily attributable to (a) increases in transaction fees due to the continued increase in investment activity and base management fees earned from our management of the Bank of America Merrill Lynch Asia real estate platform within our Real Estate segment, (b) increases in management fees in our Private Equity segment, driven by fees generated from BCP VI and Blackstone Energy Partners (BEP) funds, which had their investment periods commence during the first and third quarters of 2011, respectively, and (c) increases in management fees in our Credit Businesses and Hedge Fund Solutions segments due to higher Fee-Earning Assets Under Management.

Total Revenues were $2.3 billion for the nine months ended September 30, 2011, an increase of $302.1 million compared to Total Revenues for the nine months ended September 30, 2010 of $2.0 billion. The increase in revenues was primarily attributable to an increase of $340.3 million in Performance Fees and an increase of $212.6 million in Management and Advisory Fees. The increase in Performance Fees was due to improved operating performance and projected cash flows resulting in the appreciation in fair value of the investments across our Real Estate carry funds and the impact of the catch-up provisions of the Real Estate funds profit allocations. The increase in Management and Advisory Fees across all segments was attributed to (a) increases in transaction fees in our Real Estate segment, driven by the continued increase in investment activity in our BREP funds, primarily as a result of BREP VI s acquisition of the U.S. assets of Centro in the second quarter of 2011, and management fees earned from the management of the Bank of America Merrill Lynch Asia real estate platform, (b) increases in management fees in our Private Equity segment driven by fees generated from BCP VI, which commenced its investment period during the first quarter of 2011, and one time fees earned from the termination of management advisory service agreements related to portfolio companies that completed initial public offerings, and (c) increases in management fees in our Credit Businesses and Hedge Fund Solutions segments due to higher Fee-Earning Assets Under Management.

Expenses

Expenses were $540.9 million for the three months ended September 30, 2011, a decrease of $384.8 million, or 42%, compared to $925.8 million for the three months ended September 30, 2010. The decrease was primarily attributable to a decrease of $399.7 million across the components of Compensation and Benefits. Performance Fee Compensation decreased $230.2 million due to the reversals of Performance Fee accruals related to the decline in Performance Fees. Compensation decreased $169.5 million from the prior year period to $494.5 million primarily attributable to a decrease in equity-based compensation as a result of the absence of expense related to certain of our equity-based compensation awards that vested at the end of the second quarter of 2010. General, Administrative and Other expenses were $124.9 million for the current quarter, an increase of $10.6 million, driven primarily by the levels of business activity, revenue growth and headcount. Interest Expense increased $2.0 million in the current year quarter due to Blackstone s issuance of its $400 million of senior notes in September 2010.

Expenses were $2.5 billion for the nine months ended September 30, 2011, a decrease of $637.6 million, or 20%, compared to $3.2 billion for the nine months ended September 30, 2010. The decrease was primarily attributable to a decrease of $694.9 million in Compensation and Benefits driven by a decrease in Compensation. Compensation decreased $703.3 million from the prior year period to $1.9 billion principally due to the absence

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of equity-based compensation expense discussed above. General, Administrative and Other expenses were $380.4 million for the current year period, an increase of $38.6 million driven by the same factors as for the quarterly period noted above. Interest Expense was $41.8 million for the current year, an increase of $15.1 million from the same period of 2010, due to the senior notes issuance noted above.

Other Income

Other Income (Loss) was $(329.4) million for the three months ended September 30, 2011, a decrease of $614.5 million compared to $285.1 million for the three months ended September 30, 2010. Other Income (Loss) is attributable to the non-controlling interest holders of the consolidated Blackstone Funds. The change was principally attributable to a decrease in the value of our consolidated CLO vehicles resulting from the general decline in the CLO market.

Other Income (Loss) was $(449.2) million for the nine months ended September 30, 2011, a decrease of $846.9 million compared to $397.6 million for the nine months ended September 30, 2010. Other Income (Loss) is attributable to the non-controlling interest holders of the consolidated Blackstone Funds. The change was principally driven by the same factors discussed above for the three month period.

Operating Metrics

The following table presents certain operating metrics for the three and nine months ended September 30, 2011 and 2010. For a description of how Assets Under Management and Fee-Earning Assets Under Management are determined, please see Key Financial Measures and Indicators Operating Metrics Assets Under Management and Fee-Earning Assets Under Management.

	Fee-Earning Assets Under Management September 30,		Assets Under Management September 30,	
	2011	2010	2011	2010
	(Dollars in Thousands)			
Private Equity	$ 37,006,024	$ 24,311,443	$ 42,967,159	$ 29,202,952
Real Estate	29,981,920	24,345,161	40,709,500	27,129,825
Hedge Fund Solutions	37,231,013	31,760,599	40,373,092	33,166,553
Credit Businesses	28,715,420	23,875,979	33,648,697	29,615,916
Balance, End of Period (a)	$ 132,934,377	$ 104,293,182	$ 157,698,448	$ 119,115,246

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Dollars in Thousands)			
Fee-Earning Assets Under Management				
Balance, Beginning of Period	$ 129,001,206	$ 101,419,981	$ 109,500,222	$ 96,096,997
Inflows, including Commitments (b)	10,841,668	3,359,978	36,052,964	12,143,128
Outflows, including Distributions (c)	(3,639,243)	(2,285,516)	(10,676,959)	(5,216,751)
Market Appreciation (Depreciation) (d)	(3,269,254)	1,798,739	(1,941,850)	1,269,808
Balance, End of Period (a)	$ 132,934,377	$ 104,293,182	$ 132,934,377	$ 104,293,182
Increase	$ 3,933,171	$ 2,873,201	$ 23,434,155	$ 8,196,185
Increase	3%	3%	21%	9%

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(Dollars in Thousands)			
Assets Under Management				
Balance, Beginning of Period	$ 158,703,173	$ 111,148,410	$ 128,123,920	$ 98,183,128
Inflows, including Commitments (b)	9,995,192	3,860,381	38,571,852	14,275,638
Outflows, including Distributions (c)	(4,727,376)	(2,170,385)	(12,001,012)	(6,187,812)
Market Appreciation (Depreciation) (d)	(6,272,541)	6,276,840	3,003,688	12,844,292
Balance, End of Period (a)	$ 157,698,448	$ 119,115,246	$ 157,698,448	$ 119,115,246
Increase (Decrease)	$ (1,004,725)	$ 7,966,836	$ 29,574,528	$ 20,932,118
Increase (Decrease)	-1%	7%	23%	21%

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	2011 vs. 2010 $	2011 vs. 2010 %	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010	2011 vs. 2010 $	2011 vs. 2010 %
	(Dollars in Thousands)				(Dollars in Thousands)			
Capital Deployed								
Limited Partner Capital Invested	$ 4,435,209	$ 2,060,108	$ 2,375,101	115%	$ 9,502,293	$ 4,407,649	$ 5,094,644	116%

(a) Fee-Earning Assets Under Management and Assets Under Management as of September 30, 2011 include $502.2 million from a joint venture in which we are the minority interest holder.

(b) Inflows represent contributions in our hedge funds and closed-end mutual funds, increases in available capital for our carry funds (capital raises, recallable capital and increased side-by-side commitments) and CLOs and increases in the capital we manage pursuant to separately managed account programs.

(c) Outflows represent redemptions in our hedge funds and closed-end mutual funds, client withdrawals from our separately managed account programs, decreases in available capital for our carry funds (expired capital, expense drawdowns and decreased side-by-side commitments) and realizations from the disposition of assets by our carry funds. Also included is the distribution of funds associated with the discontinuation of our proprietary single manager hedge funds.

(d) Market appreciation (depreciation) includes realized and unrealized gains (losses) on portfolio investments and the impact of foreign exchange rate fluctuations.

Fee-Earning Assets Under Management

Fee-Earning Assets Under Management were $132.9 billion at September 30, 2011, an increase of $3.9 billion, or 3%, compared to $129.0 billion at June 30, 2011. Inflows of $10.8 billion were primarily related to (a) inflows of $4.3 billion in our Real Estate segment primarily related to the commencement of BREP VII in August 2011, (b) inflows of $2.8 billion in our Hedge Fund Solutions segment primarily due to growth in its commingled and customized investment products and long only solutions business, (c) inflows of $2.3 billion in our Credit Businesses segment principally due to capital raised across its long only platform and capital deployed from its drawdown funds, and (d) inflows of $1.4 billion in our Private Equity segment primarily related to the first close in our BEP fund and from additional capital raised for our BCP VI fund. Outflows of $3.6 billion were primarily attributable to (a) outflows of $2.0 billion in our Real Estate segment primarily due to the end of BREP VI s investment period, (b) outflows of $1.1 billion in our Credit Businesses segment, due primarily to deleveraging of certain CLO vehicles post their reinvestment periods, and (c) outflows of $375.2 million in our Hedge Fund Solutions segment as a result of, in general, the liquidity needs of limited partners. Net market depreciation of $3.3 billion was principally due to declines and increased volatility in the global markets.

Fee-Earning Assets Under Management were $132.9 billion at September 30, 2011, an increase of $23.4 billion, or 21%, compared to $109.5 billion at December 31, 2010. Inflows of $36.1 billion were primarily related to (a) inflows of $15.7 billion in our Private Equity segment primarily due to the commencement of the investment periods for the BCP VI, China and BEP funds, (b) inflows of $7.4 billion in our Hedge Fund Solutions segment primarily due to growth in its commingled and customized investment products and long only solutions business, (c) inflows of $6.8 billion in our Credit Businesses segment primarily due to capital raised across its long only platform, including the acquisition of $2.2 billion of CLO vehicles in the second quarter of 2011, and capital deployed from its drawdown funds, (d) and inflows of $6.0 billion in our Real Estate segment primarily due to the deployment of $1.1 billion of fee-earning co-investment capital related to the acquisition of the U.S. assets of Centro and the commencement of BREP VII. Outflows of $10.7 billion were primarily attributable to (a) outflows of $3.3 billion in our Credit Businesses segment substantially due to deleveraging of certain CLO vehicles post their reinvestment periods and realizations in the drawdown funds, (b) outflows of $3.1 billion in our Real Estate segment primarily due to realizations from the Bank of America Merrill Lynch Asia real estate platform and the end of BREP VI s investment period, and (c) reductions of $2.9 billion in our Private Equity segment s Fee-Earning Assets Under Management due for the most part to the end of BCP V s investment period during the first quarter of 2011 and dispositions in funds which earn fees based on remaining invested capital. Net market depreciation of $1.9 billion was principally due to declines in global markets in the third quarter of 2011.

Assets Under Management

Assets Under Management were $157.7 billion at September 30, 2011, a decrease of $1.0 billion, or 1%, compared to $158.7 billion at June 30, 2011. Inflows of $10.0 billion were primarily related to (a) inflows of $4.2 billion in our Real Estate segment primarily related to the commencement of BREP VII, (b) inflows of $2.7 billion in our Hedge Fund Solutions segment due to growth in its commingled and customized investment products, and (c) inflows of $1.8 billion in our Credit Businesses segment driven by capital raised across its long only platform. Net market depreciation of $6.3 billion was principally due to the Private Equity and Hedge Fund Solutions segments, both of which were affected by the equity market declines. Outflows of $4.7 billion principally from our Private Equity and Credit Businesses segments were due to the same reasons noted in Fee-Earning Assets Under Management above.

Assets Under Management were $157.7 billion at September 30, 2011, an increase of $29.6 billion, or 23%, compared to $128.1 billion at December 31, 2010. Inflows of $38.6 billion were primarily related to (a) inflows of $16.4 billion in our Private Equity segment driven by the commencement of BCP VI s investment period, (b) inflows of $9.4 billion in our Hedge Fund Solutions segment due to growth in the hedge fund manager seeding platform, long only commodities and equity replacement business and its commingled and customized investment products, (c) inflows of $6.5 billion in our Real Estate segment primarily due to the deployment of additional co-investment capital and the commencement of BREP VII, and (d) inflows of $6.3 billion in our Credit Businesses segment principally due to the acquisition of $2.3 billion of CLO vehicles and capital raised across its long only platform. Net market appreciation of $3.0 billion was due to appreciation in the Real Estate and Private Equity segments of $3.6 billion and $1.3 billion, respectively, and there was depreciation in the Hedge Fund Solutions segment of $2.1 billion. Private Equity and Real Estate benefited from improvements in the carrying values of their investments while Hedge Fund Solutions was affected by equity market declines. Outflows of $12.0 billion, principally from our Private Equity, Credit Businesses and Hedge Fund Solutions segments, were for the same reasons noted in Fee-Earning Assets Under Management above.

Limited Partner Capital Invested

Limited Partner Capital Invested was $4.4 billion for the three months ended September 30, 2011, an increase of $2.4 billion, or 115%, from $2.1 billion for the three months ended September 30, 2010. Limited Partner Capital Invested was $9.5 billion for the nine months ended September 30, 2011, an increase of $5.1 billion, or 116%, compared to $4.4 billion for the nine months ended September 30, 2010. The change for the nine month period primarily reflected an increase of $3.4 billion in our Real Estate segment, which was primarily related to increased investment activity by our investment funds and the acquisition of the U.S. assets of Centro.

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Segment Analysis

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

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

Private Equity

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

	Three Months Ended September 30,		2011 vs. 2010		Nine Months Ended September 30,		2011 vs. 2010	
	2011	2010	$	%	2011	2010	$	%
	(Dollars in Thousands)							
Segment Revenues								
Management Fees								
Base Management Fees	$ 85,534	$ 66,077	$ 19,457	29%	$ 247,766	$ 198,304	$ 49,462	25%
Transaction and Other Fees, Net	21,430	13,348	8,082	61%	109,125	61,687	47,438	77%
Management Fee Offsets	(6,498)	(91)	(6,407)	N/M	(22,016)	(91)	(21,925)	N/M
Total Management Fees	100,466	79,334	21,132	27%	334,875	259,900	74,975	29%
Performance Fees								
Realized	(17,966)	44,814	(62,780)	N/M	65,785	92,095	(26,310)	-29%
Unrealized	(270,014)	45,499	(315,513)	N/M	(50,287)	67,028	(117,315)	N/M
Total Performance Fees	(287,980)	90,313	(378,293)	N/M	15,498	159,123	(143,625)	-90%
Investment Income (Loss)								
Realized	20,548	9,940	10,608	107%	41,476	12,586	28,890	N/M
Unrealized	(121,688)	30,491	(152,179)	N/M	(15,615)	132,450	(148,065)	N/M
Total Investment Income (Loss)	(101,140)	40,431	(141,571)	N/M	25,861	145,036	(119,175)	-82%
Interest and Dividend Revenue	3,396	3,802	(406)	-11%	10,098	9,958	140	1%
Other	141	1,061	(920)	-87%	1,617	1,621	(4)	-0%
Total Revenues	(285,117)	214,941	(500,058)	N/M	387,949	575,638	(187,689)	-33%
Expenses								
Compensation and Benefits								
Compensation	54,220	47,552	6,668	14%	177,168	141,074	36,094	26%
Performance Fee Compensation								
Realized	(2,443)	10,783	(13,226)	N/M	5,324	16,916	(11,592)	-69%
Unrealized	(44,955)	18,306	(63,261)	N/M	(10,182)	14,354	(24,536)	N/M
Total Compensation and Benefits	6,822	76,641	(69,819)	-91%	172,310	172,344	(34)	-0%
Other Operating Expenses	27,588	26,359	1,229	5%	86,425	79,467	6,958	9%

Total Expenses	34,410	103,000	(68,590)	-67%	258,735	251,811	6,924	3%
Economic Net Income (Loss)	$ (319,527)	$ 111,941	$ (431,468)	N/M	$ 129,214	$ 323,827	$ (194,613)	-60%

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Revenues

Revenues were $(285.1) million for the three months ended September 30, 2011 compared to $214.9 million for the three months ended September 30, 2010, a decrease of $500.1 million. The decrease in revenues was attributable to decreases in Performance Fees and Investment Income of $378.3 million and $141.6 million, respectively, partially offset by an increase in Total Management Fees of $21.1 million.

Performance Fees, which are determined on a fund by fund basis, were $(288.0) million for the three months ended September 30, 2011, a decrease of $378.3 million, compared to $90.3 million for the three months ended September 30, 2010. The decrease was mostly driven by negative volatility in the public markets as a result of global economic uncertainty. The carrying value of the publicly held investments was reduced due to a significant drop in global equities markets during the quarter and lower values of foreign currencies in relation to the U.S. dollar. The public markets decline was not limited to any specific industry. The segment s privately held investments declined in carrying value to a lesser extent due to continued strong operating performance of the underlying portfolio companies. For the first two quarters of 2011, the latest available quarterly financial information, growth in revenue and EBITDA of the portfolio companies averaged approximately 12% and 10%, respectively. Our Private Equity segment s portfolio companies continue to exhibit generally positive revenue and earnings growth. Investment Income (Loss) was $(101.1) million compared to $40.4 million for the three months ended September 30, 2010, also due to public markets driving lower performance across all contributed funds, which depreciated 10.9% during the period. The lower performance results from the unrealized fair value of our investments and not from the dispositions of our holdings. At September 30, 2011, the unrealized value and cumulative realized proceeds, before Carried Interest, fees and expenses, of our contributed private equity funds represented 1.4 times investors original investments. On a realized/partially realized basis, this multiple was 2.3 times investors original investments for contributed funds.

Total Management Fees were $100.5 million for the three months ended September 30, 2011, an increase of $21.1 million compared to $79.3 million for the three months ended September 30, 2010, driven by higher Base Management Fees and Transaction and Other Fees but slightly reduced by Management Fee Offsets. Base Management Fees were $85.5 million for the three months ended September 30, 2011, an increase of $19.5 million compared to $66.1 million for the three months ended September 30, 2010, principally as a result of fees generated from BCP VI and BEP, which commenced their investment periods during the first and third quarters of 2011, respectively. Transaction and Other Fees were $21.4 million for the three months ended September 30, 2011, an increase of $8.1 million compared to $13.3 million for the three months ended September 30, 2010, principally as a result of fees earned from new investments made from our BCP VI and BEP funds. Management Fee Offsets relate to a reduction of management fees payable by our limited partners in BCP VI based on the amount they reimbursed Blackstone for placement fees.

Revenues were $387.9 million for the nine months ended September 30, 2011, a decrease of $187.7 million compared to $575.6 million for the nine months ended September 30, 2010. The decrease in revenues was attributed to decreases in Performance Fees and Investment Income of $143.6 million and $119.2 million, respectively, partially offset by an increase in Total Management Fees of $75.0 million.

Performance Fees, which are determined on a fund by fund basis, were $15.5 million for the nine months ended September 30, 2011, a decrease of $143.6 million, compared to $159.1 million for the nine months ended September 30, 2010, principally due to lower performance in the BCP IV portfolio driven by public holdings and depreciation of investments in the technology industry. Investment Income was $25.9 million, a decrease of $119.2 million, compared to $145.0 million for the nine months ended September 30, 2010, principally driven by BCP IV and BCP V which, despite having positive current period performance, had lower fund returns than for the comparative nine month period of 2010.

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Total Management Fees were $334.9 million for the nine months ended September 30, 2011, an increase of $75.0 million compared to $259.9 million for the nine months ended September 30, 2010, driven by increased Base Management Fees and Transaction and Other Fees, partially offset by Management Fee Offsets. Base Management Fees were $247.8 million for the nine months ended September 30, 2011, an increase of $49.5 million compared to $198.3 million for the nine months ended September 30, 2010, principally as a result of fees generated from BCP VI, which commenced its investment period during the first quarter of 2011. Transaction and Other Fees were $109.1 million for the nine months ended September 30, 2011, an increase of $47.4 million compared to $61.7 million for the nine months ended September 30, 2010, principally as a result of one time fees earned from the termination of management advisory service agreements related to portfolio companies that completed initial public offerings as well as fees generated from the increase in new investment activity. Management Fee Offsets relate to a reduction of management fees payable by our limited partners in BCP VI based on the amount they reimbursed Blackstone for placement fees.

Expenses

Expenses were $34.4 million for the three months ended September 30, 2011, a decrease of $68.6 million, compared to $103.0 million for the three months ended September 30, 2010. The $68.6 million decrease was primarily attributed to a $76.5 million decrease in Performance Fee Compensation, partially offset by a $6.7 million increase in Compensation. Performance Fee Compensation decreased as a result of the decreases in Performance Fees revenue described above. Compensation rose as a portion of it is related to the segment s results, exclusive of Performance Fees and Investment Income. Other Operating Expenses were relatively flat compared to the prior year.

Expenses were $258.7 million for the nine months ended September 30, 2011, an increase of $6.9 million, compared to $251.8 million for the nine months ended September 30, 2010. The $6.9 million increase was primarily attributed to a $36.1 million increase in Compensation and a $7.0 million increase in Other Operating Expenses, partially offset by a $36.1 million decrease in Performance Fee Compensation. Performance Fee Compensation decreased as a result of the decreases in Performance Fees revenue. Compensation rose as a portion of it is related to the segment s results, exclusive of Performance Fees and Investment Income. Other Operating Expenses increased $7.0 million to $86.4 million, principally due to interest expense.

Operating Metrics

The following operating metrics are used in the management of this business segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Dollars in Thousands)			
Fee-Earning Assets Under Management				
Balance, Beginning of Period	$ 35,778,240	$ 25,190,195	$ 24,188,555	$ 24,521,394
Inflows, including Commitments	1,449,593	95,252	15,738,904	961,602
Outflows, including Distributions	(176,900)	(996,430)	(2,905,654)	(1,176,888)
Market Appreciation (Depreciation)	(44,909)	22,426	(15,781	