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	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.

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THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements (Continued)

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

Consolidation

The Partnership consolidates all entities that it controls through a majority voting interest or otherwise, including those Blackstone Funds in which the general partner 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)

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

(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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Notes to Condensed Consolidated Financial Statements (Continued)

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

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)