

# BLACKSTONE GROUP L.P.

## FORM 10-Q (Quarterly Report)

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 10-Q**

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(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010**

**OR**

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

Commission File Number: 001-33551

**The Blackstone Group L.P.**

(Exact name of Registrant as specified in its charter)

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

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

**345 Park Avenue**  
**New York, New York 10154**  
(Address of principal executive offices)(Zip Code)  
**(212) 583-5000**  
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

The number of the Registrant's voting common units representing limited partner interests outstanding as of October 29, 2010 was 258,577,585. The number of the Registrant's non-voting common units representing limited partner interests outstanding as of October 29, 2010 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,” “will,” “should,” “seeks,” “approximately,” “predicts,” “intends,” “plans,” “estimates,” “anticipates” or the negative version of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled “Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2009 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](http://www.sec.gov). These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. 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 co-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 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 receive 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 that 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;
- (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” 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;
- (c) for our real estate debt investment funds, 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 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 mutual fund.

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

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commitments to, and the fair value of, invested capital in our funds from Blackstone and our personnel, regardless of whether such commitments or invested capital are subject to fees. Our definitions of assets under management or fee-earning assets under management are not based on any definition of assets under management or fee-earning assets under management that is set forth in the agreements governing the investment funds that we manage.

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

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

## 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, 2010	December 31, 2009
<b>Assets</b>		
Cash and Cash Equivalents	\$ 1,016,229	\$ 952,096
Cash Held by Blackstone Funds and Other (\$352,192)	391,691	86,084
Investments (\$7,655,958)	11,026,730	3,565,483
Accounts Receivable (\$84,585)	424,931	306,307
Reverse Repurchase Agreements	287,445	—
Due from Affiliates (\$33,230)	657,342	759,907
Intangible Assets, Net	820,169	919,477
Goodwill	1,703,602	1,703,602
Other Assets (\$46,842)	295,436	172,556
Deferred Tax Assets	1,117,316	943,512
<b>Total Assets</b>	<u>\$17,740,891</u>	<u>\$9,409,024</u>
<b>Liabilities and Partners' Capital</b>		
Loans Payable (\$5,665,499)	\$ 6,735,736	\$ 657,623
Due to Affiliates (\$275,345)	1,701,434	1,410,066
Accrued Compensation and Benefits	760,160	488,945
Securities Sold, Not Yet Purchased	264,037	357
Accounts Payable, Accrued Expenses and Other Liabilities (\$145,681)	623,730	308,500
<b>Total Liabilities</b>	<u>10,085,097</u>	<u>2,865,491</u>
<b>Commitments and Contingencies</b>		
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<u>587,399</u>	<u>526,311</u>
<b>Partners' Capital</b>		
Partners' Capital (common units: 369,463,277 issued and outstanding as of September 30, 2010; 319,939,772 issued and outstanding as of December 31, 2009)	3,580,488	3,376,707
Appropriated Partners' Capital	551,737	—
Accumulated Other Comprehensive Income	5,999	2,420
Non-Controlling Interests in Consolidated Entities	693,300	540,283
Non-Controlling Interests in Blackstone Holdings	2,236,871	2,097,812
<b>Total Partners' Capital</b>	<u>7,068,395</u>	<u>6,017,222</u>
<b>Total Liabilities and Partners' Capital</b>	<u>\$17,740,891</u>	<u>\$9,409,024</u>

Asset and liability amounts in parentheses represent the portion of the September 30, 2010 consolidated balance attributable to Blackstone Fund entities which are variable interest or voting interest entities.

See notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<b>Revenues</b>				
Management and Advisory Fees	\$ 362,521	\$ 367,605	\$ 1,123,403	\$ 1,049,606
Performance Fees and Allocations				
Realized	66,142	(3,452)	171,941	2,004
Unrealized	199,824	157,465	312,304	8,932
Total Performance Fees and Allocations	265,966	154,013	484,245	10,936
Investment Income (Loss)				
Realized	13,542	6,279	29,493	7,556
Unrealized	127,428	58,530	371,691	(36,149)
Total Investment Income (Loss)	140,970	64,809	401,184	(28,593)
Interest and Dividend Revenue	10,075	6,703	25,922	11,124
Other	4,468	3,893	573	5,280
<b>Total Revenues</b>	<b>784,000</b>	<b>597,023</b>	<b>2,035,327</b>	<b>1,048,353</b>
<b>Expenses</b>				
Compensation and Benefits				
Base Compensation	664,004	923,272	2,556,665	2,805,567
Performance Fee Related				
Realized	24,962	(712)	55,582	1,014
Unrealized	104,324	58,068	158,032	(75,855)
Total Compensation and Benefits	793,290	980,628	2,770,279	2,730,726
General, Administrative and Other	114,291	110,641	341,853	328,517
Interest Expense	11,766	5,258	26,633	6,744
Fund Expenses	6,422	1,267	15,484	5,871
<b>Total Expenses</b>	<b>925,769</b>	<b>1,097,794</b>	<b>3,154,249</b>	<b>3,071,858</b>
<b>Other Income</b>				
Net Gains from Fund Investment Activities	285,071	73,812	397,625	97,353
<b>Income (Loss) Before Provision (Benefit) for Taxes</b>	<b>143,302</b>	<b>(426,959)</b>	<b>(721,297)</b>	<b>(1,926,152)</b>
<b>Provision (Benefit) for Taxes</b>	<b>(4,225)</b>	<b>52,551</b>	<b>24,802</b>	<b>81,167</b>
<b>Net Income (Loss)</b>	<b>147,527</b>	<b>(479,510)</b>	<b>(746,099)</b>	<b>(2,007,319)</b>
<b>Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	<b>23,623</b>	<b>50,281</b>	<b>47,171</b>	<b>90,515</b>
<b>Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities</b>	<b>242,723</b>	<b>3,622</b>	<b>320,816</b>	<b>(33,450)</b>
<b>Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings</b>	<b>(74,461)</b>	<b>(357,230)</b>	<b>(755,031)</b>	<b>(1,492,343)</b>
<b>Net Income (Loss) Attributable to The Blackstone Group L.P.</b>	<b>\$ (44,358)</b>	<b>\$ (176,183)</b>	<b>\$ (359,055)</b>	<b>\$ (572,041)</b>
<b>Net Loss Per Common Unit, Basic and Diluted</b>				
Common Units	\$ (0.12)		\$ (1.02)	
Common Units Entitled to Priority Distributions		\$ (0.61)		\$ (2.05)
Common Units Not Entitled to Priority Distributions		\$ (0.91)		\$ (2.95)
<b>Weighted-Average Common Units Outstanding — Basic and Diluted</b>				
Common Units	370,101,582		352,794,385	
Common Units Entitled to Priority Distributions		283,243,485		277,390,904
Common Units Not Entitled to Priority Distributions		8,311,085		3,465,956
<b>Revenues Earned from Affiliates</b>				
Management and Advisory Fees	\$ 34,242	\$ 23,019	\$ 110,356	\$ 68,484

See notes to condensed consolidated financial statements.





Compensation	—	609,912	—	—	—	1,308,051	1,917,963	—	—
Relinquished in Deconsolidati of Partnership	—	—	—	—	—	—	—	(3,136)	—
Net Delivery of Vested Common Units	6,456,315	(20,757)	—	—	—	—	(20,757)	—	—
Repurchase of Common Units and Blackstone Holdings Partnership Units	(84,888)	(1,198)	—	—	—	—	(1,198)	—	—
Change in The Blackstone Group L.P.'s Ownership Interest	—	(8,460)	—	—	—	8,460	—	—	—
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	43,152,078	120,880	—	—	—	(120,880)	—	—	—
<b>Balance at September 30, 2010</b>	<u>369,463,277</u>	<u>\$3,580,488</u>	<u>\$ 551,737</u>	<u>\$ 5,999</u>	<u>\$ 693,300</u>	<u>\$2,236,871</u>	<u>\$7,068,395</u>	<u>\$ 587,399</u>	<u>\$ (355,476)**</u>

\* Total Condensed Consolidated Comprehensive Income equals the sum of these amounts.

\*\* Total Comprehensive Income Attributable to The Blackstone Group L.P.

See notes to condensed consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Condensed Consolidated Statements of Cash Flows (Unaudited)**  
**(Dollars in Thousands)**

	Nine Months Ended September 30,	
	2010	2009
<b>Operating Activities</b>		
Net Income (Loss)	\$ (746,099)	\$(2,007,319)
Adjustments to Reconcile Net Income (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	(533,466)	(110,421)
Net Realized (Gains) Losses on Investments	(140,095)	140,377
Changes in Unrealized (Gains) Losses on Investments Allocable to Blackstone Group	(352,506)	40,993
Unrealized Depreciation on Hedge Activities	48,951	8,799
Non-Cash Performance Fees and Allocations	(192,208)	(121,977)
Non-Cash Performance Fee Related Compensation	213,614	(74,842)
Equity-Based Compensation Expense	1,924,358	2,238,970
Amortization of Intangibles	121,206	118,537
Other Non-Cash Amounts Included in Net Income	19,349	17,977
Cash Flows Due to Changes in Operating Assets and Liabilities:		
Cash Held by Blackstone Funds and Other	(48,376)	833,600
Cash Relinquished with Deconsolidation of Partnership	(3,136)	—
Accounts Receivable	(79,622)	68,937
Reverse Repurchase Agreements	(287,445)	—
Due from Affiliates	13,107	512,713
Other Assets	(100,385)	103,204
Accrued Compensation and Benefits	62,520	(23,549)
Securities Sold, Not Yet Purchased	262,395	(606)
Accounts Payable, Accrued Expenses and Other Liabilities	253,986	(999,172)
Due to Affiliates	(33,600)	(261,449)
Short Term Investments Purchased	(1,785,838)	(1,030,000)
Cash Proceeds from Sale of Investments	1,390,991	—
Blackstone Funds Related:		
Investments Purchased	(2,344,140)	(292,194)
Cash Proceeds from Sale of Investments	2,652,554	742,950
Net Cash Provided by (Used in) Operating Activities	316,115	(94,472)
<b>Investing Activities</b>		
Purchase of Furniture, Equipment and Leasehold Improvements	(30,587)	(18,323)
Net Cash Paid for Acquisition of Management Contracts	(21,898)	—
Changes in Restricted Cash	35	1,239
Net Cash Used in Investing Activities	(52,450)	(17,084)
<b>Financing Activities</b>		
Distributions to Non-Controlling Interest Holders in Consolidated Entities	(77,039)	(84,333)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	117,896	138,785

continued...

See notes to condensed consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**  
**Condensed Consolidated Statements of Cash Flows (Unaudited)—(Continued)**  
**(Dollars in Thousands)**

	Nine Months Ended September 30,	
	2010	2009
Purchase of Interests from Certain Non-Controlling Interest Holders	\$ (153)	\$ (8,877)
Net Settlement of Vested Common Units and Repurchase of Common and Holdings Units	(21,955)	(56,188)
Proceeds from Loans Payable	408,574	592,513
Repayment of Loans Payable	(34,207)	(320,213)
Distributions to Unitholders	(489,271)	(167,398)
Blackstone Funds Related:		
Proceeds from Loans Payable	14,014	—
Repayment of Loans Payable	(93,099)	—
Net Cash Provided by (Used in) Financing Activities	(175,240)	94,289
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(24,292)	—
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>64,133</b>	<b>(17,267)</b>
Cash and Cash Equivalents, Beginning of Period	952,096	503,737
Cash and Cash Equivalents, End of Period	<u>\$1,016,229</u>	<u>\$ 486,470</u>
<b>Supplemental Disclosure of Cash Flows Information</b>		
Payments for Interest	\$ 2,966	\$ 1,683
Payments for Income Taxes	\$ 51,319	\$ 49,898
<b>Supplemental Disclosure of Non-Cash Operating Activities</b>		
Net Activities Related to Capital Transactions of Consolidated Blackstone Funds	\$ 4,037	\$ 5,018
Net Assets Related to the Consolidation of CDO and CLO Vehicles	\$ 406,914	\$ —
Reclassification of Capital Due to Non-Controlling Interest Holders	\$ (60,197)	\$ —
In-kind Contribution of Capital	\$ 75,516	\$ —
Notes Issuance Costs	\$ 2,000	\$ 4,663
Transfer of Interests to Non-Controlling Interest Holders	\$ (15,927)	\$ 18,337
Change in The Blackstone Group L.P.'s Ownership Interest	\$ (8,460)	\$ —
Net Settlement of Vested Common Units	\$ 133,907	\$ 140,755
Conversion of Blackstone Holdings Units to Common Units	\$ 120,880	\$ 66,820
Exchange of Founders' and Non-Controlling Interest Holders' Interests in Blackstone Holdings:		
Deferred Tax Asset	\$ (184,831)	\$ (134,125)
Due to Affiliates	\$ 150,416	\$ 114,007
Partners' Capital	\$ 34,415	\$ 20,118

See notes to condensed consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements**

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

**1. ORGANIZATION**

The Blackstone Group L.P., together with its subsidiaries, (“Blackstone” or the “Partnership”) is a leading global manager of private capital and provider of financial advisory services. The alternative asset management business includes the management of private equity funds, real estate funds, funds of hedge funds, credit-oriented funds, separately managed accounts and publicly traded closed-end mutual funds (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 four segments: private equity; real estate; credit and marketable alternatives; 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 statements, including these notes, are unaudited and exclude some of the disclosures required in annual financial

**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. 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 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 Partnership has a controlling financial interest.

All intercompany balances and transactions have been eliminated in consolidation.

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

- Beginning in 2010, Blackstone elected to separately present performance fee related unrealized and realized compensation expense as an Adjustment to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities in the Condensed Consolidated Statements of Cash Flows. Previously, amounts were included in Cash Flows Due to Changes in Operating Assets and Liabilities within Due to Affiliates, Due from Affiliates and/or Accrued Compensation and Benefits. The reclassification has no impact on Net Cash Provided by Operating Activities.
- As of September 30, 2010, Blackstone elected to separately present Securities Sold, Not Yet Purchased in the Condensed Consolidated Statements of Financial Condition. Previously, these amounts were included in Accounts Payable, Accrued Expenses and Other Liabilities. The reclassification has no impact on Total Liabilities.

**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 business 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 revised consolidation rules require 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

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performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment. Where the variable interest entities have qualified for the deferral of the revised consolidation rules as discussed in “Recent Accounting Developments”, the analysis is based on previous consolidation rules. These rules require 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 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 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.

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 and listed derivatives. 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, 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

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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 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.

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

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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.

*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 AICPA Audit and Accounting Guide, *Investment Companies*, 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, to consistently account for principal investments held by the Partnership. 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 collateralized loan obligation ("CLO") vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of revised variable interest entity consolidation rules. The Partnership has also elected the fair value option for CLO vehicles consolidated as of April 1, 2010 and July 20, 2010, as a result of the acquisitions



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of CLO management contracts as described in Note 3. “Acquisitions, Goodwill and Intangible Assets.” The transition adjustment resulting from the difference between the fair value of assets and liabilities for each of these events is presented within the Condensed Consolidated Statement of Changes in Partners’ Capital as Appropriated Partners’ Capital. Assets of the consolidated CLOs are presented within Investments within the Condensed Consolidated Statements of Financial Condition and Liabilities within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by non-consolidated affiliates. Changes in the fair value of consolidated CLO assets and liabilities and related interest, dividend and other income subsequent to adoption are presented within Net Gains from Fund Investment Activities and are attributable to Non-Controlling Interests in Consolidated Entities in the Condensed Consolidated Statements of Operations.

Further disclosure on instruments for which the fair value option has been elected is presented in Note 7. “Fair Value Option” 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 are reported at fair value, the carrying value of the Partnership’s equity method investments are at fair value.

**Repurchase and Reverse Repurchase Agreements**

Securities purchased under agreement to resell (“reverse repurchase agreements”) and securities sold under agreements to repurchase (“repurchase agreements”), comprising primarily of 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. Repurchase Agreements are included in Accounts Payable, Accrued Expenses and Other Liabilities in the Condensed Consolidated Statements of Financial Condition.

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 owned 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

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prevailing market prices and delivering it to the counterparty from which it borrowed the security. The Partnership is exposed to loss in the event that the price at which a security may have to be purchased to cover a short sale exceeds the price at which the borrowed security was sold short.

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

**Derivative Instruments**

The Partnership recognizes all derivatives as assets or liabilities on its Condensed Consolidated Statements of Financial Condition at fair value. On the date the Partnership enters into a derivative contract, it designates and documents each derivative contract as one of the following: (a) a hedge of a recognized asset or liability (“fair value hedge”), (b) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (“cash flow hedge”); (c) a hedge of a net investment in a foreign operation; or (d) a derivative instrument not designated as a hedging instrument (“free standing 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 free standing 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. On a monthly basis, 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”.

**Cash Distribution Policy**

Blackstone’s current intention is to distribute to its common unitholders substantially all of The Blackstone Group L.P.’s net after-tax share of annual Distributable Earnings in excess of amounts determined by Blackstone’s general partner to be necessary or appropriate to provide for the conduct of the Partnership’s business, to make appropriate investments in the business and funds, to comply with applicable law, any of Blackstone’s debt instruments or other agreements, or to provide for future distributions to Blackstone’s common unitholders for any ensuing quarter. Because Blackstone will not know what Distributable Earnings will be for any fiscal year until the end of such year, the Partnership expects that the first three quarterly distributions in respect of any given year will be based on the anticipated annualized Net Fee Related Earnings only. As such, the distribution for the first three quarters may be smaller than the final quarterly distribution in respect of such year. Blackstone expects to also reflect realized Performance Fees and Allocations net of related compensation and realized net investment income in its determination of the amount of the fourth quarter distribution.

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In most years the aggregate amounts of distributions to unitholders will not equal Distributable Earnings for that year. Distributable Earnings will only be a starting point for the determination of the amount to be distributed to unitholders because as noted above, in determining the amount to be distributed Blackstone will subtract from Distributable Earnings any 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 its 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.

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

Because The Blackstone Group L.P. is a holding partnership and has no material assets other than its ownership of partnership units in Blackstone Holdings held through wholly-owned subsidiaries, distributions by The Blackstone Group L.P., if any, are funded in three steps:

- First, Blackstone Holdings makes distributions to partners, including The Blackstone Group L.P.'s wholly-owned subsidiaries. If Blackstone Holdings makes such distributions, the limited partners of Blackstone Holdings will be entitled to receive equivalent distributions pro rata based on their partnership interests in Blackstone Holdings (except as set forth in the following paragraph);
- Second, The Blackstone Group L.P.'s wholly-owned subsidiaries distribute to The Blackstone Group L.P. the share of such distributions, net of the taxes and amounts payable under the tax receivable agreements by such wholly-owned subsidiaries; and
- Third, The Blackstone Group L.P. distributes the net share of such distributions to the common unitholders on a pro rata basis.

As a result of the expiration on December 31, 2009 of the distribution priority previously accorded to holders of Blackstone common units, the Partnership no longer has two classes of equity. The calculation of net loss per common unit is presented using one class of equity for the period ended September 30, 2010, as shown in Note 13. "Net Loss Per Common Unit."

Because the wholly-owned subsidiaries of The Blackstone Group L.P. must pay taxes and make payments under the tax receivable agreements described in Note 15. "Related Party Transactions", the amounts ultimately distributed by The Blackstone Group L.P. to common unitholders in respect of fiscal 2010 and subsequent years are expected to be different, and likely less, on a per unit basis, than the amounts distributed by the Blackstone Holdings partnerships to the Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships in respect of their Blackstone Holdings partnership units.

In addition, the partnership agreements of the Blackstone Holdings partnerships provide for cash distributions, which are referred to as "tax distributions," to the partners of such partnerships if the wholly-owned subsidiaries of The Blackstone Group L.P. which are the general partners of the Blackstone Holdings partnerships determine that the taxable income of the relevant partnership will give rise to taxable income for the partners. Generally, these tax distributions will be computed based on the Partnership's estimate of the net taxable income of the relevant partnership allocable to a partner multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. federal, state and local income tax rate prescribed for an individual or corporate resident in New York, New York (taking into account the nondeductibility of certain expenses and the character of the Partnership's income). The Blackstone Holdings partnerships will make tax distributions only to the extent distributions from such partnerships for the relevant year were otherwise insufficient to cover such estimated assumed tax liabilities.

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**Recent Accounting Developments**

On January 1, 2010, the Partnership adopted guidance issued by the Financial Accounting Standards Board (“FASB”) on issues related to variable interest entities (“VIEs”). The amendments significantly affect the overall consolidation analysis, changing the approach taken by companies in identifying which entities are VIEs and in determining which party is the primary beneficiary. The guidance requires continuous assessment of the reporting entity’s involvement with such VIEs. The revised guidance also enhances the disclosure requirements for a reporting entity’s involvement with VIEs, including presentation on the Condensed Consolidated Statements of Financial Condition of assets and liabilities of consolidated VIEs which meet the separate presentation criteria and disclosure of assets and liabilities recognized in the Condensed Consolidated Statements of Financial Condition and the maximum exposure to loss for those VIEs in which a reporting entity is determined to not be the primary beneficiary but in which it has a variable interest. The guidance provides a limited scope deferral for a reporting entity’s interest in an entity that meets all of the following conditions: (a) the entity has all the attributes of an investment company as defined under AICPA Audit and Accounting Guide, *Investment Companies*, or does not have all the attributes of an investment company but is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with the AICPA Audit and Accounting Guide, *Investment Companies*, (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 entity, asset-backed financing entity or an entity that was formerly considered a qualifying special-purpose entity. The reporting entity is required to perform a consolidation analysis for entities that qualify for the deferral in accordance with previously issued guidance on variable interest entities. Blackstone’s involvement with its funds is such that all three of the above conditions are met with the exception of certain CLO vehicles which fail condition (c) above and certain funds in which leveraged employee interests in dedicated funds are financed by third parties with Blackstone acting as an intermediary which fail condition (b) above. Such employee funds are currently consolidated as it is concluded that Blackstone is the primary beneficiary based on its implicit interest. The incremental impact of the revised consolidation rules has resulted in the consolidation of certain CLO vehicles managed by Blackstone. Additional disclosures relating to Blackstone’s involvement with VIEs are presented in Note 9. “Variable Interest Entities” of the Partnership’s financial statements.

In January 2010, the FASB issued guidance on improving disclosures about fair value measurements. The guidance requires 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 reconciliation of beginning and ending balances shall 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 new guidance also requires enhanced disclosures on the fair value hierarchy to disaggregate disclosures by each class of assets and liabilities. In addition, an entity is required 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 is effective for interim and annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level III fair value measurements, which are effective for fiscal years beginning after December 15, 2010. The Partnership adopted the guidance, excluding the reconciliation of Level III activity, with the issuance of its March 31, 2010 financial statements. As the guidance is limited to enhanced disclosures, adoption did not have a material impact on the Partnership’s financial statements.

In April 2010, the FASB issued guidance on the accounting for stock awards to employees of a foreign operation or employees whose pay is denominated in a currency other than the one in which the equity security trades. The guidance clarifies that share-based payment awards with an exercise price denominated in the

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currency of a market in which a substantial portion of the entity's equity securities trade shall not be considered to contain a condition that is not a market, performance, or service condition. Such an award shall not be classified as a liability if it otherwise qualifies for equity classification. The guidance is effective for fiscal years and interim periods ending after December 15, 2010. Blackstone makes share-based payment awards to employees in foreign operations. The guidance is not expected to have a material impact on the Partnership's financial statements.

In July 2010, the FASB issued guidance to enhance existing disclosure requirements relating to the credit quality of financing receivables and the allowance for credit losses. The guidance requires information on the credit quality of financing receivables and allowance for credit losses to be disaggregated by portfolio segment and class of financing receivable. The guidance also requires an entity to disclose credit quality indicators, past due information, and modifications of financing receivables. The guidance is effective for interim and annual reporting periods ending on or after December 15, 2010. As the guidance is limited to enhanced disclosures, adoption is not expected to have a material impact on the Partnership's financial statements.

**3. ACQUISITIONS, GOODWILL AND INTANGIBLE ASSETS****Acquisitions**

On April 1, 2010, the Partnership, through GSO Capital Partners LP, completed the acquisition of management agreements relating to eight collateralized debt obligation ("CDO") and CLO vehicles previously managed by Callidus Capital Management LLC for consideration of \$21.5 million. The assets acquired are finite-lived contractual rights.

On July 20, 2010, the Partnership, through GSO Capital Partners LP, completed the acquisition of a management agreement relating to a CLO vehicle previously managed by Callidus Capital Management LLC for consideration of \$0.4 million. The assets acquired are finite-lived contractual rights.

Pursuant to GAAP consolidation rules, the Partnership has been identified, in each of the April 1, 2010 and July 20, 2010 acquisitions, as the primary beneficiary in certain of the CDO and CLO vehicles underlying the acquired management agreements. As a result, the CDO and CLO vehicles have been consolidated in the Partnership's financial statements from April 1, 2010 and July 20, 2010, respectively. The results of the acquired CDO and CLO vehicles from the date of acquisition have been included in the Condensed Consolidated Statements of Operations within Net Gain from Fund Investment Activities and Fund Expenses, as applicable.

**Goodwill and Intangible Assets**

The carrying value of goodwill was \$1.7 billion as of September 30, 2010 and December 31, 2009. No indicators of impairment have been identified during the nine months ended September 30, 2010.

Total goodwill has been allocated to each of the Partnership's segments as follows: Private Equity (\$694.5 million), Real Estate (\$421.7 million), Credit and Marketable Alternatives (\$518.5 million) and Financial Advisory (\$68.9 million).

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Intangible Assets, Net consists of the following:

	September 30, 2010	December 31, 2009
Finite-Lived Intangible Assets / Contractual Rights	\$ 1,370,267	\$ 1,348,370
Accumulated Amortization	(550,098)	(428,893)
Intangible Assets, Net	<u>\$ 820,169</u>	<u>\$ 919,477</u>

Amortization expense associated with Blackstone's intangible assets was \$40.9 million and \$121.2 million for the three and nine month periods ended September 30, 2010, respectively, and \$39.5 million and \$118.5 million for the three and nine month periods ended September 30, 2009, respectively. Amortization expense is included within General, Administrative and Other in the accompanying Condensed Consolidated Statements of Operations.

Amortization of Intangible Assets held at September 30, 2010 is expected to be \$162.1 million for the years ending December 31, 2010 and \$163.4 million, \$108.6 million, \$57.0 million, and \$52.2 million for each of the years ending December 31, 2011, 2012, 2013, and 2014, respectively.

#### **4. INVESTMENTS**

##### **Investments**

Investments consists of the following:

	September 30, 2010	December 31, 2009
Investments of Consolidated Blackstone Funds	\$ 7,655,958	\$ 1,306,445
Equity Method Investments	1,567,313	1,104,701
Blackstone's Treasury Cash Management Strategies	980,537	534,777
Performance Fees and Allocations	794,566	554,463
Other Investments	28,356	65,097
	<u>\$ 11,026,730</u>	<u>\$ 3,565,483</u>

Blackstone's share of Investments of Consolidated Blackstone Funds totaled \$373.4 million and \$407.1 million at September 30, 2010 and December 31, 2009, respectively.

At September 30, 2010 and December 31, 2009, 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, 2010 and December 31, 2009, no investments exceeded the 5% threshold.

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**Investments of Consolidated Blackstone Funds**

The following table presents a condensed summary of the investments held by the consolidated Blackstone Funds that are reported at fair value. Pursuant to revised GAAP consolidation rules, the Partnership is required to consolidate all VIEs in which it has been identified as the primary beneficiary, including our investments in CDO and CLO vehicles and other funds in which the general partner is presumed to have control. While we are required to consolidate certain funds, including our CDO and 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. These investments are presented as a percentage of Investments of Consolidated Blackstone Funds:

Geographic Region / Instrument Type / Industry Description or Investment Strategy	Fair Value		Percentage of Investments of Consolidated Blackstone Funds	
	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009
<b>United States and Canada</b>				
Investment Funds, principally related to credit and marketable alternatives				
Credit Driven	\$ 220,046	\$ 277,388	2.9%	21.3%
Diversified Investments	280,169	300,907	3.7%	23.1%
Equity	83,963	80,956	1.1%	6.2%
Event-Driven	118,648	95,760	1.5%	7.4%
Other	—	408	—	—
Investment Funds Total (Cost: 2010 — \$689,737; 2009 — \$819,638)	702,826	755,419	9.2%	58.0%
Equity Securities, principally related to credit and marketable alternatives and private equity funds				
Manufacturing	34,316	21,491	0.4%	1.7%
Services	91,838	86,600	1.3%	6.7%
Natural Resources	1,021	649	—	—
Real Estate Assets	1,751	462	—	—
Equity Securities Total (Cost: 2010 — \$95,337; 2009 — \$112,364)	128,926	109,202	1.7%	8.4%
Partnership and LLC Interests, principally related to private equity and real estate funds				
Real Estate Assets	250,912	149,523	3.4%	11.5%
Services	87,206	87,406	1.1%	6.7%
Manufacturing	34,430	25,691	0.4%	2.0%
Natural Resources	1,126	357	—	—
Partnership and LLC Interests Total (Cost: 2010 — \$434,250; 2009 — \$426,678)	373,674	262,977	4.9%	20.2%
Debt Instruments, principally related to credit and marketable alternatives				
Credit Driven	28,689	29,330	0.4%	2.2%
Manufacturing	33,974	3,203	0.4%	0.2%
Services	81,466	7,837	1.1%	0.6%
Real Estate Assets	1,559	2,458	—	0.2%
Debt Instruments Total (Cost: 2010 — \$142,004; 2009 — \$37,983)	145,688	42,828	1.9%	3.2%
Assets of Consolidated CDO and CLO Vehicles				
Corporate Loans	4,828,660	—	63.1%	—
Corporate Bonds	163,923	—	2.1%	—
Other	1,998	—	—	—
Assets of Consolidated CDO and CLO Vehicles Total (Cost: 2010 — \$4,990,864; 2009 — \$ —)	4,994,581	—	65.2%	—
<b>United States and Canada Total</b> (Cost: 2010 — \$6,352,192; 2009 — \$1,396,663)	6,345,695	1,170,426	82.9%	89.8%

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Geographic Region / Instrument Type / Industry Description or Investment Strategy	Fair Value		Percentage of Investments of Consolidated Blackstone Funds	
	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009
<b>Europe</b>				
Equity Securities, principally related to private equity funds				
Manufacturing	\$ 3,345	\$ 2,681	—	0.2%
Real Estate Assets	—	365	—	—
Services	31,955	31,711	0.4%	2.4%
Equity Securities Total (Cost: 2010 — \$40,300; 2009 — \$40,353)	35,300	34,757	0.4%	2.6%
Partnership and LLC Interests, principally related to private equity and real estate funds				
Services	28,046	29,270	0.4%	2.2%
Real Estate Assets	22,511	10,741	0.3%	0.8%
Partnership and LLC Interests Total (Cost: 2010 — \$49,039; 2009 — \$48,334)	50,557	40,011	0.7%	3.0%
Debt Instruments, principally related to credit and marketable alternatives				
Manufacturing	630	544	—	—
Services	1,450	1,259	—	0.1%
Debt Instruments Total (Cost: 2010 — \$1,571; 2009 — \$1,623)	2,080	1,803	—	0.1%
Assets of Consolidated CDO and CLO Vehicles				
Corporate Loans	1,129,706	—	14.8%	—
Corporate Bonds	20,041	—	0.3%	—
Other	9,776	—	0.1%	—
Assets of Consolidated CDO and CLO Vehicles Total (Cost: 2010 — \$1,265,318; 2009 — \$ —)	1,159,523	—	15.2%	—
<b>Europe Total (Cost: 2010 — \$1,356,228; 2009 — \$90,310)</b>	<b>1,247,460</b>	<b>76,571</b>	<b>16.3%</b>	<b>5.7%</b>
<b>Asia</b>				
Equity Securities, principally related to credit and marketable alternatives and private equity funds				
Services	11,031	8,031	0.1%	0.6%
Manufacturing	11,391	10,501	0.2%	0.8%
Natural Resources	848	—	—	—
Diversified Investments	5,231	6,262	0.1%	0.5%
Equity Securities Total (Cost: 2010 — \$23,762; 2009 — \$20,794)	28,501	24,794	0.4%	1.9%
Partnership and LLC Interests, principally related to private equity and real estate funds				
Manufacturing	1,476	1,183	—	0.1%
Real Estate Assets	740	457	—	—
Services	110	82	—	—
Partnership and LLC Interests Total (Cost: 2010 — \$1,944; 2009 — \$1,833)	2,326	1,722	—	0.1%
Debt Instruments, principally related to private equity funds				
Real Estate Assets	194	—	—	—
Services	94	111	—	—
Debt Instruments, principally related to private equity funds (Cost: 2010 — \$304; 2009 — \$114)	288	111	—	—
<b>Asia Total (Cost: 2010 — \$26,010; 2009 — \$22,741)</b>	<b>31,115</b>	<b>26,627</b>	<b>0.4%</b>	<b>2.0%</b>



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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)**

Geographic Region / Instrument Type / Industry Description or Investment Strategy	Fair Value		Percentage of Investments of Consolidated Blackstone Funds	
	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009
<b>Other</b>				
Equity Securities, principally related to private equity funds				
Natural Resources	\$ 1,585	\$ 1,583	—	0.1%
Services	2,907	4,560	—	0.3%
Equity Securities Total (Cost: 2010 — \$2,778; 2009 — \$2,777)	4,492	6,143	—	0.4%
Partnership and LLC Interests, principally related to private equity and real estate funds				
Natural Resources	27,116	26,586	0.4%	2.0%
Services	80	92	—	—
Partnership and LLC Interests Total (Cost: 2010 — \$9,418; 2009 — \$9,249)	27,196	26,678	0.4%	2.0%
<b>Other Total</b> (Cost: 2010 — \$12,196; 2009 — \$12,026)	31,688	32,821	0.4%	2.5%
<b>Total Investments of Consolidated Blackstone Funds (Cost: 2010 — \$7,746,626; 2009 — \$1,521,740)</b>	<u>\$ 7,655,958</u>	<u>\$ 1,306,445</u>	<u>100.0%</u>	<u>100.0%</u>

Net Gains from Fund Investment Activities on the Condensed Consolidated Statements of Operations include net realized gains (losses) from realizations and sales of investments and the net change in unrealized gains 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 on investments held by the consolidated Blackstone Funds:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Realized Gains (Losses)	\$ (40,063)	\$ (45,087)	\$ (60,500)	\$ (149,495)
Net Change in Unrealized Gains	296,049	118,183	387,571	215,060
	<u>\$255,986</u>	<u>\$ 73,096</u>	<u>\$327,071</u>	<u>\$ 65,565</u>

The following reconciles the Realized and Net Change in Unrealized Gains 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,	
	2010	2009	2010	2009
Realized and Net Change in Unrealized Gains from Blackstone Funds	\$255,986	\$73,096	\$327,071	\$65,565
Reclassification to Investment Income (Loss) and Other Attributable to Blackstone Side-by-Side Investment Vehicles	—	(8,194)	—	6,678
Interest and Dividend Revenue Attributable to Consolidated Blackstone Funds	29,085	8,910	70,554	25,110
Other Income — Net Gains from Fund Investment Activities	<u>\$285,071</u>	<u>\$73,812</u>	<u>\$397,625</u>	<u>\$97,353</u>

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**Notes to Condensed Consolidated Financial Statements—(Continued)**  
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**Equity Method Investments**

The Partnership recognized net gains (losses) related to its equity method investments of \$343.6 million and \$(83.3) million for the nine months ended September 30, 2010 and 2009, respectively.

Blackstone's equity method investments include its investments in private equity funds, real estate funds, funds of hedge funds and credit-oriented funds, which are not consolidated but in which the Partnership exerts significant influence. As of September 30, 2010 and December 31, 2009, no single equity method investment held by Blackstone exceeded 20% of its total consolidated assets or income. As such, Blackstone is not required to present separate financial statements for any of its equity method investees.

The summarized financial information of the funds in which the Partnership has an equity method investment is as follows:

	As of September 30, 2010 and the Nine Months Then Ended			
	Private Equity	Real Estate	Credit and Marketable Alternatives	Total
<b>Statement of Financial Condition</b>				
<b>Assets</b>				
Investments	\$23,110,965	\$14,566,181	\$13,771,938	\$51,449,084
Other Assets	266,941	1,002,540	2,279,866	3,549,347
<b>Total Assets</b>	<b>\$23,377,906</b>	<b>\$15,568,721</b>	<b>\$16,051,804</b>	<b>\$54,998,431</b>
<b>Liabilities and Partners' Capital</b>				
Debt	\$ 182,411	\$ 482,436	\$ 755,327	\$ 1,420,174
Other Liabilities	66,972	175,077	1,367,111	1,609,160
<b>Total Liabilities</b>	<b>249,383</b>	<b>657,513</b>	<b>2,122,438</b>	<b>3,029,334</b>
Partners' Capital	23,128,523	14,911,208	13,929,366	51,969,097
<b>Total Liabilities and Partners' Capital</b>	<b>\$23,377,906</b>	<b>\$15,568,721</b>	<b>\$16,051,804</b>	<b>\$54,998,431</b>
<b>Statement of Income</b>				
Interest Income	\$ 5,261	\$ 20,861	\$ 399,370	\$ 425,492
Other Income	179,004	74,663	50,077	303,744
Interest Expense	(7,555)	(4,971)	(38,301)	(50,827)
Other Expenses	(19,852)	(34,336)	(111,028)	(165,216)
<b>Net Realized and Unrealized Gain from Investments</b>	<b>4,524,920</b>	<b>5,340,430</b>	<b>930,061</b>	<b>10,795,411</b>
<b>Net Income</b>	<b>\$ 4,681,778</b>	<b>\$ 5,396,647</b>	<b>\$ 1,230,179</b>	<b>\$11,308,604</b>

**Blackstone's Treasury Cash Management Strategies**

Blackstone's Treasury cash management strategies represents the Partnership's liquid investments in government and other investment and non-investment grade securities and Reverse Repurchase Agreements. These strategies are managed by third-party institutions. The Partnership has managed its credit risk through diversification of its investments among major financial institutions, all of which have investment grade ratings.

During the three and nine months ended September 30, 2010, the Partnership recognized realized gains of \$1.1 million and \$2.6 million, respectively, and net change in unrealized gains of \$8.2 million and \$15.1 million,

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respectively. The net change in unrealized gains was \$4.8 million for both the three and nine months ended September 30, 2009. There were no realized gains for the three and nine months ended September 30, 2009.

**Performance Fees and Allocations**

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

	September 30, 2010	December 31, 2009
Performance Fees and Allocations		
Private Equity	\$ 517,116	\$ 425,615
Real Estate	52,791	7,900
Credit and Marketable Alternatives	224,659	120,948
	<u>\$ 794,566</u>	<u>\$ 554,463</u>

**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,	
	2010	2009	2010	2009
Realized Gains (Losses)	\$ 36	\$ (441)	\$ 978	\$(2,095)
Net Change in Unrealized Gains (Losses)	(335)	6,559	592	8,182
	<u>\$ (299)</u>	<u>\$ 6,118</u>	<u>\$1,570</u>	<u>\$ 6,087</u>

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**Notes to Condensed Consolidated Financial Statements—(Continued)**  
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**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, 2010 is presented below.

Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Diversified Instruments	\$280,169	\$ 11,894	(a)	(a)
Credit Driven	220,046	29,558	(b)	(b)
Event Driven	118,648	—	(c)	(c)
Equity	83,963	—	(d)	(d)
	<u>\$702,826</u>	<u>\$ 41,452</u>		

- (a) Diversified Instruments includes 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 15% 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.
- (b) The Credit Driven category includes investments in hedge funds that invest primarily in domestic and international bonds. Investments representing 63% of the value of the investments in this category may not be redeemed at, or within three months of, the reporting date. Investments representing 30% 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. As of the reporting date, the investee fund manager had elected to side-pocket 3% of Blackstone's investments. Investments representing 6% of the value within this 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 1% 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 41% of the total value of investments in this category may not be redeemed at, or within three months of, the reporting date. The remaining 59% are subject to redemption restrictions at the discretion of the investee fund manager who may choose (but may not have elected such ability) to side-pocket such investments. As of the reporting date, the investee fund manager had not elected to side-pocket Blackstone's investments.

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Notes to Condensed Consolidated Financial Statements—(Continued)  
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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 all or 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 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.

**Free Standing Derivatives**

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

	September 30, 2010				December 31, 2009			
	Assets		Liabilities		Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
<b>Fair Value Hedges</b>								
Interest Rate Swaps	\$450,000	\$45,893	\$ —	\$ —	\$ —	\$—	\$450,000	\$ 19
<b>Free Standing Derivatives</b>								
Blackstone	231,432	476	90,202	1,728	1,099	636	—	—
Investments of Consolidated Blackstone Funds	699	56	22	5	940	17	656	4
Free Standing Derivatives	232,131	532	90,224	1,733	2,039	653	656	4
Total	\$682,131	\$46,425	\$90,224	\$1,733	\$2,039	\$653	\$450,656	\$ 23

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Where hedge accounting is applied, hedge effectiveness testing is performed at least monthly to monitor ongoing effectiveness of the hedge relationships. During the three and nine months ended September 30, 2010, the amount of ineffectiveness related to the interest rate swap hedges was a gain of \$2.1 million and \$6.7 million, respectively. During the three and nine months ended September 30, 2010, the portion of hedging instruments' gain or loss excluded from the assessment of effectiveness for its fair value hedges was a gain (loss) of \$(7.6) million and \$(9.7) million, respectively. During the three and nine months ended September 30, 2009, the portion of hedging instruments' gain or loss excluded from the assessment of effectiveness was not material for its fair value hedges.

During the three and nine months ended September 30, 2010, the Partnership recognized \$(2.0) million and \$(1.7) million, respectively, of realized loss and \$2.3 million and \$0.5 million, respectively, in net change in unrealized gains (losses) related to free standing derivative instruments. Amounts recognized in the three and nine months ended September 30, 2009 were not material.

As of September 30, 2010 and December 31, 2009, 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,	December 31,	Nine Months Ended September 30, 2010	
	2010	2009	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
<b>Assets</b>				
Loans and Receivables	\$ —	\$ 68,550	\$ 5,695	\$ (101)
Debt Securities	—	26,466	(16)	—
Equity Securities	—	1,905	(350)	—
<b>Assets of Consolidated CDO and CLO Vehicles</b>				
Corporate Loans	5,958,365	—	(14,935)	123,770
Corporate Bonds	183,964	—	(1,005)	3,255
Other	11,775	—	702	(2,469)
	<u>\$6,154,104</u>	<u>\$ 96,921</u>	<u>\$ (9,909)</u>	<u>\$ 124,455</u>
<b>Liabilities</b>				
<b>Liabilities of Consolidated CDO and CLO Vehicles</b>				
Senior Secured Notes	\$5,454,757	\$ —	\$ (2,513)	\$ 105,194
Subordinated Notes	446,144	—	—	(87,423)
	<u>\$5,900,901</u>	<u>\$ —</u>	<u>\$ (2,513)</u>	<u>\$ 17,771</u>

The Partnership held no financial instruments on which the fair value option was elected during the nine months ended September 30, 2009.

As of September 30, 2010, the uncollected principal balance on Corporate Loans and Corporate Bonds exceeded the fair value by \$398.3 million and \$4.3 million, respectively. The fair value of Corporate Loans that were more than one day past due as of September 30, 2010 was \$22.4 million. The principal balance related to such past due Corporate Loans exceeded the fair value by \$37.4 million. The fair value of Corporate Bonds that

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Notes to Condensed Consolidated Financial Statements—(Continued)  
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were more than one day past due as of September 30, 2010 was \$3.0 million. The principal balance related to such past due Corporate Bonds exceeded the fair value by \$1.3 million. Included within the Other category are structured finance obligations with contractual principal balances. The fair value of such obligations exceeded the uncollected principal balance by \$1.8 million. No obligations were past due.

As of December 31, 2009, the fair value of Loans and Receivables and Debt Securities for which the fair value option was elected exceeded their principal amounts due by \$0.5 million. No Loans and Receivables and Debt Securities on which the fair value option was elected were past due or in non-accrual status.

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, 2010 and December 31, 2009, respectively:

September 30, 2010				
	Level I	Level II	Level III	Total
<b>Assets</b>				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	\$ —	\$ 2,472	\$ 700,354	\$ 702,826
Equity Securities	100,670	53	96,496	197,219
Partnership and LLC Interests	12,412	—	441,341	453,753
Debt Instruments	115	135,657	12,284	148,056
Assets of Consolidated CDO and CLO Vehicles	—	5,931,991	222,113	6,154,104
Total Investments of Blackstone Consolidated Funds	113,197	6,070,173	1,472,588	7,655,958
Blackstone's Treasury Cash Management Strategies	443,222	537,315	—	980,537
Free Standing Derivatives	184	292	—	476
Derivative Instruments Used as Fair Value Hedges	—	45,893	—	45,893
Other Investments	9,404	1,452	17,500	28,356
	<u>\$566,007</u>	<u>\$6,655,125</u>	<u>\$1,490,088</u>	<u>\$8,711,220</u>
<b>Liabilities</b>				
Liabilities of Consolidated and CDO CLO Vehicles (a)	\$ —	\$ —	\$5,900,901	\$5,900,901
Free Standing Derivatives	655	1,073	—	1,728
Securities Sold, Not Yet Purchased	553	263,484	—	264,037
	<u>\$ 1,208</u>	<u>\$ 264,557</u>	<u>\$5,900,901</u>	<u>\$6,166,666</u>
December 31, 2009				
	Level I	Level II	Level III	Total
<b>Assets</b>				
Investments of Consolidated Blackstone Funds (a)	\$ 80,610	\$ 33,355	\$1,192,463	\$1,306,428
Blackstone's Treasury Cash Management Strategies	398,487	136,290	—	534,777
Loans and Receivables	—	—	68,550	68,550
Free Standing Derivatives, Net	2	279	368	649
Other Investments (b)	8,711	10,176	46,210	65,097
	<u>\$487,810</u>	<u>\$ 180,100</u>	<u>\$1,307,591</u>	<u>\$1,975,501</u>
<b>Liabilities</b>				
Derivative Instruments Used for Fair Value Hedges	\$ —	\$ 19	\$ —	\$ 19
Securities Sold, Not Yet Purchased	357	—	—	357
	<u>\$ 357</u>	<u>\$ 19</u>	<u>\$ —</u>	<u>\$ 376</u>

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- (a) Pursuant to revised GAAP consolidation rules, the Partnership is required to consolidate all VIEs in which it has been identified as the primary beneficiary, including our investments in CDO and CLO vehicles and other funds in which the general partner is presumed to have control. While we are required to consolidate certain funds, including our CDO and CLO vehicles, for GAAP purposes, the Partnership has no ability to utilize the assets of these funds and there is no recourse to the Partnership for their liabilities since these are client assets and liabilities.
- (b) Included within Level III of Other Investments are investments in debt and equity securities of \$26.5 million and \$1.9 million, respectively, for which the fair value option has been elected.

There were no significant transfers between Level I and Level II during the nine months ended September 30, 2010.

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, 2010.

Valuation Methodology	Private Equity	Real Estate	Credit and Marketable Alternatives	Total
Third-Party Fund Managers	—	—	47%	47%
Specific Valuation Metrics	19%	18%	16%	53%
	19%	18%	63%	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,							
	2010				2009			
	Investments of Consolidated Funds	Loans and Receivables	Other Investments	Total	Investments of Consolidated Funds	Other Investments	Total	
Balance, Beginning of Period	\$ 1,414,606	\$ 26,844	\$ 18,875	\$1,460,325	\$ 1,129,272	\$ 16,049	\$1,145,321	
Transfer In Due to Consolidation and Acquisition (a)	200	—	—	200	83,339	—	83,339	
Transfer Out Due to Deconsolidation (b)	—	—	—	—	(3,950)	—	(3,950)	
Transfer In to Level III (c)	11,526	—	—	11,526	—	—	—	
Transfer Out of Level III (c)	(7,782)	—	—	(7,782)	(4,101)	—	(4,101)	
Purchases (Sales), Net	(60,156)	(29,126)	(233)	(89,515)	(78,737)	(600)	(79,337)	
Realized Gains (Losses), Net	(11,938)	5,310	(851)	(7,479)	(46,708)	—	(46,708)	
Changes in Unrealized Gains (Losses)								
Included in Earnings Related to Investments Still Held at the Reporting Date	126,132	(3,028)	(291)	122,813	110,934	(165)	110,769	
Balance, End of Period	<u>\$ 1,472,588</u>	<u>\$ —</u>	<u>\$ 17,500</u>	<u>\$1,490,088</u>	<u>\$ 1,190,049</u>	<u>\$ 15,284</u>	<u>\$1,205,333</u>	



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Notes to Condensed Consolidated Financial Statements—(Continued)  
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	Level III Financial Assets at Fair Value Nine Months Ended September 30,						
	2010				2009		
	Investments of				Investments of		
	Consolidated Funds	Loans and Receivables	Other Investments	Total	Consolidated Funds	Other Investments	Total
Balance, Beginning of Period	\$ 1,192,464	\$ 68,549	\$ 46,578	\$ 1,307,591	\$ 1,521,912	\$ 16,095	\$ 1,538,007
Transfer In Due to Consolidation and Acquisition (a)	227,794	—	—	227,794	83,339	—	83,339
Transfer Out Due to Deconsolidation (b)	—	—	—	—	(3,950)	—	(3,950)
Transfer In to Level III (c)	11,706	—	—	11,706	187	—	187
Transfer Out of Level III (c)	(28,329)	—	—	(28,329)	(6,674)	—	(6,674)
Purchases (Sales), Net	(145,720)	(74,244)	(29,701)	(249,665)	(450,244)	(1,365)	(451,609)
Realized Gains (Losses), Net	(29,331)	5,695	104	(23,532)	(145,068)	—	(145,068)
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	244,004	—	519	244,523	190,547	554	191,101
Balance, End of Period	<u>\$ 1,472,588</u>	<u>\$ —</u>	<u>\$ 17,500</u>	<u>\$ 1,490,088</u>	<u>\$ 1,190,049</u>	<u>\$ 15,284</u>	<u>\$ 1,205,333</u>

	Level III Financial Liabilities at Fair Value					
	Three Months Ended September 30, 2010			Nine Months Ended September 30, 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	\$5,483,483	\$ 443,847	\$5,927,330	\$ —	\$ —	\$ —
Transfer In Due to Consolidation and Acquisition (a)	102,631	—	102,631	5,751,806	364,829	6,116,635
Purchases (Sales), Net	(55,875)	—	(55,875)	(79,085)	—	(79,085)
Realized Gains (Losses), Net	—	—	—	—	—	—
Changes in Unrealized Gains (Losses) Included in Earnings Related to Liabilities Still Held at the Reporting Date	(75,482)	2,297	(73,185)	(217,964)	81,315	(136,649)
Balance, End of Period	<u>\$5,454,757</u>	<u>\$ 446,144</u>	<u>\$5,900,901</u>	<u>\$5,454,757</u>	<u>\$ 446,144</u>	<u>\$5,900,901</u>

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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)

- (a) Represents the transfer into Level III of financial assets and liabilities held by CDO and CLO vehicles as a result of the application of revised consolidation guidance effective January 1, 2010 and as a result of the acquisition of management contracts on April 1, 2010 and July 20, 2010, as described in Note 3. “Acquisitions, Goodwill and Intangible Assets”. Transfers into Level III financial assets for the three and nine months ended September 30, 2009 were a result of the transfer of assets from a non-consolidated fund to a consolidated Blackstone Fund.
- (b) Represents the transfer out of Level III financial assets as a result of deconsolidation of certain Blackstone Funds.
- (c) 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.

For the nine months ended September 30, 2009, there were no Level III financial liabilities.

9. VARIABLE INTEREST ENTITIES

Pursuant to revised GAAP consolidation rules, 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 CDO 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.

The gross assets and liabilities of consolidated VIEs reflected in the Condensed Consolidated Statements of Financial Condition as of September 30, 2010 and December 31, 2009 were as follows:

	September 30, 2010	December 31, 2009
<b>Gross Assets</b>		
Consolidated Blackstone Funds Excluding CDO and CLO Vehicles	\$ 839,122	\$ 741,024
Consolidated CDO and CLO Vehicles	6,518,925	—
	<u>\$7,358,047</u>	<u>\$ 741,024</u>
<b>Gross Liabilities</b>		
Consolidated Blackstone Funds Excluding CDO and CLO Vehicles	\$ 47,776	\$ 37,974
Consolidated CDO and CLO Vehicles	5,985,002	—
	<u>\$6,032,778</u>	<u>\$ 37,974</u>

There is no recourse to the Partnership for the consolidated VIEs’ liabilities including the liabilities of the consolidated CDO and 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.

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**Notes to Condensed Consolidated Financial Statements—(Continued)**  
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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. As of September 30, 2010, assets and liabilities recognized in the Partnership's Condensed Consolidated Statement of Financial Condition related to the Partnership's interest in these non-consolidated VIEs were \$201.1 million and zero, respectively. Assets consisted of \$84.8 million of investments and \$116.3 million of receivables. As of December 31, 2009, assets and liabilities recognized in the Partnership's Condensed Consolidated Statement of Financial Condition related to the Partnership's interest in these non-consolidated VIEs were \$133.9 million and \$0.1 million, respectively. Assets consisted of \$21.7 million of investments and \$112.2 million of receivables. The Partnership's maximum exposure to loss relating to non-consolidated VIEs as of September 30, 2010 and December 31, 2009 was \$203.8 million and \$133.9 million, respectively. The maximum exposure to loss represents the loss of assets recognized by Blackstone relating to non-consolidated entities and any clawback obligation relating to previously distributed Carried Interest.

**10. REVERSE REPURCHASE AND REPURCHASE AGREEMENTS**

At September 30, 2010, 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 \$287.6 million as collateral for reverse repurchase agreements that could be repledged, delivered or otherwise used. Securities with a fair value of \$267.6 million were repledged, delivered or used to settle Securities Sold, Not Yet Purchased. The Partnership also pledged securities with a fair value of \$138.8 million to collateralize its repurchase agreements.

**11. BORROWINGS**

On March 23, 2010, an indirect, wholly-owned subsidiary of Blackstone entered into a new \$1.07 billion revolving credit facility (the "Credit Facility") with Citibank, N.A., as Administrative Agent. The unsecured Credit Facility provides for revolving credit borrowings, with a final maturity date of March 23, 2013. Interest on the borrowings is based on an adjusted LIBOR rate or alternate base rate, in each case plus a margin, and undrawn commitments bear a commitment fee. Borrowings may also be made in U.K. Sterling or Euros, in each case subject to certain sub-limits. The Credit Facility contains customary representations, covenants and events of default. Financial covenants consist of a maximum net leverage ratio and a requirement to keep a minimum amount of fee generating assets under management, each tested quarterly. As of September 30, 2010, the Partnership had no outstanding borrowings under this Credit Facility.

On September 15, 2010, Blackstone Holdings Finance Co. L.L.C. (the "Issuer"), an indirect subsidiary of the Partnership, issued \$400 million of senior notes due March 15, 2021 (the "Notes"). The Notes, which were issued at a discount, have an interest rate of 5.875% per annum, accruing from September 20, 2010. Interest is payable semiannually in arrears on March 15 and September 15 of each year, commencing on March 15, 2011. The Notes are unsecured and unsubordinated obligations of the Issuer. The Notes are fully and unconditionally guaranteed, jointly and severally, by the Partnership, Blackstone Holdings and the Issuer (the "Guarantors"). The guarantees are unsecured and unsubordinated obligations of the Guarantors. Interest expense on the Notes was \$0.7 million for each of the three and nine months ended September 30, 2010. Transaction costs related to the issuance of the Notes have been capitalized and are being amortized over the life of the Notes. As of September 30, 2010, the fair value of the Notes was \$398.1 million.

The indenture includes covenants, including limitations on the Issuer's and the Guarantors' ability to, subject to exceptions, incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The indenture also provides for events of default and further provides that the trustee or the holders of not less than 25% in aggregate principal amount

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of the outstanding Notes may declare the Notes immediately due and payable upon the occurrence and during the continuance of any event of default after expiration of any applicable grace period. In the case of specified events of bankruptcy, insolvency, receivership or reorganization, the principal amount of the Notes and any accrued and unpaid interest on the Notes automatically become due and payable. All or a portion of the Notes may be redeemed at the Issuer's option in whole or in part, at any time and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the Notes. If a change of control repurchase event occurs, the holders of the Notes may require the Issuer to repurchase the Notes at a repurchase price in cash equal to 101% of the aggregate principal amount of the Notes repurchased plus any accrued and unpaid interest on the Notes repurchased to, but not including, the date of repurchase.

As of September 30, 2010, the fair value of the notes issued in August 2009 was \$637.8 million.

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

	<b>Borrowing Outstanding</b>	<b>Weighted Average Interest Rate</b>	<b>Weighted Average Remaining Maturity in Years</b>
Senior Secured Notes	\$6,187,073	1.38%	5.4
Subordinated Notes	836,729	(a)	8.5
	<u>\$7,023,802</u>		

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

Included within Senior Secured Notes and Subordinated Notes are amounts due to non-consolidated affiliates of \$99.3 million and \$276.6 million, respectively. The fair value of Senior Secured and Subordinated Notes as of September 30, 2010 was \$5.5 billion and \$446.1 million, respectively, of which \$68.6 million and \$177.7 million represents the amounts Due to Affiliates. The contractual maturities of Senior Secured Notes are greater than five years.

The Loans Payable of the consolidated CDO and CLO vehicles are collateralized by assets held by each respective CDO and CLO vehicle and assets of one vehicle may not be used to satisfy the liabilities of another. As of September 30, 2010, the fair value of the CDO and CLO assets was \$6.5 billion. This collateral consisted of Cash, Corporate Loans, Corporate Bonds and other securities.

## 12. INCOME TAXES

Blackstone's effective tax rate was (2.95)% and (12.31)% for the three months ended September 30, 2010 and 2009, respectively, and (3.44)% and (4.21)% for the nine months ended September 30, 2010 and 2009, respectively. Blackstone's income tax provision was a benefit of \$4.2 million and an expense of \$52.6 million for the three months ended September 30, 2010 and 2009, respectively, and an expense of \$24.8 million and an expense of \$81.2 million for the nine months ended September 30, 2010 and 2009, respectively.

Blackstone's effective tax rate for the three and nine months ended September 30, 2010 and 2009 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 the compensation charges that contribute to Blackstone's net loss are not deductible for tax purposes.

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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)

13. NET LOSS PER COMMON UNIT

Basic and diluted net loss per common unit for the three and nine months ended September 30, 2010 and basic and diluted net loss per common unit entitled to priority distributions and per common unit not entitled to priority distributions for the three and nine months ended September 30, 2009 was calculated as follows:

	Basic and Diluted	
	Three Months Ended	Nine Months Ended
	September 30, 2010	September 30, 2010
Net Loss Attributable to The Blackstone Group L.P.	\$ (44,358)	\$ (359,055)
Net Loss Per Common Unit	\$ (0.12)	\$ (1.02)
Total Weighted-Average Common Units Outstanding	370,101,582	352,794,385

  

	Basic and Diluted	
	Three Months Ended	Nine Months Ended
	September 30, 2009	September 30, 2009
Total Undistributed Loss		
Net Loss Allocable to Common Unitholders	\$ (176,183)	\$ (572,041)
Less: Distributions to Common Unitholders	(89,188)	(254,705)
Total Undistributed Loss	\$ (265,371)	\$ (826,746)
Allocation of Total Undistributed Loss		
Undistributed Loss — Common Unitholders Entitled to Priority Distributions	\$ (257,806)	\$ (816,980)
Undistributed Loss — Common Unitholders Not Entitled to Priority Distributions	(7,565)	(9,766)
Total Undistributed Loss	\$ (265,371)	\$ (826,746)
Net Loss Per Common Unit — Common Units Entitled to Priority Distributions		
Undistributed Loss per Common Unit	\$ (0.91)	\$ (2.95)
Priority Distributions (a)	0.30	0.90
Net Loss Per Common Unit — Common Units Entitled to Priority Distributions	\$ (0.61)	\$ (2.05)
Net Loss Per Common Unit — Common Units Not Entitled to Priority Distributions		
Undistributed Loss per Common Unit	\$ (0.91)	\$ (2.95)
Net Loss Per Common Unit — Common Units Not Entitled to Priority Distributions	\$ (0.91)	\$ (2.95)
Weighted-Average Common Units Outstanding — Common Units Entitled to Priority Distributions	283,243,485	277,390,904
Common Units Not Entitled to Priority Distributions	8,311,085	3,465,956
Total Weighted-Average Common Units Outstanding	291,554,570	280,856,860

- (a) Undistributed Loss per Common Unit — Priority Distributions are forecast based upon common units outstanding at the end of the reporting period and differ from actual distributions paid to common unitholders which are based on common units outstanding at the time priority distributions are made.

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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)**

For the three months ended September 30, 2010 and 2009, a total of 23,636,653 and 19,750,299 unvested deferred restricted common units and 727,528,593 and 808,479,683 Blackstone Holdings Partnership Units were anti-dilutive and as such have been excluded from the calculation of diluted earnings per unit, respectively. For the nine months ended September 30, 2010 and 2009, a total of 26,542,362 and 23,353,728 unvested deferred restricted common units and 745,006,116 and 820,944,937 Blackstone Holdings Partnership Units were anti-dilutive and as such have been excluded from the calculation of diluted earnings per unit, respectively.

**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, 2010, Blackstone repurchased 84,888 vested Blackstone Common Units as part of the unit repurchase program for a total cost of \$1.2 million. The repurchase resulted in a decrease in Blackstone's ownership interest in Blackstone Holdings equity of \$1.0 million. As of September 30, 2010, the amount remaining available for repurchases under this program was \$338.3 million.

During the nine months ended September 30, 2009, Blackstone repurchased a combination of 4,689,091 Blackstone Common Units and Blackstone Holdings Partnership Units as part of the unit repurchase program for a total cost of \$30.5 million. During the three months ended September 30, 2009, Blackstone repurchased 59,225 Blackstone Common Units and Blackstone Holdings Partnership Units as part of the unit repurchase program for a total cost of \$0.8 million. The repurchase resulted in a decrease in Blackstone's ownership interest in Blackstone Holdings equity of \$17.3 million. As of September 30, 2009, the amount remaining available for repurchases was \$339.5 million under this program.

**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, 2010, the Partnership had the ability to grant 162,126,007 units under the Equity Plan.

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. For the three and nine months ended September 30, 2009, the Partnership recorded compensation expense of \$738.2 million and \$2.2 billion, respectively, in relation to its equity-based awards with corresponding tax benefits of \$(0.6) million and \$5.9 million, respectively. As of September 30, 2010, there was \$4.4 billion of estimated unrecognized compensation expense related to unvested awards. This cost is expected to be recognized over a weighted-average period of 3.8 years.

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**Notes to Condensed Consolidated Financial Statements—(Continued)**  
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Total vested and unvested outstanding units, including Blackstone Common Units, Blackstone Holdings Partnership Units and deferred restricted common units, were 1,121,144,937 as of September 30, 2010. Total outstanding unvested phantom units were 10,201 as of September 30, 2010.

A summary of the status of the Partnership's unvested equity-based awards as of September 30, 2010 and a summary of changes during the period January 1, 2010 through September 30, 2010 is presented below:

Unvested Units	Blackstone Holdings		The Blackstone Group L.P.			
	Partnership Units	Weighted-Average Grant Date Fair Value	Equity Settled Awards		Cash Settled Awards	
			Deferred Restricted Common Units and Options	Weighted-Average Grant Date Fair Value	Phantom Units	Weighted-Average Grant Date Fair Value
Balance, December 31, 2009	270,458,725	\$ 30.76	23,742,693	\$ 23.10	208,592	\$ 25.07
Granted	422,768	13.85	1,405,740	10.16	3,552	9.52
Vested	(117,073,919)	30.89	(5,278,181)	25.37	(193,497)	14.56
Forfeited	(4,703,239)	31.00	(983,715)	24.51	(8,446)	14.60
Balance, September 30, 2010	<u>149,104,335</u>	<u>\$ 30.61</u>	<u>18,886,537</u>	<u>\$ 21.22</u>	<u>10,201</u>	<u>\$ 14.65</u>

**Units Expected to Vest**

The following unvested units, after expected forfeitures, as of September 30, 2010, are expected to vest:

	Units	Weighted-Average Service Period in Years
Blackstone Holdings Partnership Units	138,762,641	3.8
Deferred Restricted Blackstone Common Units and Options	14,850,644	3.8
Total Equity-Based Awards	<u>153,613,285</u>	<u>3.8</u>
Phantom Units	<u>8,703</u>	<u>1.7</u>

**Equity-Based Awards with Performance Conditions**

In connection with certain equity-based awards with performance conditions, Blackstone has recorded compensation expense of \$1.9 million as the likelihood that the relevant performance threshold will be exceeded in future periods has been deemed as probable. Such awards will be granted in 2012 and are accounted for as a liability award subject to re-measurement at the end of each reporting period.

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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)

15. RELATED PARTY TRANSACTIONS

Affiliate Receivables and Payables

Blackstone considers its Founders, senior managing directors, employees, the Blackstone Funds and the Portfolio Companies to be affiliates. As of September 30, 2010 and December 31, 2009, Due from Affiliates and Due to Affiliates comprised the following:

	September 30, 2010	December 31, 2009
<b>Due from Affiliates</b>		
Accrual for Potential Clawback of Previously Distributed Interest	\$ 206,648	\$ 308,378
Primarily Interest Bearing Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees for Investments in Blackstone Funds	142,270	127,669
Amounts Due from Portfolio Companies and Funds	152,660	115,441
Investments Redeemed in Non-Consolidated Funds of Funds	4,989	77,600
Management and Performance Fees Due from Non-Consolidated Funds of Funds	77,603	68,649
Payments Made on Behalf of Non-Consolidated Entities	56,218	53,581
Advances Made to Certain Non-Controlling Interest Holders and Blackstone Employees	16,954	8,589
	<u>\$ 657,342</u>	<u>\$ 759,907</u>
	September 30, 2010	December 31, 2009
<b>Due to Affiliates</b>		
Due to Certain Non-Controlling Interest Holders in Connection with the Tax Receivable Agreements	\$ 980,217	\$ 830,517
Accrual for Potential Repayment of Previously Received Performance Fees and Allocations	392,041	485,253
Due to Note-Holders of Consolidated CDO and CLO Vehicles	246,342	—
Distributions Received on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees	62,641	58,083
Distributions Received on Behalf of Non-Consolidated Entities	13,531	31,692
Payments Made by Non-Consolidated Entities	6,662	4,521
	<u>\$ 1,701,434</u>	<u>\$ 1,410,066</u>

Interests of the Co-Founder, Senior Managing Directors and Employees

The Co-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 and allocation arrangements. As of September 30, 2010 and December 31, 2009, the Co-Founder's, other senior managing directors' and employees' investments aggregated \$776.9 million and \$649.4 million, respectively, and the Co-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 \$60.4 million and \$23.2 million for the three months ended September 30, 2010 and 2009, respectively, and \$142.1 million and \$1.7 million for the nine months ended September 30, 2010 and 2009, respectively.



**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)****Revenues Earned from Affiliates**

Management and Advisory Fees earned from affiliates totaled \$34.2 million and \$23.0 million for the three months ended September 30, 2010 and 2009, respectively. Management and Advisory Fees earned from affiliates totaled \$110.4 million and \$68.5 million for the nine months ended September 30, 2010 and 2009, 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 \$0.4 million and \$0.6 million for the three months ended September 30, 2010 and 2009, respectively, and \$1.5 million and \$1.6 million for the nine months ended September 30, 2010 and 2009, 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 and Allocations 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, 2010. 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.

**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)**

Certain subsidiaries of the Partnership which are corporate taxpayers have 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 taxpayers 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 \$980.2 million over the next 15 years. The after-tax net present value of these estimated payments totals \$274.0 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, 2010 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 \$23.9 million as of September 30, 2010 which includes \$7.9 million of signed investment commitments for portfolio company acquisitions in the process of closing.

**Contingencies*****Guarantees***

Certain of Blackstone's consolidated real estate funds guarantee payments to third parties in connection with the on-going business activities and/or acquisitions of their Portfolio Companies. There is no direct recourse to the Partnership to fulfill such obligations. To the extent that underlying funds are required to fulfill guarantee obligations, the Partnership's invested capital in such funds is at risk. Total investments at risk in respect of guarantees extended by real estate funds was \$4.9 million as of September 30, 2010.

**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)**

***Contingent Performance Fees and Allocations***

There were \$130.9 million of segment level Performance Fees and Allocations related to the hedge funds in the Credit and Marketable Alternatives and Real Estate segments through the period ended September 30, 2010 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 and Allocations were \$129.3 million for the nine months ended September 30, 2010.

***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)***

Included within Net Gains from Fund Investment Activities in the Condensed Consolidated Statements of Operations are gains from Blackstone Fund investments. The portion of net gains attributable to non-controlling interest holders is included within Non-Controlling Interests in Income of Consolidated Entities. Net gains (losses) attributable to non-controlling interest holders are net of Carried Interest earned by Blackstone. Carried Interest is subject to clawback to the extent that the Carried Interest received to date exceeds the amount due to Blackstone based on cumulative results.

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

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

During the quarter ended September 30, 2010, the Blackstone general partners paid an interim cash clawback obligation of \$16.2 million relating to a real estate fund of which \$13.7 million was paid by Blackstone Holdings and \$2.5 million by current and former Blackstone personnel. During the nine months ended September 30, 2010, the Blackstone general partners paid an interim cash clawback obligation of \$19.3 million relating to a real estate fund of which \$15.4 million was paid by Blackstone Holdings and \$3.9 million by current and former Blackstone personnel.

As of September 30, 2010, the clawback obligations were \$392.0 million, of which \$185.4 million related to Blackstone Holdings and \$206.6 million related to current and former Blackstone personnel. As of December 31, 2009, the clawback obligations were \$485.3 million, of which \$217.4 million related to Blackstone Holdings and \$267.9 million related to current and former Blackstone personnel. The Accrual for Potential Repayment of Previously Received Performance Fees and Allocations is included in Due to Affiliates.

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 the clawback obligations by segment:

Segment	September 30, 2010			December 31, 2009		
	Current and			Current and		
	Blackstone Holdings	Former Personnel	Total	Blackstone Holdings	Former Personnel	Total
Private Equity	\$ 67,431	\$ 119,338	\$186,769	\$ 65,237	\$ 120,208	\$185,445
Real Estate	117,962	87,310	205,272	152,142	147,666	299,808
Total	<u>\$185,393</u>	<u>\$ 206,648</u>	<u>\$392,041</u>	<u>\$217,379</u>	<u>\$ 267,874</u>	<u>\$485,253</u>

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, 2010, \$478.2 million was held in segregated accounts for the purpose of meeting any clawback obligations of current and former personnel if such payments are required.

## 17. SEGMENT REPORTING

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

Blackstone conducts its alternative asset management and financial advisory businesses through four 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 real estate funds and internationally focused 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.
- Credit and Marketable Alternatives — Blackstone's Credit and Marketable Alternatives segment, whose consistent focus is current earnings, comprises its management of funds of hedge funds, credit-oriented funds, CDO and CLO vehicles, separately managed accounts and publicly-traded closed-end mutual funds.
- 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, with the Private Equity, Real Estate and Credit and Marketable Alternatives segments primarily earning 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.

Economic Net Income ("ENI") is a key performance measure used by management. ENI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges include principally charges associated with equity-based compensation, the amortization of intangibles and corporate actions

**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)**

including acquisitions. Blackstone uses ENI as a key measure of value creation and as a benchmark of its performance. ENI represents segment net income excluding the impact of income taxes and initial public offering (“IPO”) and acquisition-related items, including charges associated with equity-based compensation, the amortization of intangibles and corporate actions including acquisitions. For segment reporting purposes, revenues and expenses are presented on a basis that deconsolidates the investment funds we manage. Total Segment ENI equals the aggregate of ENI for all segments. ENI is used by management primarily in making resource deployment and compensation decisions across Blackstone’s four segments.

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

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**Notes to Condensed Consolidated Financial Statements—(Continued)**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The following table presents the financial data for Blackstone's four segments for the three months ended September 30, 2010 and 2009:

	Three Months Ended September 30, 2010				
	Private Equity	Real Estate	Credit and Marketable Alternatives	Financial Advisory	Total Segments
<b>Segment Revenues</b>					
Management and Advisory Fees					
Base Management Fees	\$ 66,077	\$ 83,232	\$ 120,125	\$ —	\$269,434
Advisory Fees	—	—	—	84,541	84,541
Transaction and Other Fees, Net	13,348	8,538	1,062	—	22,948
Management Fee Offsets	(91)	(401)	(182)	—	(674)
Total Management and Advisory Fees	<u>79,334</u>	<u>91,369</u>	<u>121,005</u>	<u>84,541</u>	<u>376,249</u>
Performance Fees and Allocations					
Realized	44,814	5,010	16,215	—	66,039
Unrealized	45,499	69,910	77,336	—	192,745
Total Performance Fees and Allocations	<u>90,313</u>	<u>74,920</u>	<u>93,551</u>	<u>—</u>	<u>258,784</u>
Investment Income					
Realized	9,940	2,159	1,708	469	14,276
Unrealized	30,491	83,968	13,181	607	128,247
Total Investment Income	<u>40,431</u>	<u>86,127</u>	<u>14,889</u>	<u>1,076</u>	<u>142,523</u>
Interest and Dividend Revenue	3,802	3,026	1,750	1,609	10,187
Other	1,061	2,330	600	477	4,468
Total Revenues	<u>214,941</u>	<u>257,772</u>	<u>231,795</u>	<u>87,703</u>	<u>792,211</u>
<b>Expenses</b>					
Compensation and Benefits					
Base Compensation	47,552	43,219	53,280	66,531	210,582
Performance Fee Related					
Realized	10,783	1,806	12,373	—	24,962
Unrealized	18,306	46,182	39,835	—	104,323
Total Compensation and Benefits	<u>76,641</u>	<u>91,207</u>	<u>105,488</u>	<u>66,531</u>	<u>339,867</u>
Other Operating Expenses	26,359	18,584	22,057	17,253	84,253
Total Expenses	<u>103,000</u>	<u>109,791</u>	<u>127,545</u>	<u>83,784</u>	<u>424,120</u>
Economic Net Income	<u>\$111,941</u>	<u>\$147,981</u>	<u>\$ 104,250</u>	<u>\$ 3,919</u>	<u>\$368,091</u>

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)

	Three Months Ended September 30, 2009				
	Private Equity	Real Estate	Credit and Marketable Alternatives	Financial Advisory	Total Segments
<b>Segment Revenues</b>					
Management and Advisory Fees					
Base Management Fees	\$ 67,009	\$ 83,409	\$ 105,430	\$ —	\$255,848
Advisory Fees	—	—	—	94,566	94,566
Transaction and Other Fees, Net	18,368	3,347	778	—	22,493
Management Fee Offsets	—	(415)	(4,121)	—	(4,536)
Total Management and Advisory Fees	85,377	86,341	102,087	94,566	368,371
Performance Fees and Allocations					
Realized	—	(11,441)	7,622	—	(3,819)
Unrealized	110,867	23,608	36,114	—	170,589
Total Performance Fees and Allocations	110,867	12,167	43,736	—	166,770
Investment Income (Loss)					
Realized	8,794	(3,078)	1,953	—	7,669
Unrealized	18,640	1,242	29,976	476	50,334
Total Investment Income (Loss)	27,434	(1,836)	31,929	476	58,003
Interest and Dividend Revenue	2,553	2,035	929	1,250	6,767
Other	677	1,450	715	1,051	3,893
Total Revenues	226,908	100,157	179,396	97,343	603,804
<b>Expenses</b>					
Compensation and Benefits					
Base Compensation	42,011	38,484	54,365	57,686	192,546
Performance Fee Related					
Realized	135	(1,690)	842	—	(713)
Unrealized	27,755	5,721	24,594	—	58,070
Total Compensation and Benefits	69,901	42,515	79,801	57,686	249,903
Other Operating Expenses	21,318	13,437	18,123	22,666	75,544
Total Expenses	91,219	55,952	97,924	80,352	325,447
Economic Net Income	\$135,689	\$ 44,205	\$ 81,472	\$16,991	\$278,357

The following table reconciles the Total Segments to Blackstone's Income (Loss) Before Provision for Taxes as of and for the three months ended September 30, 2010 and 2009:

	Three Months Ended September 30, 2010		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	\$792,211	\$ (8,211)(a)	\$ 784,000
Expenses	\$424,120	\$ 501,649(b)	\$ 925,769
Other Income	\$ —	\$ 285,071(c)	\$ 285,071
Economic Net Income	\$368,091	\$ (224,789)(d)	\$ 143,302

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)

	Three Months Ended September 30, 2009		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	\$603,804	\$ (6,781)(a)	\$ 597,023
Expenses	\$325,447	\$ 772,347(b)	\$1,097,794
Other Income	\$ —	\$ 73,812(c)	\$ 73,812
Economic Net Income (Loss)	\$278,357	\$ (705,316)(d)	\$ (426,959)

- (a) The Revenues adjustment principally represents management and performance fees and allocations 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,	
	2010	2009
Fund Management Fees and Performance Fees and Allocations Eliminated in Consolidation	\$ (4,764)	\$ 6,770
Fund Expenses Added in Consolidation	7,851	2,106
Non-Controlling Interests in Income (Loss) of Consolidated Entities	266,347	83,994
Transactional Other Income	15,637	(19,058)
Total Consolidation Adjustments and Reconciling Items	\$285,071	\$ 73,812

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

	Three Months Ended September 30,	
	2010	2009
Economic Net Income	\$ 368,091	\$ 278,357
Adjustments		
Amortization of Intangibles	(40,872)	(39,513)
IPO and Acquisition-Related Charges	(438,568)	(719,708)
Management Fee Revenues Associated with Consolidated CDO and CLO Vehicles	(11,695)	—
Non-Controlling Interests in Income (Loss) of Consolidated Entities	266,346	53,905
Total Consolidation Adjustments and Reconciling Items	(224,789)	(705,316)
Income (Loss) Before Provision for Taxes	\$ 143,302	\$ (426,959)



**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 four segments for the nine months ended September 30, 2010 and 2009:

	Nine Months Ended September 30, 2010				
	Private Equity	Real Estate	Credit and Marketable Alternatives	Financial Advisory	Total Segments
<b>Segment Revenues</b>					
Management and Advisory Fees					
Base Management Fees	\$ 198,304	\$ 249,208	\$ 336,807	\$ —	\$ 784,319
Advisory Fees	—	—	—	295,208	295,208
Transaction and Other Fees, Net	61,687	13,459	3,576	103	78,825
Management Fee Offsets	(91)	(1,000)	(940)	—	(2,031)
Total Management and Advisory Fees	<u>259,900</u>	<u>261,667</u>	<u>339,443</u>	<u>295,311</u>	<u>1,156,321</u>
Performance Fees and Allocations					
Realized	92,095	27,277	46,922	—	166,294
Unrealized	67,028	102,418	134,894	—	304,340
Total Performance Fees and Allocations	<u>159,123</u>	<u>129,695</u>	<u>181,816</u>	<u>—</u>	<u>470,634</u>
Investment Income					
Realized	12,586	8,691	13,420	607	35,304
Unrealized	132,450	210,403	22,703	1,398	366,954
Total Investment Income	<u>145,036</u>	<u>219,094</u>	<u>36,123</u>	<u>2,005</u>	<u>402,258</u>
Interest and Dividend Revenue	9,958	7,922	3,654	4,273	25,807
Other	1,621	64	(314)	(797)	574
Total Revenues	<u>575,638</u>	<u>618,442</u>	<u>560,722</u>	<u>300,792</u>	<u>2,055,594</u>
<b>Expenses</b>					
Compensation and Benefits					
Base Compensation	141,074	127,897	155,735	197,175	621,881
Performance Fee Related					
Realized	16,916	12,225	26,441	—	55,582
Unrealized	14,354	69,118	74,559	—	158,031
Total Compensation and Benefits	<u>172,344</u>	<u>209,240</u>	<u>256,735</u>	<u>197,175</u>	<u>835,494</u>
Other Operating Expenses	79,467	50,521	66,152	49,296	245,436
Total Expenses	<u>251,811</u>	<u>259,761</u>	<u>322,887</u>	<u>246,471</u>	<u>1,080,930</u>
Economic Net Income	<u>\$ 323,827</u>	<u>\$ 358,681</u>	<u>\$ 237,835</u>	<u>\$ 54,321</u>	<u>\$ 974,664</u>
Segment Assets as of September 30, 2010	<u>\$4,299,931</u>	<u>\$2,479,861</u>	<u>\$2,601,530</u>	<u>\$634,910</u>	<u>\$10,016,232</u>

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, 2009				
	Private Equity	Real Estate	Credit and Marketable Alternatives	Financial Advisory	Total Segments
<b>Segment Revenues</b>					
Management and Advisory Fees					
Base Management Fees	\$203,180	\$ 245,124	\$ 298,226	\$ —	\$ 746,530
Advisory Fees	—	—	—	268,009	268,009
Transaction and Other Fees, Net	43,841	9,366	1,908	—	55,115
Management Fee Offsets	—	(2,094)	(12,699)	—	(14,793)
Total Management and Advisory Fees	247,021	252,396	287,435	268,009	1,054,861
Performance Fees and Allocations					
Realized	—	(6,205)	8,209	—	2,004
Unrealized	212,870	(257,571)	67,868	—	23,167
Total Performance Fees and Allocations	212,870	(263,776)	76,077	—	25,171
Investment Income (Loss)					
Realized	8,552	(336)	(14,313)	—	(6,097)
Unrealized	20,593	(125,405)	67,115	476	(37,221)
Total Investment Income (Loss)	29,145	(125,741)	52,802	476	(43,318)
Interest and Dividend Revenue	3,225	2,616	1,917	3,412	11,170
Other	1,329	3,186	777	(14)	5,278
Total Revenues	493,590	(131,319)	419,008	271,883	1,053,162
<b>Expenses</b>					
Compensation and Benefits					
Base Compensation	119,526	113,693	157,376	162,877	553,472
Performance Fee Related					
Realized	126	(94)	981	—	1,013
Unrealized	(612)	(115,227)	39,984	—	(75,855)
Total Compensation and Benefits	119,040	(1,628)	198,341	162,877	478,630
Other Operating Expenses	61,979	39,030	58,229	57,376	216,614
Total Expenses	181,019	37,402	256,570	220,253	695,244
Economic Net Income (Loss)	\$312,571	\$(168,721)	\$ 162,438	\$ 51,630	\$ 357,918

The following table reconciles the Total Segments to Blackstone's Income (Loss) Before Provision for Taxes and Total Assets as and for the nine months ended September 30, 2010 and 2009:

	September 30, 2010 and the Nine Months Then Ended		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	\$ 2,055,594	\$ (20,267)(a)	\$ 2,035,327
Expenses	\$ 1,080,930	\$ 2,073,319(b)	\$ 3,154,249
Other Income	\$ —	\$ 397,625(c)	\$ 397,625
Economic Net Income (Loss)	\$ 974,664	\$ (1,695,961)(d)	\$ (721,297)
Total Assets	\$10,016,232	\$ 7,724,659(e)	\$17,740,891

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, 2009		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	\$1,053,162	\$ (4,809)(a)	\$ 1,048,353
Expenses	\$ 695,244	\$ 2,376,614(b)	\$ 3,071,858
Other Income	\$ —	\$ 97,353(c)	\$ 97,353
Economic Net Income (Loss)	\$ 357,918	\$ (2,284,070)(d)	\$(1,926,152)

- (a) The Revenues adjustment principally represents management and performance fees and allocations 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,	
	2010	2009
Fund Management Fees and Performance Fees and Allocations Eliminated in Consolidation	\$ (10,430)	\$ 2,018
Fund Expenses Added in Consolidation	18,631	8,179
Non-Controlling Interests in Income (Loss) of Consolidated Entities	367,988	87,156
Transactional Other Income	21,436	—
Total Consolidation Adjustments and Reconciling Items	<u>\$397,625</u>	<u>\$97,353</u>

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

	Nine Months Ended September 30,	
	2010	2009
Economic Net Income	\$ 974,664	\$ 357,918
Adjustments		
Amortization of Intangibles	(121,206)	(118,537)
IPO and Acquisition-Related Charges	(1,915,220)	(2,222,599)
Management Fee Revenues Associated with Consolidated CDO and CLO Vehicles	(27,522)	—
Non-Controlling Interests in Income (Loss) of Consolidated Entities	367,987	57,066
Total Consolidation Adjustments and Reconciling Items	<u>(1,695,961)</u>	<u>(2,284,070)</u>
Income (Loss) Before Provision for Taxes	<u>\$ (721,297)</u>	<u>\$(1,926,152)</u>

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

## 18. SUBSEQUENT EVENTS

On October 1, 2010, the Partnership purchased an equity interest representing 40% of Pátria Investments Limited and Pátria Investimentos Ltda. Pátria is one of Latin America's leading alternative asset managers and advisory firms.

**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, 2010			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
<b>Assets</b>				
Cash and Cash Equivalents	\$ 1,016,229	\$ —	\$ —	\$ 1,016,229
Cash Held by Blackstone Funds and Other	39,499	352,192	—	391,691
Investments	3,800,314	7,655,958	(429,542)	11,026,730
Accounts Receivable	340,384	84,554	(7)	424,931
Reverse Repurchase Agreements	287,445	—	—	287,445
Due from Affiliates	640,831	35,972	(19,461)	657,342
Intangible Assets, Net	820,169	—	—	820,169
Goodwill	1,703,602	—	—	1,703,602
Other Assets	250,443	44,993	—	295,436
Deferred Tax Assets	1,117,316	—	—	1,117,316
<b>Total Assets</b>	<b>\$10,016,232</b>	<b>\$8,173,669</b>	<b>\$ (449,010)</b>	<b>\$17,740,891</b>
<b>Liabilities and Partners' Capital</b>				
Loans Payable	\$ 1,070,237	\$5,665,499	\$ —	\$ 6,735,736
Due to Affiliates	1,434,574	286,322	(19,462)	1,701,434
Accrued Compensation and Benefits	758,497	1,663	—	760,160
Securities Sold, Not Yet Purchased	263,484	553	—	264,037
Accounts Payable, Accrued Expenses and Other Liabilities	481,988	141,750	(8)	623,730
<b>Total Liabilities</b>	<b>4,008,780</b>	<b>6,095,787</b>	<b>(19,470)</b>	<b>10,085,097</b>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<b>—</b>	<b>587,399</b>	<b>—</b>	<b>587,399</b>
<b>Partners' Capital</b>				
Partners' Capital	3,608,020	406,229	(433,761)	3,580,488
Appropriated Partners' Capital	—	551,737	—	551,737
Accumulated Other Comprehensive Income	3,182	2,817	—	5,999
Non-Controlling Interests in Consolidated Entities	159,379	529,700	4,221	693,300
Non-Controlling Interests in Blackstone Holdings	2,236,871	—	—	2,236,871
<b>Total Partners' Capital</b>	<b>6,007,452</b>	<b>1,490,483</b>	<b>(429,540)</b>	<b>7,068,395</b>
<b>Total Liabilities and Partners' Capital</b>	<b>\$10,016,232</b>	<b>\$8,173,669</b>	<b>\$ (449,010)</b>	<b>\$17,740,891</b>

**THE BLACKSTONE GROUP L.P.**  
**Unaudited Consolidating Statements of Financial Condition—(Continued)**  
**(Dollars in Thousands)**

	December 31, 2009			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
<b>Assets</b>				
Cash and Cash Equivalents	\$ 952,096	\$ —	\$ —	\$ 952,096
Cash Held by Blackstone Funds and Other	—	86,084	—	86,084
Investments	2,772,489	999,792	(206,798)	3,565,483
Accounts Receivable	305,846	461	—	306,307
Due from Affiliates	735,471	64,384	(39,948)	759,907
Intangible Assets, Net	919,477	—	—	919,477
Goodwill	1,703,602	—	—	1,703,602
Other Assets	171,463	1,141	(48)	172,556
Deferred Tax Assets	943,512	—	—	943,512
<b>Total Assets</b>	<u>\$8,503,956</u>	<u>\$1,151,862</u>	<u>\$ (246,794)</u>	<u>\$9,409,024</u>
<b>Liabilities and Partners' Capital</b>				
Loans Payable	\$ 651,993	\$ 5,630	\$ —	\$ 657,623
Due to Affiliates	1,362,781	65,776	(18,491)	1,410,066
Accrued Compensation and Benefits	486,951	1,994	—	488,945
Securities Sold, Not Yet Purchased	—	357	—	357
Accounts Payable, Accrued Expenses and Other Liabilities	235,673	94,331	(21,504)	308,500
<b>Total Liabilities</b>	<u>2,737,398</u>	<u>168,088</u>	<u>(39,995)</u>	<u>2,865,491</u>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<u>—</u>	<u>526,311</u>	<u>—</u>	<u>526,311</u>
<b>Partners' Capital</b>				
Partners' Capital	3,376,707	206,799	(206,799)	3,376,707
Accumulated Other Comprehensive Income	2,420	—	—	2,420
Non-Controlling Interests in Consolidated Entities	289,619	250,664	—	540,283
Non-Controlling Interests in Blackstone Holdings	2,097,812	—	—	2,097,812
<b>Total Partners' Capital</b>	<u>5,766,558</u>	<u>457,463</u>	<u>(206,799)</u>	<u>6,017,222</u>
<b>Total Liabilities and Partners' Capital</b>	<u>\$8,503,956</u>	<u>\$1,151,862</u>	<u>\$ (246,794)</u>	<u>\$9,409,024</u>

(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 Equity Fund L.P.  
Blackstone Value Recovery Fund L.P.  
Blackstone/GSO Secured Trust Ltd\*  
BTD CP Holdings, LP  
GSO Co-Investment Partners LLC  
GSO Legacy Associates 2 LLC  
GSO Legacy Associates LLC  
The Asia Opportunities Fund L.P.  
Private equity side-by-side, general partners'\*\* and affiliated limited partners'\*\* investment vehicles  
Real estate side-by-side, general partners'\*\* and affiliated limited partners'\*\* investment vehicles  
Mezzanine side-by-side, general partners'\*\* and affiliated limited partners'\*\* investment vehicles  
Collateralized debt and loan obligation vehicles\*

\* Consolidated as of September 30, 2010 only.

\*\* Included within Consolidated Blackstone Funds as of December 31, 2009 only. At September 30, 2010, these entities are included within Consolidated Operating Partnerships.

**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 within this Quarterly Report on Form 10-Q.*

**Our Business**

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

Our business is organized into four business segments:

- **Private Equity.** We are a world leader in private equity investing, having managed five general private equity funds, as well as one specialized fund focusing on media and communications-related investments, since we established this business in 1987. In addition, we are in the process of raising our seventh private equity fund. We have also launched a new investment fund focused on clean technology investments and are seeking to launch an investment fund targeting infrastructure investments. 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, two internationally focused real estate funds, a European focused real estate fund and a number of real estate debt investment funds. 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 real estate non-controlling debt related investment opportunities in the public and private markets, primarily in the United States and Europe.
- **Credit and Marketable Alternatives.** Our credit and marketable alternatives segment is comprised of our management of funds of hedge funds, credit-oriented funds, collateralized loan obligation (“CLO”) vehicles and publicly-traded closed-end mutual funds. Our funds of hedge funds operation was organized in 1990 and has developed into a leading manager of institutional fund of hedge fund assets across a wide variety of strategies. Our credit-oriented funds and CLOs are managed by our subsidiary, GSO Capital Partners (“GSO”), a major participant in the leveraged finance market. GSO manages a variety of credit-oriented funds including senior credit-oriented funds, distressed debt funds, mezzanine funds and general credit-oriented funds. These products are intended to provide investors with greater levels of current income and for certain products, a greater level of liquidity.
- **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 revenue from fees earned pursuant to contractual arrangements with funds, fund investors and fund portfolio companies (including management, transaction and monitoring fees), and from financial advisory services, restructuring and reorganization advisory services and fund placement services for alternative investment funds. We invest in the funds we manage and, in most cases, receive a preferred allocation of income (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 cyclicity of the different businesses in which we operate. Net investment gains and resultant investment income

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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 as well as other market conditions.

### Business Environment

Global equity markets moved sharply higher in the third quarter of 2010, while credit markets also rose and high yield spreads moderately tightened. Investors reacted positively to sustained above-average corporate earnings growth and the expectation of continued economic recovery. Most global equity indices rose 10-20% during the quarter. In credit, the high yield and leveraged loan indices rose 3-6% and spreads tightened 70 basis points. Economic data remained mixed, however, and most indicators pointed to a slowing in the recovery of the U.S. economy, including both output and employment rates.

In real estate, the fundamentals generally continued to improve in the third quarter. In office, occupancy trends and leasing activity continued to improve modestly in most markets, and new supply remained at historically low levels. In hospitality, industry Revenue Per Available Room, or RevPAR, grew 8.4% in the third quarter of 2010, and has experienced positive growth since March 2010.

Commodity prices increased in the third quarter, and these gains were broad based across all major sub-categories. Expectations for further quantitative easing measures by the Federal Reserve has put additional pressure on the U.S. dollar, driving commodity prices expressed in dollars higher. During the third quarter, oil prices rose 6%. The U.S. dollar declined against each of the Euro and Pound Sterling by 10% and 5%, respectively.

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

### Significant Transactions

#### ***Blackstone Issuance of \$400 million 5.875% Notes Due in 2021***

On September 15, 2010, Blackstone Holdings Finance Co. L.L.C., an indirect subsidiary of the Partnership, issued \$400 million of senior notes due March 15, 2021. The Notes, which were issued at a discount, have an interest rate of 5.875% per annum.

#### ***Blackstone Purchase of a 40% Equity Interest in Pátria***

On October 1, 2010, the Partnership purchased an equity interest representing 40% of Pátria Investments Limited and Pátria Investimentos Ltda. Pátria is one of Latin America's leading alternative asset managers and advisory firms. Pátria has \$3.2 billion in total assets under management across private equity, real estate, infrastructure and hedge funds.

#### ***Acquisition of Management Agreements Related to CDO and CLO Vehicles***

On April 1, 2010 and July 20, 2010, the Partnership acquired, through GSO, management agreements relating to certain collateralized debt obligation ("CDO") and CLO vehicles previously managed by Callidus Capital Management, LLC. The acquisition of the management agreements resulted in the consolidation of certain of the respective CDO and CLO vehicles, as applicable under GAAP consolidation rules. On April 1, 2010, the fair value of the consolidated CDO and CLO assets and liabilities managed under such contracts was \$2.7 billion and \$2.5 billion, respectively. On July 20, 2010, the fair value of the consolidated CLO assets and liabilities managed under such contract was \$117.6 million and \$110.8 million, respectively. There was no material impact to the Condensed Consolidated Statement of Operations or the Condensed Consolidated Statement of Cash Flows.

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### 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 and allocations, investment income, interest and dividend revenue and other. Please refer to “Part I. Item 1. Business, Incentive Arrangements / Fee Structure” and “— Critical Accounting Policies, Revenue Recognition” in our 2009 Annual Report on Form 10-K for additional information regarding the manner in which Base Management Fees and Performance Fees and Allocations are generated.

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

The Partnership earns base management fees from the limited partners of funds in each of its managed funds on any of the following bases: as 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 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 reduction”) 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 of expense incurred by our limited partners 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 and Allocations* — 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.



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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 resulting in a negative adjustment to Carried Interest allocated to the general partner, that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Condensed Consolidated Statements of Financial Condition.

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

Carried Interest is subject to clawback to the extent that the Carried Interest actually distributed to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received performance fees and allocations, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone 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, for our real estate funds, 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 — Base Compensation* — Base 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

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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 Related* — Performance fee related compensation and benefits consists of Carried Interest and performance fee allocations to employees, including senior managing directors, participating in certain profit sharing initiatives. Employees participating in such initiatives are allocated a certain portion of Carried Interest and performance fees allocated to the general partner under performance fee allocations (see “Revenue Recognition”). Such compensation expense is recognized in the same manner as Carried Interest and performance fee allocations and is subject to both positive and negative adjustments as a result of changes in underlying fund performance.

*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. 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, these entities in some cases are subject to New York City unincorporated business taxes or non-U.S. income taxes. In addition, certain of the wholly-owned subsidiaries of the Partnership and the Blackstone Holdings partnerships will be subject to federal, state and local corporate income taxes at the entity level and the related tax provision attributable to the Partnership’s share of this income 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.

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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.

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

In 2008, the U.S. House of Representatives passed a bill that would generally (a) treat Carried Interest as non-qualifying income under the tax rules applicable to publicly traded partnerships, which would generally require us to hold interests in entities earning such income through taxable subsidiary corporations by the end of 2010, and (b) tax 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 tax Carried Interest as ordinary income starting this taxable year. 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 apply 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 generally tax, after 2010, income and gains, including gain on sale, attributable to an interest in 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 is considered to be qualified capital interest under the legislation. The interests we hold in entities that are entitled to receive Carried Interest would likely be classified as ISPIs for purposes of this legislation. The legislation provides that, for taxable years beginning ten years after the date of enactment, income derived with respect of an ISPI that is not a qualified capital interest and that is treated as ordinary income under this legislation will not be qualifying income under the tax rules applicable to publicly traded partnerships. Therefore, if this or similar legislation is passed, we generally would be required to hold interests in entities earning income from Carried Interest through taxable subsidiary corporations following such ten-year period.

The Obama administration has indicated it supports the adoption of the May 2010 legislation or legislation that similarly changes the treatment of Carried Interest for U.S. federal income tax purposes. In its published revenue proposals for both 2010 and 2011, the Obama administration proposed that the current law regarding the treatment of Carried Interest be changed to subject such income to ordinary income tax. 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 when or whether the U.S. Senate will act on such legislation or if enacted, what provision will be included in any final legislation.

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

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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 extant 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, or "ENI", as a key measure of value creation and as a benchmark of its performance. ENI represents segment net income excluding the impact of income taxes and initial public offering ("IPO") and acquisition-related items, including charges associated with equity-based compensation, the amortization of intangibles and corporate actions including acquisitions. For segment reporting purposes, revenues and expenses are presented on a basis that deconsolidates the investment funds we manage. Total Segment ENI equals the aggregate of ENI for all segments. ENI is used by management primarily in making resource deployment and compensation decisions across Blackstone's four segments. (See Note 17. "Segment Reporting" in the "Notes to the 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 Total Segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees and Allocations, and (e) Realized Investment Income (Loss); less (a) Base Compensation, (b) Realized Performance Fee Related Compensation, (c) Other Operating Expenses and (d) Cash Taxes and Payables Under the Tax Receivable Agreement. Distributable Earnings is reconciled to Blackstone's 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 in excess of amounts determined by its general partner to

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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.

### *Net Fee Related Earnings from Operations*

Blackstone uses Net Fee Related Earnings from Operations as a key measure to highlight earnings from operations excluding: (a) the income related to performance fees and allocations and related performance fee related 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;

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- (b) for our BCP and BREP funds where the investment period has expired, the remaining amount of invested capital;
- (c) for our real estate debt investment funds, 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 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 mutual fund.

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

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

*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.

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### Consolidated Results of Operations

Following is a discussion of our consolidated results of operations for the three and nine months ended September 30, 2010 and 2009. For a more detailed discussion of the factors that affected the results of our four business segments (which are presented on a basis that deconsolidates the investment funds we manage) in these periods, see “— Segment Analysis” below.

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, 2010 and 2009.

	Three Months Ended September 30,		2010 vs. 2009		Nine Months Ended September 30,		2010 vs. 2009	
	2010	2009	\$	%	2010	2009	\$	%
(Dollars in Thousands)								
<b>Revenues</b>								
Management and Advisory Fees	\$362,521	\$ 367,605	\$ (5,084)	-1%	\$1,123,403	\$ 1,049,606	\$ 73,797	7%
Performance Fees and Allocations								
Realized	66,142	(3,452)	69,594	N/M	171,941	2,004	169,937	N/M
Unrealized	199,824	157,465	42,359	27%	312,304	8,932	303,372	N/M
Total Performance Fees and Allocations	265,966	154,013	111,953	73%	484,245	10,936	473,309	N/M
Investment Income (Loss)								
Realized	13,542	6,279	7,263	116%	29,493	7,556	21,937	N/M
Unrealized	127,428	58,530	68,898	118%	371,691	(36,149)	407,840	N/M
Total Investment Income (Loss)	140,970	64,809	76,161	118%	401,184	(28,593)	429,777	N/M
Interest and Dividend Revenue	10,075	6,703	3,372	50%	25,922	11,124	14,798	133%
Other	4,468	3,893	575	15%	573	5,280	(4,707)	-89%
<b>Total Revenues</b>	<b>784,000</b>	<b>597,023</b>	<b>186,977</b>	<b>31%</b>	<b>2,035,327</b>	<b>1,048,353</b>	<b>986,974</b>	<b>94%</b>
<b>Expenses</b>								
Compensation and Benefits								
Base Compensation	664,004	923,272	(259,268)	-28%	2,556,665	2,805,567	(248,902)	-9%
Performance Fee Related								
Realized	24,962	(712)	25,674	N/M	55,582	1,014	54,568	N/M
Unrealized	104,324	58,068	46,256	80%	158,032	(75,855)	233,887	N/M
Total Compensation and Benefits	793,290	980,628	(187,338)	-19%	2,770,279	2,730,726	39,553	1%
General, Administrative and Other	114,291	110,641	3,650	3%	341,853	328,517	13,336	4%
Interest Expense	11,766	5,258	6,508	124%	26,633	6,744	19,889	N/M
Fund Expenses	6,422	1,267	5,155	N/M	15,484	5,871	9,613	164%
<b>Total Expenses</b>	<b>925,769</b>	<b>1,097,794</b>	<b>(172,025)</b>	<b>-16%</b>	<b>3,154,249</b>	<b>3,071,858</b>	<b>82,391</b>	<b>3%</b>
<b>Other Income</b>								
Net Gains from Fund Investment Activities	285,071	73,812	211,259	N/M	397,625	97,353	300,272	N/M
<b>Income (Loss) Before Provision (Benefit) for Taxes</b>	<b>143,302</b>	<b>(426,959)</b>	<b>570,261</b>	<b>N/M</b>	<b>(721,297)</b>	<b>(1,926,152)</b>	<b>1,204,855</b>	<b>63%</b>
<b>Provision (Benefit) for Taxes</b>	<b>(4,225)</b>	<b>52,551</b>	<b>(56,776)</b>	<b>N/M</b>	<b>24,802</b>	<b>81,167</b>	<b>(56,365)</b>	<b>-69%</b>
<b>Net Income (Loss)</b>	<b>147,527</b>	<b>(479,510)</b>	<b>627,037</b>	<b>N/M</b>	<b>(746,099)</b>	<b>(2,007,319)</b>	<b>1,261,220</b>	<b>63%</b>
<b>Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	<b>23,623</b>	<b>50,281</b>	<b>(26,658)</b>	<b>-53%</b>	<b>47,171</b>	<b>90,515</b>	<b>(43,344)</b>	<b>-48%</b>
<b>Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities</b>	<b>242,723</b>	<b>3,622</b>	<b>239,101</b>	<b>N/M</b>	<b>320,816</b>	<b>(33,450)</b>	<b>354,266</b>	<b>N/M</b>
<b>Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings</b>	<b>(74,461)</b>	<b>(357,230)</b>	<b>282,769</b>	<b>79%</b>	<b>(755,031)</b>	<b>(1,492,343)</b>	<b>737,312</b>	<b>49%</b>
<b>Net Income (Loss) Attributable to The Blackstone Group L.P.</b>	<b>\$ (44,358)</b>	<b>\$ (176,183)</b>	<b>\$ 131,825</b>	<b>75%</b>	<b>\$ (359,055)</b>	<b>\$ (572,041)</b>	<b>\$ 212,986</b>	<b>37%</b>

N/M = not meaningful.



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### *Revenues*

Total Revenues were \$784.0 million for the three months ended September 30, 2010, an increase of \$187.0 million compared to Total Revenues for the three months ended September 30, 2009 of \$597.0 million. The increase in revenues was primarily attributable to an increase of \$112.0 million in Performance Fees and Allocations and an increase of \$76.2 million in Investment Income (Loss). The increase in Performance Fees and Allocations was driven by improved performance in our Real Estate and Credit and Marketable Alternatives segments' investments. The increase in Performance Fees and Allocations by our Real Estate segment was driven by improved performance of our real estate carry funds as operating performance, projected cash flows and exit multiples improved across the segment's investments. Our real estate carry funds had a net internal rate of return of 16.9% in the third quarter of 2010 compared to (2.0)% in the third quarter of 2009. The increase in Performance Fees and Allocations by our Credit and Marketable Alternatives segment was primarily attributable to improved returns in the segment's credit-oriented funds and an increase in the amount of Fee-Earning Assets Under Management which are earning Incentive Fees in our funds of hedge funds business. The increase in Performance Fees and Allocations was partially offset by a decrease in our Private Equity segment. The improvement in Investment Income (Loss) was driven by increases in the underlying portfolio investments in our Private Equity and Real Estate segments. The Realized Performance Fees and Allocations of \$66.1 million were primarily attributable to the Private Equity, Real Estate and Credit and Marketable Alternatives segments with \$44.8 million, \$5.0 million and \$16.2 million, respectively.

Total Revenues were \$2.0 billion for the nine months ended September 30, 2010, an increase of \$987.0 million compared to Total Revenues for the nine months ended September 30, 2009 of \$1.0 billion. The increase in revenues was primarily attributable to an increase of \$473.3 million in Performance Fees and Allocations, an increase of \$429.8 million in Investment Income (Loss) and an increase of \$73.8 million in Management and Advisory Fees. The increase in Performance Fees and Allocations was primarily driven by improved performance of our real estate carry funds in our Real Estate segment and our credit oriented funds and funds of hedge funds in our Credit and Marketable Alternatives segment. Investment Income (Loss) improved primarily due to valuation increases in the underlying portfolio investments in our Real Estate and Private Equity segments. The increase in Management and Advisory Fees was primarily due to increases in Advisory Fees from our fund placement business which is included in our Financial Advisory segment, increases in Base Management Fees in our Credit and Marketable Alternatives segment driven by higher Fee-Earning Assets Under Management from positive inflows in our funds of hedge funds business and an increase in Transaction Fees in our Private Equity segment driven by a one-time fee related to the exit of one of our BCP investments.

### *Expenses*

Expenses were \$925.8 million for the three months ended September 30, 2010, a decrease of \$172.0 million, or 16%, compared to \$1.1 billion for the three months ended September 30, 2009. The decrease was primarily attributable to a decrease in Compensation and Benefits to \$793.3 million from \$980.6 million in 2009. Base Compensation was \$664.0 million for the current year, a decrease of \$259.3 million which was partially offset by an increase in Performance Fee Related Compensation of \$71.9 million to \$129.3 million for the current year. Additionally, equity-based compensation decreased \$280.9 million due to 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 \$114.3 million for the current year, an increase of \$3.7 million driven by an increase in costs related to our fund-raising efforts in our Private Equity segment and the launching of new products in our Credit and Marketable Alternatives segment. Our expenses are primarily driven by levels of business activity, revenue growth and headcount.

Expenses were \$3.2 billion for the nine months ended September 30, 2010, an increase of \$82.4 million, or 3%, compared to \$3.1 billion for the nine months ended September 30, 2009. The increase was primarily attributable to an increase of \$39.6 million in Compensation and Benefits driven by an increase in Performance Fee Related Compensation due to improved performance in our Real Estate segment and our credit oriented funds and funds of hedge funds in our Credit and Marketable Alternatives segment. Base Compensation was



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\$2.6 billion, a decrease of \$248.9 million from the prior year period. This decrease is attributable to a decrease of \$314.6 million 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 \$341.9 million for the current year, an increase of \$13.3 million driven by the same factors as for the quarterly period noted above.

### Other Income

Other Income was \$285.1 million for the three months ended September 30, 2010, an increase of \$211.3 million compared to \$73.8 million for the three months ended September 30, 2009. The change was principally due to positive performance of our consolidated CDO and CLO vehicles for the three months ended September 30, 2010.

Other Income was \$397.6 million for the nine months ended September 30, 2010, an increase of \$300.3 million compared to \$97.4 million for the nine months ended September 30, 2009. The change was principally driven by an increase in income generated by our Private Equity and Real Estate consolidated side-by-side entities and our consolidated CDO and CLO vehicles.

### Operating Metrics

The following table presents certain operating metrics for the three and nine months ended September 30, 2010 and 2009. For a description of how Assets Under Management and Fee-Earning Assets Under Management are determined, please see “— Key Financial Measures and Indicators — Operating Metrics — Assets Under Management and Fee-Earning Assets Under Management.”

	Three Months Ended September 30,		2010 vs. 2009		Nine Months Ended September 30,		2010 vs. 2009	
	2010	2009	\$	%	2010	2009	\$	%
(Dollars in Thousands)								
<b>Fee-Earning Assets Under Management</b>								
Balance, Beginning of Period	\$101,419,981	\$93,505,402	\$ 7,914,579	8%	\$ 96,096,997	\$91,041,057	\$ 5,055,940	6%
Inflows, including								
Commitments (a)	3,359,978	2,060,309	1,299,669	63%	12,143,128	5,950,089	6,193,039	104%
Outflows, including								
Distributions (b)	(2,285,516)	(1,381,898)	(903,618)	-65%	(5,216,751)	(4,906,045)	(310,706)	-6%
Market Appreciation (Depreciation) (c)	1,798,739	2,140,817	(342,078)	-16%	1,269,808	4,239,529	(2,969,721)	-70%
Balance, End of Period (d)	<u>\$104,293,182</u>	<u>\$96,324,630</u>	<u>\$ 7,968,552</u>	<u>8%</u>	<u>\$104,293,182</u>	<u>\$96,324,630</u>	<u>\$ 7,968,552</u>	<u>8%</u>
<b>Assets Under Management, End of Period (d)</b>	<u>\$119,115,246</u>	<u>\$97,554,382</u>	<u>\$21,560,864</u>	<u>22%</u>	<u>\$119,115,246</u>	<u>\$97,554,382</u>	<u>\$21,560,864</u>	<u>22%</u>
<b>Capital Deployed</b>								
Limited Partner Capital								
Invested	<u>\$ 2,060,108</u>	<u>\$ 231,421</u>	<u>\$ 1,828,687</u>	<u>N/M</u>	<u>\$ 4,407,649</u>	<u>\$ 1,554,099</u>	<u>\$ 2,853,550</u>	<u>184%</u>

- (a) Inflows represent contributions in our hedge funds and closed-end mutual funds, increases in available capital for our carry funds (capital raises, callable capital and increased side-by-side commitments) and CDOs and CLOs and increases in the capital we manage pursuant to separately managed account programs.
- (b) Outflows represent redemptions in our hedge funds and closed-end mutual funds, client withdrawals from our separately managed account programs, 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.
- (c) Market appreciation (depreciation) includes realized and unrealized gains (losses) on portfolio investments and the impact of foreign exchange rate fluctuations. The periods ended September 30, 2010 include an adjustment of \$(533.9) million from our credit oriented businesses due to revised calculation methodologies.
- (d) Fee-Earning Assets Under Management and Assets Under Management as of September 30, 2010 include \$527.4 million from a joint venture in which we are the minority interest holder.

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### *Fee-Earning Assets Under Management*

Fee-Earning Assets Under Management were \$104.3 billion at September 30, 2010, an increase of \$8.0 billion, or 8%, compared with \$96.3 billion at September 30, 2009. The \$8.0 billion increase was attributed to an \$8.2 billion increase in our Credit and Marketable Alternatives segment driven primarily by net inflows of \$5.9 billion which included the acquisition on April 1, 2010 of \$3.5 billion of collateralized debt obligations and CDO and CLO vehicles and \$2.3 billion of market appreciation primarily driven by our funds of hedge funds business.

### *Assets Under Management*

Assets Under Management were \$119.1 billion at September 30, 2010, an increase of \$21.6 billion, or 22%, compared with \$97.6 billion at September 30, 2009. The \$21.6 billion increase was attributed in part to a \$10.0 billion increase in our Credit and Marketable Alternatives segment driven by market appreciation of \$3.7 billion primarily in our funds of hedge funds and credit-oriented funds and the acquisition on April 1, 2010 of \$3.5 billion of collateralized debt obligations and CDO and CLO vehicles. A \$4.9 billion increase in our Private Equity segment was driven by market appreciation of \$6.3 billion and net outflows of \$1.4 billion, while a \$6.7 billion increase in our Real Estate segment was driven by market appreciation of \$5.5 billion and net inflows of \$1.2 billion.

### *Limited Partner Capital Invested*

Limited Partner Capital Invested was \$2.1 billion for the three months ended September 30, 2010, an increase of \$1.8 billion, compared to \$231.4 million for the three months ended September 30, 2009. Limited Partner Capital Invested was \$4.4 billion for the nine months ended September 30, 2010, an increase of \$2.9 billion, or 184%, compared to \$1.6 billion for the nine months ended September 30, 2009. The change reflected an increase in the size and volume of consummated transactions compared to the prior year.

## **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.

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### Private Equity

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

	Three Months Ended September 30,		2010 vs. 2009		Nine Months Ended September 30,		2010 vs. 2009	
	2010	2009	\$	%	2010	2009	\$	%
(Dollars in Thousands)								
<b>Segment Revenues</b>								
<b>Management Fees</b>								
Base Management Fees	\$ 66,077	\$ 67,009	\$ (932)	-1%	\$198,304	\$203,180	\$ (4,876)	-2%
Transaction and Other Fees, Net	13,348	18,368	(5,020)	-27%	61,687	43,841	17,846	41%
Management Fee Offsets	(91)	—	(91)	N/M	(91)	—	(91)	N/M
Total Management Fees	79,334	85,377	(6,043)	-7%	259,900	247,021	12,879	5%
<b>Performance Fees and Allocations</b>								
Realized	44,814	—	44,814	N/M	92,095	—	92,095	N/M
Unrealized	45,499	110,867	(65,368)	-59%	67,028	212,870	(145,842)	-69%
Total Performance Fees and Allocations	90,313	110,867	(20,554)	-19%	159,123	212,870	(53,747)	-25%
<b>Investment Income</b>								
Realized	9,940	8,794	1,146	13%	12,586	8,552	4,034	47%
Unrealized	30,491	18,640	11,851	64%	132,450	20,593	111,857	N/M
Total Investment Income	40,431	27,434	12,997	47%	145,036	29,145	115,891	N/M
Interest and Dividend Revenue	3,802	2,553	1,249	49%	9,958	3,225	6,733	N/M
Other	1,061	677	384	57%	1,621	1,329	292	22%
Total Revenues	214,941	226,908	(11,967)	-5%	575,638	493,590	82,048	17%
<b>Expenses</b>								
<b>Compensation and Benefits</b>								
Base Compensation	47,552	42,011	5,541	13%	141,074	119,526	21,548	18%
<b>Performance Fee Related</b>								
Realized	10,783	135	10,648	N/M	16,916	126	16,790	N/M
Unrealized	18,306	27,755	(9,449)	-34%	14,354	(612)	14,966	N/M
Total Compensation and Benefits	76,641	69,901	6,740	10%	172,344	119,040	53,304	45%
Other Operating Expenses	26,359	21,318	5,041	24%	79,467	61,979	17,488	28%
Total Expenses	103,000	91,219	11,781	13%	251,811	181,019	70,792	39%
Economic Net Income	\$111,941	\$135,689	\$(23,748)	-18%	\$323,827	\$312,571	\$ 11,256	4%

### Revenues

Revenues were \$214.9 million for the three months ended September 30, 2010, a decrease of \$12.0 million compared to \$226.9 million for the three months ended September 30, 2009. The decrease in revenues was primarily attributed to a decrease of \$20.6 million in Performance Fees and Allocations and a decrease of \$6.0 million in Total Management Fees which was partially offset by an increase of \$13.0 million in Investment Income.

Performance Fees and Allocations, which are determined on a fund by fund basis, were \$90.3 million for the three months ended September 30, 2010, a decrease of \$20.6 million, compared to \$110.9 million for the three months ended September 30, 2009, principally driven by BCP IV, which generated gross returns of 8.2% for the

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three months ended September 30, 2010 compared to 11.1% for the three months ended September 30, 2009. Investment Income was \$40.4 million, an increase of \$13.0 million, compared to \$27.4 million for the three months ended September 30, 2009, principally driven by BCP V, which generated a gross return of 4.8% for the three months ended September 30, 2010 compared to 1.9% for the three months ended September 30, 2009. Overall, our contributed BCP funds had a net internal rate of return of 5.1% for the quarter, compared to 3.9% in the third quarter of 2009. The positive performance of our private equity funds was driven by appreciation of our privately held portfolio investments, increases in share prices of our publicly held portfolio investments (driven primarily by TRW Automotive) and foreign exchange gains. The fair value appreciation in our private portfolio for the current quarter was primarily due to continued improvement in operating performance driven by companies across various sectors, especially hospitality. At a fund level, the appreciation in fair value of our private portfolio resulted in BCP V generating \$25.2 million in Investment Income while BCP IV had \$79.4 million and \$7.9 million in Performance Fees and Allocations and Investment Income (Loss), respectively, and BCOM had \$10.9 million in Performance Fees and Allocations and \$2.0 million in Investment Income (Loss). At September 30, 2010, 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; excluding funds which are still in their Investment Period, the historical returns were 2.2 times investors' original investments.

The Realized Performance Fees and Allocations for the three months ended September 30, 2010, was primarily attributed to distributions from certain of our investments in the leisure and industrial industries. Realized Investment Income was \$9.9 million for the three months ended September 30, 2010, an increase of \$1.1 million compared to \$8.8 million for the three months ended September 30, 2009.

Total Management Fees were \$79.3 million for the three months ended September 30, 2010, a decrease of \$6.0 million compared to \$85.4 million for the three months ended September 30, 2009. Transaction Fees decreased \$5.0 million to \$13.3 million. Base Management Fees remained relatively unchanged at \$66.1 million.

Revenues were \$575.6 million for the nine months ended September 30, 2010, an increase of \$82.0 million compared to \$493.6 million for the nine months ended September 30, 2009. The increase was primarily due to an increase of \$115.9 million in Investment Income, partially offset by a reduction in Performance Fees and Allocations of \$53.7 million. The increase in Investment Income was due to the overall increase in the unrealized value for our BCP funds, which resulted in a net internal rate of return of 23.8% for the nine months ended September 30, 2010 compared to 2.4% for the nine months ended September 30, 2009. BCP IV contributed \$229.1 million (net internal rate of return of 23%) for nine months ended September 30, 2009 of Performance Fees and Allocations compared to \$160.4 million (net internal rate of return of 16%) in the nine months ended September 30, 2010. Additionally, Total Management Fees rose \$12.9 million from the prior year to \$259.9 million in the nine months ended September 30, 2010, primarily due to a one-time fee earned in the first quarter related to the initial public offering of one of our fund investments.

The Realized Performance Fees and Allocations for the nine months ended September 30, 2010 of \$92.1 million was primarily attributable to the secondary offering of TRW Automotive, one of our publicly traded portfolio investments, and distributions from certain of our investments in the leisure and healthcare industries. Realized Investment Income was \$12.6 million for the nine months ended September 30, 2010, an increase of \$4.0 million compared to \$8.6 million for the nine months ended September 30, 2009.

### *Expenses*

Expenses were \$103.0 million for the three months ended September 30, 2010, an increase of \$11.8 million, compared to \$91.2 million for the three months ended September 30, 2009. The \$11.8 million increase was primarily attributed to a \$5.5 million increase in Base Compensation, a \$5.0 million increase in Other Operating Expenses and an increase of \$1.2 million in Performance Fee Related Compensation. Base Compensation increased \$5.5 million to \$47.6 million. Performance Fee Related Compensation increased \$1.2 million to

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\$29.1 million compared to the prior year period. Other Operating Expenses increased \$5.0 million to \$26.4 million, principally due to an increase in interest expense, professional fees and business development expenses.

Expenses were \$251.8 million for the nine months ended September 30, 2010, an increase of \$70.8 million compared to \$181.0 million for the nine months ended September 30, 2009. The \$70.8 million increase was primarily attributed to a \$53.3 million increase in Compensation and Benefits and a \$17.5 million increase in Other Operating Expenses. Base Compensation increased \$21.5 million to \$141.1 million as a portion of compensation is directly related to the profitability of this segment. Other Operating Expenses increased \$17.5 million to \$79.5 million, driven principally by an increase in interest expense and fund raising costs.

### Operating Metrics

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

	Three Months Ended September 30,		2010 vs. 2009		Nine Months Ended September 30,		2010 vs. 2009	
	2010	2009	\$	%	2010	2009	\$	%
(Dollars in Thousands)								
<b>Fee-Earning Assets Under Management</b>								
Balance, Beginning of Period	\$25,190,195	\$25,244,050	\$ (53,855)	-0%	\$24,521,394	\$25,509,163	\$ (987,769)	-4%
Inflows, including Commitments	95,252	1,939	93,313	N/M	961,602	78,614	882,988	N/M
Outflows, including Distributions	(996,430)	(61,828)	(934,602)	N/M	(1,176,888)	(71,573)	(1,105,315)	N/M
Market Appreciation (Depreciation)	22,426	—	22,426	N/M	5,335	(332,043)	337,378	N/M
Balance, End of Period (a)	<u>\$24,311,443</u>	<u>\$25,184,161</u>	<u>\$ (872,718)</u>	<u>-3%</u>	<u>\$24,311,443</u>	<u>\$25,184,161</u>	<u>\$ (872,718)</u>	<u>-3%</u>
<b>Assets Under Management</b>								
(End of Period) (a)	<u>\$29,202,952</u>	<u>\$24,308,879</u>	<u>\$4,894,073</u>	<u>20%</u>	<u>\$29,202,952</u>	<u>\$24,308,879</u>	<u>\$ 4,894,073</u>	<u>20%</u>
<b>Capital Deployed</b>								
Limited Partner Capital Invested	<u>\$ 678,882</u>	<u>\$ 109,082</u>	<u>\$ 569,800</u>	<u>N/M</u>	<u>\$ 1,536,594</u>	<u>\$ 643,491</u>	<u>\$ 893,103</u>	<u>139%</u>

(a) Fee-Earning Assets Under Management and Assets Under Management as of September 30, 2010 include \$527.4 million from a joint venture in Korea in which we are the minority interest holder.

### Fee-Earning Assets Under Management

Fee-Earning Assets Under Management were \$24.3 billion at September 30, 2010, a decrease of \$872.7 million, or 3%, compared with \$25.2 billion at September 30, 2009. Inflows of \$95.3 million were driven by capital raised for BCVP, our clean technology fund. Outflows of \$996.4 million were driven by the termination of management fees in our BCP III fund. Market appreciation of \$22.4 million in the third quarter of 2010 was due to the foreign exchange impact on our joint venture fund in Korea. For the nine months ended September 30, 2009, market depreciation of \$332.0 million represented certain assets in our BCP IV and BCOM funds that were valued at zero and for which we are no longer entitled to charge a management fee. Despite valuing these assets at zero (reduced from their previous nominal carrying value), our BCP funds achieved net returns of 2.4% for the nine months ended September 30, 2009.

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### *Assets Under Management*

Assets Under Management were \$29.2 billion at September 30, 2010, an increase of \$4.9 billion, or 20%, compared with \$24.3 billion at September 30, 2009. The increase was primarily due to net appreciation of \$6.3 billion in the fair value of our portfolio investments and inflows of \$746.7 million, partially offset by realizations of \$2.1 billion.

### *Limited Partner Capital Invested*

Limited Partner Capital Invested was \$678.9 million for the three months ended September 30, 2010, an increase of \$569.8 million, compared to \$109.1 million for the three months ended September 30, 2009. Limited Partner Capital Invested was \$1.5 billion for the nine months ended September 30, 2010, an increase of \$893.1 million, or 139%, compared to \$643.5 million for the nine months ended September 30, 2009. The increases were primarily attributable to an increase in the number of new transactions, primarily in Asia, as the 2009 periods included primarily add-on investments.

### *Fund Returns*

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

The following table presents the Net Internal Rates of Return of our significant BCP funds:

Fund	Net Total Change in Carrying Value (Realized and Unrealized) (a)					
	Three Months Ended		Nine Months Ended		September 30, 2010	
	September 30,		September 30,		Inception to Date	
	2010	2009	2010	2009	Total	Realized (b)
BCP IV	8%	9%	16%	23%	39%	60%
BCP V	4%	1%	30%	-4%	-1%	17%

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

- (a) Net total change in carrying value (realized and unrealized) is after management fees, expenses and Carried Interest allocations.
- (b) Includes partially realized investments. Investments are considered partially realized when realized proceeds, excluding current income (dividends, interest, etc.), are a material portion of invested capital.

The net internal rate of return for BCP IV for the quarter ended September 30, 2010 was relatively unchanged compared to the returns in the same quarter last year. The net internal rate of return for BCP V for the quarter ended September 30, 2010 was higher compared to the positive returns in the same quarter last year due to continued improvement in operating performance of its private investments driven by companies in various sectors, especially hospitality.

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The following table presents the investment record of the private equity funds from inception through September 30, 2010 for funds with closed investment periods:

Fund (Investment Period)	Fully Invested Funds							
	Total Investments				Realized / Partially Realized Investments (a)			
	Total				Total			
	Invested Capital	Carrying Value (b)	Net IRR (c)	MOIC (d)	Invested Capital	Carrying Value (b) (e)	Net IRR (c)	MOIC (d)
	(Dollars in Millions)				(Dollars in Millions)			
BCP I (Oct 1987 / Oct 1993)	\$ 679	\$ 1,742	19%	2.6	\$ 679	\$ 1,742	19%	2.6
BCP II (Oct 1993 / Aug 1997)	1,292	3,255	32%	2.5	1,201	3,123	37%	2.6
BCP III (Aug 1997 / Nov 2002)	4,026	7,964	13%	2.0	3,402	6,938	18%	2.0
BCOM (June 2000 / Jun 2006)	2,132	2,902	8%	1.4	1,215	2,149	24%	1.8
BCP IV (Nov 2002 / Dec 2005)	7,223	17,821	39%	2.5	4,700	14,589	60%	3.1

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

- (a) Investments are considered partially realized when realized proceeds, excluding current income (dividends, interest, etc.), are a material portion of invested capital.
- (b) Carrying value includes realized proceeds and unrealized fair value.
- (c) The internal rate of return ("IRR") represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized value. Net IRR is after management fees, expenses and Carried Interest.
- (d) Multiple of Invested Capital ("MOIC") represents carrying value, before management fees, expenses and Carried Interest, divided by total invested capital.
- (e) The Realized / Partially Realized Carrying Value includes remaining unrealized value of \$2.5 billion.

The following table presents the investment record of the private equity funds from inception through September 30, 2010 for funds with open investment periods:

Fund (Investment Period)	Available Capital (b)	Funds in the Investment Period							
		Total Investments				Realized / Partially Realized Investments (a)			
		Total		Net IRR (d)	MOIC (e)	Total		Net IRR (d)	MOIC (e)
		Invested Capital	Carrying Value (c)			Invested Capital	Carrying Value (c) (f)		
		(Dollars in Millions)							
BCP V (Dec 2005 / Dec 2011)	\$ 3,299	\$18,112	\$18,670	-1%	1.0	\$ 1,757	\$ 2,686	17%	1.5

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

- (a) Investments are considered partially realized when realized proceeds, excluding current income (dividends, interest, etc.) are a material portion of invested capital.
- (b) Available Capital represents total capital commitments adjusted for certain expenses and expired or callable capital, less invested capital, and includes \$1.4 billion committed to deals but not yet invested. The segment has \$909.7 million of Available Capital that has been reserved for add-on investments in funds that are fully invested.
- (c) Carrying value includes realized proceeds and unrealized fair value.
- (d) IRR represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized value. Net IRR is after management fees, expenses and Carried Interest.
- (e) MOIC represents carrying value, before management fees, expenses and Carried Interest, divided by total invested capital.
- (f) The Realized / Partially Realized Carrying Value includes remaining unrealized value of \$1.2 billion.

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The Private Equity segment has two contributed funds with closed investment periods, BCP IV and BCOM. As of September 30, 2010, BCP IV was above its Carried Interest threshold (i.e., the preferred return payable to its limited partners before the general partner is eligible to receive Carried Interest) and would still be above its Carried Interest threshold even if all remaining investments were deemed worthless. BCOM is currently below its Carried Interest threshold but has generated inception-to-date positive returns and is entitled to Carried Interest on those gains.

The following table presents the Carried Interest status of our private equity funds in their investment period which are currently not generating performance fees as of September 30, 2010:

<u>Funds in the Investment Period</u>	<u>Available Capital (b) (Dollars in Millions)</u>	<u>Amount</u>	<u>Gain to Cross Carried Interest Threshold (a)</u>
			<u>% Change</u>
BCP V (Dec 2005 / Dec 2011)	\$ 3,299	\$4,289	10%

- (a) The general partner of each fund is allocated Carried Interest when the annualized returns, net of management fees and expenses, exceed the preferred return as dictated by the fund agreements. The preferred return is calculated for each limited partner individually. The Gain to Cross Carried Interest Threshold represents the increase in equity at the fund level (excluding our side-by-side investments) that is required for the general partner to begin accruing Carried Interest, assuming the gain is earned pro-rata across the fund's investments and is achieved at the reporting date.
- (b) Available Capital represents total capital commitments, adjusted for certain expenses and expired or callable capital, less invested capital (including side-by-side investments).
- (c) Total Enterprise Value is the respective fund's pro rata ownership of the privately held portfolio companies' Enterprise Value and the Equity Value of the public portfolio companies based on fair values at the reporting date.



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### Real Estate

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

	Three Months Ended September 30,		2010 vs. 2009		Nine Months Ended September 30,		2010 vs. 2009	
	2010	2009	\$	%	2010	2009	\$	%
(Dollars in Thousands)								
<b>Segment Revenues</b>								
<b>Management Fees</b>								
Base Management Fees	\$ 83,232	\$ 83,409	\$ (177)	-0%	\$249,208	\$ 245,124	\$ 4,084	2%
Transaction and Other Fees, Net	8,538	3,347	5,191	155%	13,459	9,366	4,093	44%
Management Fee Offsets	(401)	(415)	14	3%	(1,000)	(2,094)	1,094	52%
Total Management Fees	91,369	86,341	5,028	6%	261,667	252,396	9,271	4%
<b>Performance Fees and Allocations</b>								
Realized	5,010	(11,441)	16,451	N/M	27,277	(6,205)	33,482	N/M
Unrealized	69,910	23,608	46,302	196%	102,418	(257,571)	359,989	N/M
Total Performance Fees and Allocations	74,920	12,167	62,753	N/M	129,695	(263,776)	393,471	N/M
<b>Investment Income (Loss)</b>								
Realized	2,159	(3,078)	5,237	N/M	8,691	(336)	9,027	N/M
Unrealized	83,968	1,242	82,726	N/M	210,403	(125,405)	335,808	N/M
Total Investment Income (Loss)	86,127	(1,836)	87,963	N/M	219,094	(125,741)	344,835	N/M
Interest and Dividend Revenue	3,026	2,035	991	49%	7,922	2,616	5,306	N/M
Other	2,330	1,450	880	61%	64	3,186	(3,122)	-98%
Total Revenues	257,772	100,157	157,615	157%	618,442	(131,319)	749,761	N/M
<b>Expenses</b>								
<b>Compensation and Benefits</b>								
Base Compensation	43,219	38,484	4,735	12%	127,897	113,693	14,204	12%
<b>Performance Fee Related</b>								
Realized	1,806	(1,690)	3,496	N/M	12,225	(94)	12,319	N/M
Unrealized	46,182	5,721	40,461	N/M	69,118	(115,227)	184,345	N/M
Total Compensation and Benefits	91,207	42,515	48,692	115%	209,240	(1,628)	210,868	N/M
Other Operating Expenses	18,584	13,437	5,147	38%	50,521	39,030	11,491	29%
Total Expenses	109,791	55,952	53,839	96%	259,761	37,402	222,359	N/M
Economic Net Income	\$147,981	\$ 44,205	\$103,776	N/M	\$358,681	\$(168,721)	\$527,402	N/M

### Revenues

Revenues were \$257.8 million for the three months ended September 30, 2010, a significant improvement of \$157.6 million compared to \$100.2 million for the three months ended September 30, 2009. The increase in revenues was attributable to an improvement of \$88.0 million in Investment Income (Loss), an improvement of \$62.8 million in Performance Fees and Allocations and an increase of \$5.0 million in Total Management Fees.

Investment Income (Loss) was \$86.1 million for the three months ended September 30, 2010, an improvement of \$88.0 million compared to \$(1.8) million for the three months ended September 30, 2009. Performance Fees and Allocations, which are determined on a fund by fund basis, were \$74.9 million for the

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three months ended September 30, 2010, an improvement of \$62.8 million compared to \$12.2 million for the prior year. These improvements were driven by the improved performance of our carry funds, which had a net internal rate of return of 16.9% for the third quarter of 2010 compared to a net internal rate of return of (2.0)% in the third quarter of 2009. The improved performance in the real estate carry funds was driven primarily by the appreciation in fair value of our holdings in Hilton and EOP, and improved operating performance, projected cash flows and exit multiples across our investments. BREP IV, BREP V, BREP Europe III and our real estate debt investment funds contributed to the improvement in Performance Fees and Allocations for the three months ended September 30, 2010. The increase in Investment Income (Loss) was driven primarily by BREP V and BREP VI. In the third quarter of 2009, our Performance Fees and Allocations were generated primarily from our debt strategy funds.

The Realized Performance Fees and Allocations and Investment Income (Loss) improved to \$5.0 million and \$2.2 million, respectively, for the three months ended September 30, 2010 compared to a loss of \$11.4 million and \$3.1 million, respectively in 2009.

Total Management Fees were \$91.4 million for the three months ended September 30, 2010, an increase of \$5.0 million compared to \$86.3 million for the three months ended September 30, 2009. Transaction and Other Fees were \$8.5 million, an increase of \$5.2 million compared to \$3.3 million for the three months ended September 30, 2009, reflecting the continued increase in investment activity. Base Management Fees were \$83.2 million for the three months ended September 30, 2010, relatively unchanged compared to the prior year.

Revenues were \$618.4 million for the nine months ended September 30, 2010, an increase of \$749.8 million compared to \$(131.3) million for the nine months ended September 30, 2009. The increase of \$393.5 million and \$344.8 million in Performance Fees and Allocations and Investment Income (Loss), respectively, was driven by the improved performance of our carry funds, particularly related to our office and lodging sector investments. Specifically, for the nine months ended September 30, 2010 the segment's carry funds had a net internal rate of return of 51% compared to (35)% during the nine months ended September 30, 2009. Base Management Fees increased \$4.1 million, driven by an increase of 3% in Fee-Earning Assets Under Management from September 30, 2009. Transaction and Other Fees, Net also increased by \$4.1 million.

### *Expenses*

Expenses were \$109.8 million for the three months ended September 30, 2010, an increase of \$53.8 million, compared to \$56.0 million for the three months ended September 30, 2009. The increase was primarily attributed to a \$44.0 million increase in Performance Fee Related Compensation, a result of positive Performance Fees and Allocations revenue. Other Operating Expenses increased \$5.1 million to \$18.6 million, principally due to an increase in interest expense and professional fees. Base Compensation increased \$4.7 million to \$43.2 million.

Expenses were \$259.8 million for the nine months ended September 30, 2010, an increase of \$222.4 million, compared to \$37.4 million for the nine months ended September 30, 2009. The increase was primarily attributed to a \$196.7 million increase in Performance Fee Related Compensation. Performance Fee Related Compensation increased \$196.7 million, primarily as a result of the increase in Performance Fees and Allocations revenue in the current year period compared to the reversal of prior period accrued performance fees in the prior year period. Base Compensation increased \$14.2 million as a portion of compensation is directly related to the profitability of the segment. Other Operating Expenses increased \$11.5 million primarily due to an increase in interest expense.

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### Operating Metrics

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

	Three Months Ended September 30,		2010 vs. 2009		Nine Months Ended September 30,		2010 vs. 2009	
	2010	2009	\$	%	2010	2009	\$	%
(Dollars in Thousands)								
<b>Fee-Earning Assets Under Management</b>								
Balance, Beginning of Period	\$23,841,360	\$23,525,181	\$ 316,179	1%	\$23,708,057	\$22,970,438	\$ 737,619	3%
Inflows, including Commitments	358,252	189,202	169,050	89%	967,162	937,858	29,304	3%
Outflows, including Distributions	(192,614)	(192,788)	174	0%	(252,543)	(404,744)	152,201	38%
Market Appreciation (Depreciation)	338,163	170,662	167,501	98%	(77,515)	188,705	(266,220)	N/M
Balance, End of Period	<u>\$24,345,161</u>	<u>\$23,692,257</u>	<u>\$ 652,904</u>	<u>3%</u>	<u>\$24,345,161</u>	<u>\$23,692,257</u>	<u>\$ 652,904</u>	<u>3%</u>
<b>Assets Under Management (End of Period)</b>	<u>\$27,129,825</u>	<u>\$20,434,831</u>	<u>\$6,694,994</u>	<u>33%</u>	<u>\$27,129,825</u>	<u>\$20,434,831</u>	<u>\$6,694,994</u>	<u>33%</u>
<b>Capital Deployed</b>								
Limited Partner Capital Invested	<u>\$ 688,951</u>	<u>\$ 34,993</u>	<u>\$ 653,958</u>	<u>N/M</u>	<u>\$ 1,757,636</u>	<u>\$ 502,803</u>	<u>\$1,254,833</u>	<u>N/M</u>

### Fee-Earning Assets Under Management

Fee-Earning Assets Under Management were \$24.3 billion at September 30, 2010, an increase of \$652.9 million, or 3%, compared with \$23.7 billion at September 30, 2009. Current period inflows of \$358.3 million were primarily related to capital raised by our real estate debt investment funds and additional co-investment capital. Current period outflows were \$192.6 million, primarily due to a full writedown of a European hotel portfolio investment. Market appreciation in the current year period of \$338.2 million was primarily due to the favorable foreign exchange impact on commitments from our European focused real estate fund and net valuation increases for certain of our real estate debt investment funds that charge management fees based on net asset value. Prior year market appreciation of \$170.7 million was primarily due to the favorable foreign exchange impact on commitments from our European focused real estate fund.

### Assets Under Management

At September 30, 2010, Assets Under Management were \$27.1 billion, an increase of \$6.7 billion, or 33%, compared with \$20.4 billion at September 30, 2009. The change was primarily due to market appreciation of \$5.5 billion, continued fund raising in our real estate debt funds and additional co-investment capital.

### Limited Partner Capital Invested

For the three months ended September 30, 2010, Limited Partner Capital Invested was \$689.0 million, an increase of \$654.0 million from \$35.0 million for the three months ended September 30, 2009. Limited Partner Capital Invested was \$1.8 billion for the nine months ended September 30, 2010, an increase of \$1.3 billion from \$502.8 million for the nine months ended September 30, 2009. These increases primarily reflected increased investment activity by our BREP VI and debt strategy funds.

### Fund Returns

Fund return information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the performance of The Blackstone Group L.P. and is

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also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

The following table presents the Net Internal Rates of Return of our significant real estate funds:

Fund	Net Total Change in Carrying Value (Realized and Unrealized) (a)					
	Three Months Ended September 30,		Nine Months Ended September 30,		September 30, 2010 Inception to Date	
	2010	2009	2010	2009	Total	Realized (b)
BREP IV	13%	—	20%	-33%	15%	68%
BREP V	15%	—	33%	-36%	2%	74%
BREP International II (c)	16%	-7%	50%	-33%	-10%	3%
BREP International (c)	-1%	-2%	8%	6%	23%	31%
BREP VI	19%	-6%	92%	-40%	-3%	95%
BREP Europe III (c)	—	N/A	154%	N/A	34%	N/A
BSSF II	6%	14%	17%	14%	26%	43%
BSSF I	4%	8%	14%	16%	13%	N/A
CMBS	3%	8%	15%	12%	22%	N/A

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

- (a) Net total change in carrying value (realized and unrealized) is after management fees, expenses and performance fee allocations.
- (b) Includes partially realized investments. Investments are considered partially realized when distributed proceeds, excluding current income (dividends, interest, etc.), are a material portion of invested capital.
- (c) Euro based net internal rates of return.

The real estate funds' net internal rates of return for the three and nine months ended September 30, 2010 were improved for all funds (except BSSF I, BSSF II and CMBS) compared to the three and nine months ended September 30, 2009. Generally, improvement in the fundamentals of the BREP funds' hotels, improving market conditions in the BREP funds' office investments and the opportunity to acquire certain property level debt below par, has led to increases in the valuation of our investments.

The following table presents the investment record of the real estate funds from inception through September 30, 2010 for funds with closed investment periods:

Fund (Investment Period)	Fully Invested Funds							
	Total Investments				Realized / Partially Realized Investments (a)			
	Total		Net IRR (c)	MOIC (d)	Total		Net IRR (c)	MOIC (d)
	Invested Capital	Carrying Value (b)			Invested Capital	Carrying Value (b) (e)		
	(Amounts in Millions)				(Amounts in Millions)			
Pre-BREP	\$ 141	\$ 345	33%	2.5	\$ 141	\$ 345	33%	2.5
BREP I (Sep 1994 / Oct 1996)	\$ 467	\$ 1,328	40%	2.8	\$ 467	\$ 1,328	40%	2.8
BREP II (Oct 1996 / Mar 1999)	\$ 1,219	\$ 2,525	19%	2.1	\$ 1,219	\$ 2,525	19%	2.1
BREP III (Apr 1999 / Apr 2003)	\$ 1,415	\$ 3,328	21%	2.4	\$ 1,362	\$ 3,318	23%	2.4
BREP Int'l (Jan 2001 / Sep 2005)	€ 658	€ 1,287	23%	2.0	€ 566	€ 1,236	31%	2.2
BREP IV (Apr 2003 / Dec 2005)	\$ 2,737	\$ 3,840	15%	1.4	\$ 1,074	\$ 2,505	68%	2.3
BREP V (Dec 2005 / Feb 2007)	\$ 5,218	\$ 5,849	2%	1.1	\$ 951	\$ 1,819	74%	1.9
BREP Int'l II (Sep 2005 / Jun 2008)	€ 1,307	€ 1,035	-10%	0.8	€ 162	€ 192	3%	1.2

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

- (a) Investments are considered partially realized when distributed proceeds, excluding current income (rent, dividends, interest, etc.), are a material portion of invested capital.
- (b) Carrying value includes realized proceeds and unrealized fair value.
- (c) IRR represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized fair value. Net IRR is after management fees, expenses and Carried Interest.
- (d) MOIC represents carrying value, before management fees, expenses and Carried Interest, divided by total invested capital.
- (e) The Total Realized / Partially Realized Carrying Value includes remaining unrealized value of \$575.1 million and €142.8 million.

The following table presents the investment record of the real estate funds, excluding separately managed accounts, from inception through September 30, 2010 for funds with open investment periods:

Fund (Investment Period)	Funds in the Investment Period				
	Total Investments				MOIC (d)
	Available Capital (a)	Invested Capital	Carrying Value (b)	Net IRR (c)	
		(Amounts in Millions)			
BREP VI (Feb 2007 / Aug 2012)	\$ 5,363	\$5,676	\$ 5,783	-3%	1.0
BREP Europe III (Jun 2008 / Dec 2013)	€ 3,124	€ 86	€ 275	34%	3.2
BSSF II (Jul 2009 / Aug 2017)	\$ 389	\$ 550	\$ 682	26%	1.2

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

- (a) Available Capital represents total capital commitments, adjusted for certain expenses and expired or callable capital, less invested capital, and includes \$1.7 billion committed to deals but not yet invested. Additionally, the segment has \$1.1 billion of Available Capital that has been reserved for add-on investments in funds that are fully invested.
- (b) Carrying value includes realized proceeds and unrealized fair value.
- (c) IRR represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized fair value. Net IRR is after management fees, expenses and Carried Interest.
- (d) MOIC represents carrying value, before management fees, expenses and Carried Interest, divided by total invested capital.

The following table presents the Carried Interest status of our real estate funds with expired investment periods which are currently not generating performance fees as of September 30, 2010:

Fully Invested Funds (a)	Gain to Cross Carried Interest Threshold (b)	
	% Change in Total Enterprise	
	Amount	Value (c)
	(Amounts in Millions)	
BREP V (Dec 2005 / Feb 2007) (d)	\$ 743	5%
BREP Int'l II (Sep 2005 / Jun 2008)	€ 737	17%

- (a) As of September 30, 2010, (a) BREP International was above its Carried Interest preferred return threshold even if all remaining investments were deemed worthless, and (b) BREP IV was above its Carried Interest preferred return threshold.

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- (b) The general partner of each fund is allocated Carried Interest when the annualized returns, net of management fees and expenses, exceed the preferred return as dictated by the fund agreements. The preferred return is calculated for each limited partner individually. The Gain to Cross Carried Interest Threshold represents the increase in equity at the fund level (excluding our side-by-side investments) that is required for the general partner to begin accruing Carried Interest, assuming the gain is earned pro-rata across the fund's investments and is achieved at the reporting date.
- (c) Total Enterprise Value is the respective fund's pro rata ownership of the privately held portfolio companies' Enterprise Value and the Equity Value of the public portfolio companies based on fair values at the reporting date.
- (d) BREP V is currently below its Carried Interest threshold but has generated inception to date positive returns and is entitled to Carried Interest on those gains.

The following table presents the Carried Interest status of our real estate funds with open investment periods that are currently not generating performance fees as of September 30, 2010:

<u>Funds in the Investment Period (a)</u>	<u>Available Capital (c)</u>	<u>Gain to Cross Carried Interest Threshold (b)</u>	
		<u>Amount</u>	<u>% Change in Total Enterprise Value (d)</u>
		(Dollars in Millions)	
BREP VI (Feb 2007 / Aug 2012)	\$ 5,363	\$ 1,757	9%

- (a) As of September 30, 2010, BREP Europe III and BSSF II were above their Carried Interest preferred return threshold.
- (b) The general partner of each fund is allocated Carried Interest when the annualized returns, net of management fees and expenses, exceed the preferred return as dictated by the fund agreements. The preferred return is calculated for each limited partner individually. The Gain to Cross Carried Interest Threshold represents the increase in equity at the fund level (excluding our side-by-side investments) that is required for the general partner to begin accruing Carried Interest, assuming the gain is earned pro-rata across the fund's investments and is achieved at the reporting date.
- (c) Available Capital represents total capital commitments, adjusted for certain expenses and expired or callable capital, less invested capital (including side-by-side investments).
- (d) Total Enterprise Value is the respective fund's pro rata ownership of the privately held portfolio companies' Enterprise Value and the Equity Value of the public portfolio companies based on fair values at the reporting date.

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### Credit and Marketable Alternatives

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

	Three Months Ended September 30,		2010 vs. 2009		Nine Months Ended September 30,		2010 vs. 2009	
	2010	2009	\$	%	2010	2009	\$	%
(Dollars in Thousands)								
<b>Segment Revenues</b>								
Management Fees								
Base Management Fees	\$120,125	\$105,430	\$ 14,695	14%	\$336,807	\$298,226	\$ 38,581	13%
Transaction and Other Fees, Net	1,062	778	284	37%	3,576	1,908	1,668	87%
Management Fee Offsets	(182)	(4,121)	3,939	96%	(940)	(12,699)	11,759	93%
Total Management Fees	<u>121,005</u>	<u>102,087</u>	<u>18,918</u>	<u>19%</u>	<u>339,443</u>	<u>287,435</u>	<u>52,008</u>	<u>18%</u>
Performance Fees and Allocations								
Realized	16,215	7,622	8,593	113%	46,922	8,209	38,713	N/M
Unrealized	<u>77,336</u>	<u>36,114</u>	<u>41,222</u>	<u>114%</u>	<u>134,894</u>	<u>67,868</u>	<u>67,026</u>	<u>99%</u>
Total Performance Fees and Allocations	<u>93,551</u>	<u>43,736</u>	<u>49,815</u>	<u>114%</u>	<u>181,816</u>	<u>76,077</u>	<u>105,739</u>	<u>139%</u>
Investment Income (Loss)								
Realized	1,708	1,953	(245)	-13%	13,420	(14,313)	27,733	N/M
Unrealized	<u>13,181</u>	<u>29,976</u>	<u>(16,795)</u>	<u>-56%</u>	<u>22,703</u>	<u>67,115</u>	<u>(44,412)</u>	<u>-66%</u>
Total Investment Income (Loss)	<u>14,889</u>	<u>31,929</u>	<u>(17,040)</u>	<u>-53%</u>	<u>36,123</u>	<u>52,802</u>	<u>(16,679)</u>	<u>-32%</u>
Interest and Dividend Revenue	1,750	929	821	88%	3,654	1,917	1,737	91%
Other	<u>600</u>	<u>715</u>	<u>(115)</u>	<u>-16%</u>	<u>(314)</u>	<u>777</u>	<u>(1,091)</u>	<u>N/M</u>
Total Revenues	<u>231,795</u>	<u>179,396</u>	<u>52,399</u>	<u>29%</u>	<u>560,722</u>	<u>419,008</u>	<u>141,714</u>	<u>34%</u>
<b>Expenses</b>								
Compensation and Benefits								
Base Compensation	53,280	54,365	(1,085)	-2%	155,735	157,376	(1,641)	-1%
Performance Fee Related								
Realized	12,373	842	11,531	N/M	26,441	981	25,460	N/M
Unrealized	<u>39,835</u>	<u>24,594</u>	<u>15,241</u>	<u>62%</u>	<u>74,559</u>	<u>39,984</u>	<u>34,575</u>	<u>86%</u>
Total Compensation and Benefits	<u>105,488</u>	<u>79,801</u>	<u>25,687</u>	<u>32%</u>	<u>256,735</u>	<u>198,341</u>	<u>58,394</u>	<u>29%</u>
Other Operating Expenses	<u>22,057</u>	<u>18,123</u>	<u>3,934</u>	<u>22%</u>	<u>66,152</u>	<u>58,229</u>	<u>7,923</u>	<u>14%</u>
Total Expenses	<u>127,545</u>	<u>97,924</u>	<u>29,621</u>	<u>30%</u>	<u>322,887</u>	<u>256,570</u>	<u>66,317</u>	<u>26%</u>
Economic Net Income	<u>\$104,250</u>	<u>\$ 81,472</u>	<u>\$ 22,778</u>	<u>28%</u>	<u>\$237,835</u>	<u>\$162,438</u>	<u>\$ 75,397</u>	<u>46%</u>

### Revenues

Revenues were \$231.8 million for the three months ended September 30, 2010, an increase of \$52.4 million compared to the three months ended September 30, 2009. The increase in revenues was primarily attributed to increases of \$49.8 million in Performance Fees and Allocations and an increase of \$18.9 million in Total Management Fees. The increase in revenues was partially offset by a decrease of \$17.0 million in Investment Income (Loss) to \$14.9 million, compared to \$31.9 million for the prior year period.

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Performance Fees and Allocations were \$93.6 million for the three months ended September 30, 2010, an increase of \$49.8 million from the prior year period. The increase in Performance Fees and Allocations was primarily attributable to improved returns in the segment's credit-oriented funds and an increase in the amount of Fee-Earning Assets Under Management which are earning Incentive Fees in our funds of hedge funds business. The net composite returns in our funds of hedge funds was 3.2% in 2010 compared to 5.5% in 2009. Despite this, Fee-Earning Assets Under Management related to funds above their respective high-water marks and/or hurdle, and therefore eligible for Performance Fees and Allocations, increased during the three months ended September 30, 2010 compared to the three months ended September 30, 2009 (see table below). Investment Income (Loss) was \$14.9 million, a decrease of \$17.0 million compared to \$31.9 million for the three months ended September 30, 2009. The decrease was primarily related to our funds of hedge funds and certain of our credit-oriented funds.

The Realized Performance Fees and Allocations for the three months ended September 30, 2010 of \$16.2 million were driven primarily by our credit-oriented funds. The Realized Investment Income (Loss) for the three months ended September 30, 2010 of \$1.7 million was driven primarily by our credit oriented funds and our funds of hedge funds business.

Total Management Fees were \$121.0 million for the three months ended September 30, 2010, an increase of \$18.9 million compared to \$102.1 million for the three months ended September 30, 2009. Base Management Fees were \$120.1 million for the three months ended September 30, 2010, an increase of \$14.7 million compared to the prior year period, driven by an increase in Fee-Earning Assets Under Management of 17% from the prior year period, which was primarily from positive net inflows in our funds of hedge funds business, the April 1, 2010 acquisition of \$3.5 billion in collateralized debt obligations and CDO and CLO vehicles by our credit oriented businesses and market appreciation in our funds of hedge funds.

Revenues were \$560.7 million for the nine months ended September 30, 2010, an increase of \$141.7 million, compared to \$419.0 million for the nine months ended September 30, 2009. Total Management Fees increased \$52.0 million, driven by a \$38.6 million increase in Base Management Fees, principally due to an \$8.2 billion increase in Fee-Earning Assets Under Management from September 30, 2009. Performance Fees and Allocations increased \$105.7 million driven by performance fees generated by certain of our credit-oriented funds and funds of hedge funds. Investment Income (Loss) decreased \$16.7 million during the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009.

### *Expenses*

Expenses were \$127.5 million for the three months ended September 30, 2010, an increase of \$29.6 million compared to the three months ended September 30, 2009. The \$29.6 million increase was primarily attributed to a \$25.7 million increase in Total Compensation and Benefits and a \$3.9 million increase in Other Operating Expenses. Base Compensation was \$53.3 million for the three months ended September 30, 2010, a decrease of \$1.1 million, compared to \$54.4 million for the prior year. Performance Fee Related Compensation was \$52.2 million for the three months ended September 30, 2010, an increase of \$26.8 million compared to \$25.4 million for the prior year. Other Operating Expenses increased \$3.9 million to \$22.1 million for the three months ended September 30, 2010, compared to \$18.1 million for the three months ended September 30, 2009 primarily due to an increase in professional fees in our credit-oriented funds and funds of hedge funds businesses related to the growth of the business.

Expenses were \$322.9 million for the nine months ended September 30, 2010, an increase of \$66.3 million, or 26%, compared to \$256.6 million for the nine months ended September 30, 2009. The \$66.3 million increase was primarily attributed to a \$60.0 million increase in Performance Fee Related Compensation and a \$7.9 million increase in Other Operating Expenses. The \$60.0 million increase in Performance Fee Related Compensation was driven by the positive returns of our credit-oriented funds and our funds of hedge funds. Other Operating Expenses increased \$7.9 million principally due to an increase in professional fees, business development related to the launching of new products and interest expense.



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Realized Compensation and Benefits—Performance Fee Related is directly attributable to the Realized Performance Fees and Allocations described above.

### Operating Metrics

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

	Three Months Ended September 30,		2010 vs. 2009		Nine Months Ended September 30,		2010 vs. 2009	
	2010	2009	\$	%	2010	2009	\$	%
(Dollars in Thousands)								
<b>Fee-Earning Assets Under Management</b>								
Balance, Beginning of Period	\$52,388,426	\$44,736,171	\$7,652,255	17%	\$47,867,546	\$42,561,456	\$ 5,306,090	12%
Inflows, including Commitments	2,906,474	1,869,168	1,037,306	55%	10,214,364	4,933,617	5,280,747	107%
Outflows, including Distributions	(1,096,472)	(1,127,282)	30,810	3%	(3,787,320)	(4,429,728)	642,408	15%
Market Appreciation (Depreciation) (a)	1,438,150	1,970,155	(532,005)	-27%	1,341,988	4,382,867	(3,040,879)	-69%
Balance, End of Period	<u>\$55,636,578</u>	<u>\$47,448,212</u>	<u>\$8,188,366</u>	<u>17%</u>	<u>\$55,636,578</u>	<u>\$47,448,212</u>	<u>\$ 8,188,366</u>	<u>17%</u>
<b>Assets Under Management (End of Period)</b>	<u>\$62,782,469</u>	<u>\$52,810,672</u>	<u>\$9,971,797</u>	<u>19%</u>	<u>\$62,782,469</u>	<u>\$52,810,672</u>	<u>\$ 9,971,797</u>	<u>19%</u>
<b>Capital Deployed</b>								
Limited Partner Capital Invested	<u>\$ 692,275</u>	<u>\$ 87,346</u>	<u>\$ 604,929</u>	<u>N/M</u>	<u>\$ 1,113,419</u>	<u>\$ 407,805</u>	<u>\$ 705,614</u>	<u>173%</u>

(a) Includes an adjustment of \$(533.9) million from our credit oriented businesses due to revised calculation methodologies.

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

	Fee-Earning Assets Under Management Eligible for Incentive Fees		Estimated % Above High Water Mark and/or Hurdle (a)	
	As of September 30, 2010	As of September 30, 2009	As of September 30, 2010	As of September 30, 2009
	(Dollars in Thousands)			
<b>Funds of Hedge Funds</b>	\$15,047,904	\$13,445,963	66%	36%

(a) Estimated % Above High Water Mark and / or Hurdle represents the percentage of Fee-Earning Assets Under Management Eligible for Incentive Fees that as of the dates presented would earn incentive fees when the applicable Blackstone Fund has positive investment performance (relative to a hurdle, where applicable). Incremental positive performance in the applicable Blackstone Funds may cause additional assets to reach their respective High Water Mark / or Hurdle, thereby resulting in an increase in Estimated % Above High Water Mark and/or Hurdle. For our funds of hedge funds, at September 30, 2010 the incremental appreciation needed for the 34% of Fee-Earning Assets Under Management below their respective High Water Marks to reach their respective High Water Marks was \$486.9 million, a decrease of \$813.4 million, or 62.6%, compared to \$1.3 billion at September 30, 2009. Of the Fee-Earning Assets Under Management below their respective High Water Marks as of September 30, 2010, 34% were within 5% of reaching their respective High Water Mark.

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### *Fee-Earning Assets Under Management*

Fee-Earning Assets Under Management were \$55.6 billion at September 30, 2010, an increase of \$8.2 billion, or 17%, compared to \$47.4 billion at September 30, 2009. The change was primarily due to net inflows of \$5.9 billion, which included the acquisition on April 1, 2010 of \$3.5 billion of management agreements relating to CDO and CLO vehicles, net inflows in our fund of hedge fund business of \$2.7 billion, and market appreciation of \$2.3 billion primarily driven by our funds of hedge funds business. Third quarter inflows of \$2.9 billion and outflows of \$1.1 billion were both primarily related to our credit-oriented funds and our funds of hedge funds. Market appreciation was \$1.4 billion for the three months ended September 30, 2010 and was primarily a result of positive returns in our funds of hedge funds and also includes \$(533.9) million related to revised calculations in our credit oriented funds.

Fee-Earning Assets Under Management had net inflows of \$1.1 billion from October 1 through November 1, 2010 from our funds of hedge funds.

### *Assets Under Management*

Assets Under Management were \$62.8 billion at September 30, 2010, an increase of \$10.0 billion, or 19%, compared to \$52.8 billion at September 30, 2009. The change was primarily due to market appreciation across our funds, the April 1, 2010 acquisition of \$3.5 billion in CDO and CLO vehicles and net inflows in our funds of hedge funds of \$2.5 billion.

### *Limited Partner Capital Invested*

Limited Partner Capital Invested by our credit-oriented carry funds was \$692.3 million, representing 11.6% of total commitments in these funds, for the three months ended September 30, 2010, an increase of \$604.9 million compared to \$87.3 million for the three months ended September 30, 2009. Limited Partner Capital Invested by our credit-oriented carry funds was \$1.1 billion for the nine months ended September 30, 2010, an increase of \$705.6 million compared to \$407.8 million for the nine months ended September 30, 2009.

### *Composite and Fund Returns*

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

<u>Composite</u>	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>		<u>Average Annual Net Returns (a) Periods Ended September 30, 2010</u>			
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Since January 1, 2000</u>
Funds of Hedge Funds, Core Funds Composite (b)	3%	5%	5%	13%	8%	—	4%	7%

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

- (a) Composite returns present a summarized asset weighted return measure to evaluate the overall performance of the applicable class of Blackstone Funds.
- (b) The Core Funds Composite excludes Blackstone's funds of hedge funds that employ a long - biased commodity strategy, funds whose primary objective is to provide seed capital to hedge fund start-up firms and funds managed under non-discretionary advisory arrangements.

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### Financial Advisory

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

	Three Months Ended September 30,		2010 vs. 2009		Nine Months Ended September 30,		2010 vs. 2009	
	2010	2009	\$	%	2010	2009	\$	%
(Dollars in Thousands)								
<b>Segment Revenues</b>								
Advisory Fees	\$84,541	\$94,566	\$(10,025)	-11%	\$295,208	\$268,009	\$27,199	10%
Transaction and Other Fees, Net	—	—	—	—	103	—	103	N/M
Investment Income								
Realized	469	—	469	N/M	607	—	607	N/M
Unrealized	607	476	131	28%	1,398	476	922	194%
Total Investment Income	1,076	476	600	126%	2,005	476	1,529	N/M
Interest and Dividend Revenue	1,609	1,250	359	29%	4,273	3,412	861	25%
Other	477	1,051	(574)	-55%	(797)	(14)	(783)	N/M
Total Revenues	87,703	97,343	(9,640)	-10%	300,792	271,883	28,909	11%
<b>Expenses</b>								
Compensation and Benefits — Base								
Compensation	66,531	57,686	8,845	15%	197,175	162,877	34,298	21%
Other Operating Expenses	17,253	22,666	(5,413)	-24%	49,296	57,376	(8,080)	-14%
Total Expenses	83,784	80,352	3,432	4%	246,471	220,253	26,218	12%
Economic Net Income	\$ 3,919	\$16,991	\$(13,072)	-77%	\$ 54,321	\$ 51,630	\$ 2,691	5%

### Revenues

Revenues were \$87.7 million for the three months ended September 30, 2010, a decrease of \$9.6 million, or 10%, compared to \$97.3 million for the three months ended September 30, 2009. The decrease in segment revenues was primarily driven by a decrease of \$27.6 million in fees earned by Blackstone Advisory Partners, our financial and strategic advisory business, which had several significant transactions that closed in 2009, and a decrease of \$4.9 million from our restructuring and reorganization business, principally due to a decrease in retainer fees. These decreases were partially offset by an increase of \$22.5 million in our fund placement business as conditions negatively impacting the fund-raising of capital from institutional investors for alternative investment products improved compared to the three months ended September 30, 2009. The pipeline for the financial and strategic advisory business continues to be strong and includes a significant international component. The pipeline for the restructuring and reorganization business also remains solid across a diverse group of industries and geographies.

Revenues were \$300.8 million for the nine months ended September 30, 2010, an increase of \$28.9 million, or 11%, compared to \$271.9 million for the nine months ended September 30, 2009. The increase in segment revenues was primarily driven by an increase of \$66.3 million in fees earned from our fund placement business due to the same economic factors for the quarterly period noted above. This increase was partially offset by decreases of \$22.0 million in fees generated by our financial and strategic advisory business and \$17.1 million in our restructuring and reorganization business.

The revenues generated by each of the businesses in our financial advisory segment are transactional in nature and therefore results can fluctuate significantly from period to period.

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### *Expenses*

Expenses were \$83.8 million for the three months ended September 30, 2010, an increase of \$3.4 million, or 4%, compared to \$80.4 million for the three months ended September 30, 2009. Expenses were \$246.5 million for the nine months ended September 30, 2010, an increase of \$26.2 million compared to \$220.3 million for the nine months ended September 30, 2009. Base Compensation increased \$8.8 million and \$34.3 million over the three and nine months ended September 30, 2009, respectively, principally due to an increase by Blackstone Advisory Partners in professionals, particularly internationally, and by our fund placement business where a portion of compensation is directly related to the performance of their business. Other Operating Expenses decreased \$5.4 million and \$8.1 million over the three and nine months ended September 30, 2009, principally due to a reduction of bad debt expenses.

## **Liquidity and Capital Resources**

### *Liquidity and Capital Resources*

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

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

Total assets were \$17.7 billion as of September 30, 2010, an increase of \$8.3 billion from December 31, 2009. The increase in total assets was primarily attributable to a \$7.5 billion increase in Investments of which \$6.2 billion was attributable to the consolidation of certain CDO and CLO vehicles which are Blackstone funds. These CDO and CLO vehicles are VIEs and under GAAP were required to be consolidated as of January 1, 2010. Total liabilities were \$10.1 billion as of September 30, 2010, an increase of \$7.2 billion from December 31, 2009. The increase in total liabilities was primarily due to an increase in Loans Payable of \$6.1 billion which resulted from the consolidation of the CDO and CLO vehicles mentioned above.

For the three months ended September 30, 2010, we had Total Fee Related Revenues of \$402.1 million and related expenses of \$289.2 million, generating Net Fee Related Earnings from Operations of \$112.9 million and Distributable Earnings of \$166.3 million. For the nine months ended September 30, 2010, we had Total Fee Related Revenues of \$1.2 billion and related expenses of \$883.1 million, generating Net Fee Related Earnings from Operations of \$319.6 million and Distributable Earnings of \$462.6 million.

We have multiple sources of liquidity to meet our capital needs, including annual cash flows, accumulated earnings in the businesses, investments in our own Treasury and liquid funds and access to our debt capacity, including our \$1.07 billion committed revolving credit facility and the proceeds from our 2009 and 2010 issuances of senior notes. As of September 30, 2010, Blackstone had \$1.0 billion in cash, \$927.7 million invested in Blackstone's Treasury cash management strategies, \$283.1 million invested in liquid Blackstone Funds and \$1.4 billion invested in illiquid Blackstone Funds, against just under \$1.0 billion in borrowings from our 2009 and 2010 bond issuances.

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We use Distributable Earnings, which is derived from our segment reported results, as a supplemental non-GAAP measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel. Distributable Earnings is derived from, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. Distributable Earnings, which is a component of Economic Net Income, is the sum across all Total Segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees and Allocations, and (e) Realized Investment Income (Loss); less (a) Base Compensation, (b) Realized Performance Fee Related Compensation, (c) Other Operating Expenses and (d) Cash Taxes and Payables Under the Tax Receivable Agreement. Distributable Earnings is reconciled to Blackstone's 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 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.

The following table calculates Blackstone's Distributable Earnings. Distributable Earnings is a supplemental measure of performance to assess amounts available for distributions to Blackstone unitholders, including Blackstone personnel.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Dollars in Thousands)			
<b>Fee Related Earnings</b>				
Revenues				
Total Management and Advisory Fees (a)	\$376,249	\$368,371	\$1,156,321	\$1,054,861
Interest and Dividend Revenue (a)	10,187	6,767	25,807	11,170
Other (a)	4,468	3,893	574	5,278
Investment Income — Blackstone's Treasury Cash Management Strategies (b)	11,226	—	19,953	—
Total Revenues	<u>402,130</u>	<u>379,031</u>	<u>1,202,655</u>	<u>1,071,309</u>
Expenses				
Compensation and Benefits — Base Compensation (a)	210,582	192,546	621,881	553,472
Other Operating Expenses (a)	84,253	75,544	245,436	216,614
Cash Taxes (c)	(5,619)	16,002	15,764	29,976
Total Expenses	<u>289,216</u>	<u>284,092</u>	<u>883,081</u>	<u>800,062</u>
Net Fee Related Earnings from Operations	<u>112,914</u>	<u>94,939</u>	<u>319,574</u>	<u>271,247</u>
Performance Fees and Allocations, Net of Related Compensation				
Performance Fees and Allocations — Realized (a)	66,039	(3,819)	166,294	2,004
Compensation and Benefits — Performance Fee Related — Realized (a)	(24,962)	713	(55,582)	(1,016)
Total Performance Fees and Allocations, Net of Related Compensation	<u>41,077</u>	<u>(3,106)</u>	<u>110,712</u>	<u>988</u>
Investment Income and Other				
Investment Income (Loss) — Realized (a)	14,276	7,669	35,304	(6,097)
Adjustment Related to Realized Investment Income — Blackstone's Treasury Cash Management Strategies (d)	(4,874)	—	(5,626)	—
Other Payables Including Payable Under Tax Receivable Agreement	2,923	—	2,623	—
Total Investment Income and Other	<u>12,325</u>	<u>7,669</u>	<u>32,301</u>	<u>(6,097)</u>
Distributable Earnings	<u>\$166,316</u>	<u>\$ 99,502</u>	<u>\$ 462,587</u>	<u>\$ 266,138</u>

(a) Represents the total segment amounts of the respective captions.

(b) Represents the inclusion of Investment Income from Blackstone's Treasury cash management strategies.

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- (c) Represents the provisions for and/or adjustments to income taxes that were calculated using a similar methodology applied in calculating the current provision for The Blackstone Group L.P.
- (d) Represents the elimination of Realized Investment Income attributable to Blackstone's Treasury cash management strategies which is a component of Net Fee Related Earnings from Operations.

The following table is a reconciliation of Income (Loss) Before Provision for Taxes to Total Segments Economic Net Income, of Total Segments, Economic Net Income to Net Fee Related Earnings from Operations, of Net Fee Related Earnings from Operations to Distributable Earnings and of Earnings Before Interest, Taxes and Depreciation and Amortization from Net Fee Related Earnings from Operations to Net Fee Related Earnings from Operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Dollars in Thousands)			
<b>Income (Loss) Before Provision for Taxes</b>	\$ 143,302	\$(426,959)	\$ (721,297)	\$(1,926,152)
IPO and Acquisition-Related Charges (a)	438,568	719,708	1,915,220	2,222,599
Amortization of Intangibles (b)	40,872	39,513	121,206	118,537
(Income) Loss Associated with Non-Controlling Interests in (Income) Loss of Consolidated Entities (c)	(266,346)	(53,905)	(367,987)	(57,066)
Management Fee Revenues Associated with Consolidated CDO and CLO Vehicles (d)	11,695	—	27,522	—
<b>Total Segments, Economic Net Income</b>	368,091	278,357	974,664	357,918
Performance Fees and Allocations Adjustment (e)	(258,784)	(166,770)	(470,634)	(25,171)
Investment Income (Loss) Adjustment (f)	(142,523)	(58,003)	(402,258)	43,318
Investment Income (Loss) — Blackstone's Treasury Cash Management Strategies (g)	11,226	—	19,953	—
Performance Fee Related Compensation and Benefits Adjustment (h)	129,285	57,357	213,613	(74,842)
Taxes Payable (i)	5,619	(16,002)	(15,764)	(29,976)
<b>Net Fee Related Earnings from Operations</b>	112,914	94,939	319,574	271,247
Realized Performance Fees and Allocations (j)	41,077	(3,106)	110,712	988
Realized Investment Income (Loss) (k)	14,276	7,669	35,304	(6,097)
Adjustment Related to Realized Investment Income — Blackstone's Treasury Cash Management Strategies (l)	(4,874)	—	(5,626)	—
Other Payables Including Payable Under Tax Receivable Agreement	2,923	—	2,623	—
<b>Distributable Earnings</b>	<u>\$ 166,316</u>	<u>\$ 99,502</u>	<u>\$ 462,587</u>	<u>\$ 266,138</u>
<b>Earnings Before Interest, Taxes and Depreciation and Amortization from Net Fee Related Earnings from Operations (m)</b>	<u>\$ 124,195</u>	<u>\$ 121,259</u>	<u>\$ 377,866</u>	<u>\$ 323,568</u>

- (a) This adjustment adds back to Income (Loss) Before Provision for Taxes amounts for Transaction-Related Charges which include principally equity-based compensation charges associated with Blackstone's initial public offering and other corporate actions.
- (b) This adjustment adds back to Income (Loss) Before Provision for Taxes amounts for the Amortization of Intangibles which are associated with Blackstone's initial public offering and other corporate actions.
- (c) This adjustment adds back to Income (Loss) Before Provision for Taxes the amount of (Income) Loss Associated with Non-Controlling Interests in (Income) Loss of Consolidated Entities.
- (d) This adjustment adds back to Income (Loss) Before Provision for Taxes the amount of Management Fee Revenues associated with Consolidated CDO and CLO Vehicles.

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- (e) This adjustment removes from ENI the total segment amount of Performance Fees and Allocations.
- (f) This adjustment removes from ENI the total segment amount of Investment Income (Loss).
- (g) This adjustment represents the realized and unrealized gain (loss) on Blackstone's Treasury cash management strategies which are a component of Investment Income (Loss) but included in Net Fee Related Earnings.
- (h) This adjustment removes from expenses the compensation and benefit amounts related to Blackstone's profit sharing plans related to Performance Fees and Allocations.
- (i) Represents an implied payable for income taxes calculated using a similar methodology applied in calculating the current provision for The Blackstone Group L.P.
- (j) Represents the adjustment for realized Performance Fees and Allocations net of corresponding actual amounts due under Blackstone's profit sharing plans related thereto.
- (k) Represents the adjustment for Blackstone's Investment Income — Realized.
- (l) Represents the elimination of Realized Investment Income attributable to Blackstone's Treasury cash management strategies which is a component of both Net Fee Related Earnings from Operations and Realized Investment Income (Loss).
- (m) Earnings Before Interest, Taxes and Depreciation and Amortization from Net Fee Related Earnings from Operations represents Net Fee Related Earnings from Operations adding back the implied cash taxes payable component from the Distributable Earnings reconciliation presented above, which is included in (i), and segment interest and segment depreciation and amortization. The cash taxes payable component of (i) was \$(5.6) million and \$16.0 million for the three months ended September 30, 2010 and 2009, respectively. The cash taxes payable component of (i) was \$15.8 million and \$30.0 million for the nine months ended September 30, 2010 and 2009, respectively. Interest was \$10.3 million and \$4.4 million for the three months ended September 30, 2010 and 2009, respectively. Interest was \$23.5 million and \$4.4 million for the nine months ended September 30, 2010 and 2009, respectively. Depreciation and amortization was \$6.6 million and \$5.9 million for the three months ended September 30, 2010 and 2009, respectively. Depreciation and amortization was \$19.0 million and \$17.9 million for the nine months ended September 30, 2010 and 2009, respectively.



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### Our Sources of Cash and Liquidity Needs

We expect that our primary liquidity needs will be cash to (a) provide capital to facilitate the growth of our existing businesses which principally includes funding our general partner and co-investment commitments to our funds, (b) provide capital to facilitate our expansion into new businesses that are complementary, (c) pay operating expenses, including cash compensation to our employees and other obligations as they arise, (d) fund modest capital expenditures, (e) repay borrowings and related interest costs, (f) pay income taxes and (g) make distributions to our unitholders and the holders of Blackstone Holdings Partnership Units. Our own capital commitments to our funds, the funds we invest in and our investment strategies as of September 30, 2010 consisted of the following:

<u>Fund</u>	<u>Original Commitment</u>	<u>Remaining Commitment</u>
(Dollars in Thousands)		
<b>Private Equity</b>		
BCP VI	\$ 601,943	\$ 601,943
BCP V	629,356	118,042
BCP IV	150,000	11,547
BCOM	50,000	5,074
BCVP	4,575	3,660
BIP	7,500	7,500
Woori Blackstone Korea I	5,308	5,255
<b>Real Estate Funds</b>		
BREP VI	750,000	365,370
BREP V	52,545	7,418
BREP International II	27,244	2,769
BREP IV	50,000	—
BREP International	20,000	3,293
BREP Europe III	100,000	96,905
BSSF II	43,008	4,504
BSSF I	6,992	—
CMBS Fund	4,010	—
BSSF G	2,500	869
<b>Credit and Marketable Alternatives</b>		
BMezz II	17,692	2,725
BMezz	41,000	2,590
Strategic Alliance II	50,000	50,000
Strategic Alliance	50,000	8,020
Blackstone Credit Liquidity Partners	32,244	7,428
Blackstone / GSO Capital Solutions	50,000	36,733
Other (a)	15,522	360
<b>Other</b>	36,217	36,217
<b>Total</b>	<b>\$2,797,656</b>	<b>\$1,378,222</b>

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

For some of the general partner commitments shown in the table above we require our senior managing directors and certain other professionals to fund a portion of the commitment even though the ultimate obligation to fund the aggregate commitment is ours pursuant to the governing agreements of the respective funds. For BCP VI, BREP VI and BREP Europe III it is intended that our senior managing directors and certain other professionals will fund \$250 million, \$150 million and \$35 million, respectively, of the aggregate applicable general partner commitment shown above. In addition, certain senior managing directors and other professionals are required to fund a de minimis amount of the commitment in the other private equity, real estate and credit-



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oriented carry funds. We expect our commitments to be drawn down over time and to be funded by available cash and cash generated from operations and realizations. Taking into account prevailing market conditions and both the liquidity and cash or liquid investment balances, we believe that the sources of liquidity described below will be more than sufficient to fund our working capital requirements.

On March 23, 2010, an indirect, wholly-owned subsidiary of Blackstone entered into a new \$1.07 billion revolving credit facility (the “Credit Facility”) with Citibank, N.A., as Administrative Agent. The unsecured Credit Facility provides for revolving credit borrowings, with a final maturity date of March 23, 2013. Interest on the borrowings is based on an adjusted LIBOR rate or alternate base rate, in each case plus a margin, and undrawn commitments bear a commitment fee. Borrowings may also be made in U.K. Sterling or Euros, in each case subject to certain sub-limits. The Credit Facility contains customary representations, covenants and events of default. Financial covenants consist of a maximum net leverage ratio and a requirement to keep a minimum amount of fee generating assets under management, each tested quarterly.

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

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

Our current intention is to distribute to our common unitholders substantially all of The Blackstone Group L.P.’s net after-tax share of our annual Distributable Earnings in excess of amounts determined by our general partner to be necessary or appropriate to provide for the conduct of our business, to make appropriate investments in our business and our funds, to comply with applicable law, any of our debt instruments or other agreements, or to provide for future distributions to our unitholders for any ensuing quarter. Because we will not know what our Distributable Earnings will be for any fiscal year until the end of such year, we expect that our first three quarterly distributions in respect of any given year will be based on our anticipated annualized Net Fee Related Earnings. As such, the distributions for the first three quarters may be smaller than the final quarterly distribution in respect of such year. We expect to also reflect realized Performance Fees and Allocations net of related compensation and realized net investment income in the determination of the amount of the fourth quarter distribution.

In most years the aggregate amounts of our distributions to unitholders will not equal our Distributable Earnings for that year. Distributable Earnings will only be a starting point for our determination of the amount to

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be distributed to unitholders because as noted above, in determining the amount to be distributed we will subtract from Distributable Earnings any amounts determined by our general partner to be necessary or appropriate to provide for the conduct of our business, to make appropriate investments in our business and our funds, to comply with applicable law, any of our debt instruments or other agreements, or to provide for future distributions to our unitholders for any ensuing quarter.

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

In January 2008, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to \$500 million of our common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. This unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date. During the nine months ended September 30, 2010, we repurchased a combination of 84,888 vested and unvested Blackstone Common Units and Blackstone Holdings Partnership Units as part of the unit repurchase program for a total cost of \$1.2 million. As of September 30, 2010, the amount remaining available for repurchases was \$338.3 million under this program.

We may under certain circumstances use leverage opportunistically and over time to create the most efficient capital structure for Blackstone and our public common unitholders, including through the issuance of debt securities. As of September 30, 2010, we had total partners' capital of \$7.1 billion, including \$1.0 billion in cash, \$927.7 million invested in Blackstone's Treasury cash management strategies, \$283.1 million invested in liquid Blackstone Funds and \$1.4 billion invested in illiquid Blackstone Funds, against just under \$1.0 billion in borrowings from our 2009 and 2010 bond issuances.

Our private equity funds, real estate funds and funds of hedge funds have not historically utilized substantial leverage at the fund level other than for short-term borrowings between the date of an investment and the receipt of capital from the investing fund's investors. Our carry funds make direct or indirect investments in companies that utilize leverage in their capital structure. The degree of leverage employed varies among portfolio companies.

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

### Critical Accounting Policies

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

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### *Principles of Consolidation*

The Partnership consolidates all entities that it controls through a majority voting interest or otherwise, including those Blackstone Funds in which the general partner is presumed to have control. Although the Partnership has a minority interest in the Blackstone Holding 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 impacts the entity’s business, 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 revised consolidation rules require 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. Where the variable interest entities have qualified for the deferral of the revised consolidation rules as discussed in Note 2. “Summary of Significant Accounting Policies, Recent Accounting Pronouncements” in the “Notes to Condensed Consolidated Financial Statements” in “Part I. Item 1. Financial Statements”, the analysis is based on previous consolidation rules. These rules require 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 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 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 Fund 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.

### *Revenue Recognition*

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

Please refer to “Part I. Item 1. Business — Incentive Arrangements / Fee Structure” in our 2009 Annual Report on Form 10-K for additional information regarding the manner in which Base Management Fees and Performance Fees and Allocations are generated.

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

The Partnership earns base management fees from limited partners of funds in each of its managed funds, at a fixed percentage of assets under management, net asset value, total assets, committed capital or invested

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capital. Base management fees are based on contractual terms specified in the underlying investment advisory agreements. The range of management fee rates and the calculation base from which they are earned are as follows:

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

- 1% to 2% of committed capital during the commitment period,
- 0.75% to 1.5% of invested capital subsequent to the investment period for private equity and real estate funds, and
- 1% to 1.5% of invested capital for certain credit oriented funds.

On credit-oriented funds structured like hedge funds:

- 0.75% to 2% of net asset value.

On credit-oriented funds separately managed accounts:

- 0.5% to 1.5% of net asset value.

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

- 0.65% to 1.5% of assets under management.

On CDO and CLO vehicles:

- 0.40% to 1.25% of total assets.

On closed-end mutual funds:

- 0.75% to 1.1% of fund assets.

Transaction and other fees (including monitoring fees) are fees charged directly to 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 reduction”) 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 of expense incurred by our limited partnership 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, as of the reporting date, are included in Accounts Receivable or Due From Affiliates in the Condensed Consolidated Statements of Financial Condition.

*Performance Fees and Allocations* — 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

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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. Carried Interest allocations range between 10% and 20% of fund appreciation. At the end of each reporting period, the Partnership calculates the Carried Interest that would be due to the Partnership for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as Carried Interest to reflect either (a) positive performance resulting in an increase in the Carried Interest allocated to the general partner or (b) negative performance that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue, resulting in a negative adjustment to Carried Interest allocated to the general partner. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Condensed Consolidated Statements of Financial Condition.

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

Carried Interest is subject to clawback to the extent that the Carried Interest actually distributed to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received performance fees and allocations, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone 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.

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### Expenses

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

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

*Compensation and Benefits — Performance Fee Related* — Performance fee related compensation and benefits consists of Carried Interest and performance fee allocations to employees, including senior managing directors, participating in certain profit sharing initiatives. Employees participating in such initiatives are allocated a certain portion of Carried Interest and performance fees allocated to the general partner under performance fee allocations (see “Revenue Recognition”). Such compensation expense is recognized in the same manner as Carried Interest and performance fee allocations and is subject to both positive and negative adjustments as a result of changes in underlying fund performance.

### 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 and listed derivatives. 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, 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

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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 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.

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



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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.

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

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

For certain instruments, the Partnership has elected the fair value option. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. The Partnership has applied the fair value option for certain loans and receivables and certain investments in private debt and equity securities. 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 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 revised consolidation rules for variable interest entities. The transition adjustment resulting from the difference between the fair value of assets and liabilities on the effective date is presented within the Condensed Consolidated Statement of Financial Condition as Appropriated Partners’ Capital. Assets of the consolidated CLOs are presented within Investments within the Condensed Consolidated Statements of Financial Condition, and Liabilities of the consolidated CLOs are presented within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by affiliates. Changes in the fair value of consolidated CLO assets and liabilities and related interest, dividend and other income subsequent to adoption are presented within Net Gains (Losses) from Fund Investment Activities and are attributable to Non-Controlling Interests in Consolidated Entities in the Condensed Consolidated Statements of Operations. Further disclosure on instruments for which the fair value option has been elected is presented in Note 7. “Fair Value Option” in the “Notes to the Condensed Consolidated Financial Statements” in “Part I. Item 1. Financial Statements” of this filing.



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### Intangibles and Goodwill

Blackstone's intangible assets consist of contractual rights to earn future fee income, including management and advisory fees and Carried Interest from its Carry Funds. Identifiable finite-lived intangible assets are amortized on a straight line basis over their estimated useful lives, ranging from 5 to 20 years, reflecting the contractual lives of such funds. The Partnership does not hold any indefinite-lived intangible assets.

Goodwill comprises goodwill arising from the Reorganization of the Partnership in 2007 and the acquisition of GSO in 2008.

The carrying value of goodwill was \$1.7 billion as of September 30, 2010 and December 31, 2009. Intangibles and goodwill are reviewed for impairment at least annually, or more frequently if circumstances indicate impairment may have occurred. No indicators of impairment have been identified during the nine months ended September 30, 2010.

We test goodwill for impairment at the operating segment level (the same as our segments). Management has organized the firm into four operating segments. All of the components in each segment have similar economic characteristics and management makes key operating decisions based on the performance of each segment. Therefore, we believe that operating segment is the appropriate reporting level for testing the impairment of goodwill. In determining fair value for each of our segments, we utilize a discounted cash flow methodology based on the adjusted cash flows from operations for each segment. We believe this method provides the best approximation of fair value. In calculating the discounted cash flows, we begin with the adjusted cash flows from operations of each segment. We then determine the most likely growth rate by operating segment for each of the next four years and assume a terminal value by segment. We do not apply a control premium. The discounted cash flow analysis includes the Blackstone issued notes and borrowings under the revolving credit facility, if any, and includes an allocation of interest expense to each segment for the unused commitment fee on Blackstone's revolving credit facility. We use a discount rate that reflects the weighted average cost of capital adjusted for the risks inherent in the future cash flows.

In 2009 and 2008, Blackstone utilized a similar discounted cash flow model, as described above, to approximate the fair value of each of its segments.

### Off-Balance Sheet Arrangements

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

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

- Note 6. "Derivative Financial Instruments",
- Note 9. "Variable Interest Entities", and
- Note 16. "Commitments and Contingencies — Commitments, Operating Leases; — Commitments, Investment Commitments; and — Contingencies, Guarantees".

### Recent Accounting Developments

On January 1, 2010, the Partnership adopted guidance issued by the Financial Accounting Standards Board ("FASB") on issues related to variable interest entities ("VIEs"). The amendments significantly affect the overall consolidation analysis, changing the approach taken by companies in identifying which entities are VIEs and in

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determining which party is the primary beneficiary. The guidance requires continuous assessment of the reporting entity's involvement with such VIEs. The revised guidance also enhances the disclosure requirements for a reporting entity's involvement with VIEs, including presentation on the Condensed Consolidated Statements of Financial Condition of assets and liabilities of consolidated VIEs which meet the separate presentation criteria and disclosure of assets and liabilities recognized in the Condensed Consolidated Statements of Financial Condition and the maximum exposure to loss for those VIEs in which a reporting entity is determined to not be the primary beneficiary but in which it has a variable interest. The guidance provides a limited scope deferral for a reporting entity's interest in an entity that meets all of the following conditions: (a) the entity has all the attributes of an investment company as defined under AICPA Audit and Accounting Guide, *Investment Companies*, or does not have all the attributes of an investment company but is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with the AICPA Audit and Accounting Guide, *Investment Companies*, (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 entity, asset-backed financing entity or an entity that was formerly considered a qualifying special-purpose entity. The reporting entity is required to perform a consolidation analysis for entities that qualify for the deferral in accordance with previously issued guidance on variable interest entities. Blackstone's involvement with its funds is such that all three of the above conditions are met with the exception of certain CLO vehicles which fail condition (c) above and certain funds in which leveraged employee interests in dedicated funds are financed by third parties with Blackstone acting as an intermediary which fail condition (b) above. Such employee funds are currently consolidated as it is concluded that Blackstone is the primary beneficiary based on its implicit interest. The incremental impact of the revised consolidation rules has resulted in the consolidation of certain CLO vehicles managed by Blackstone. Additional disclosures relating to Blackstone's involvement with VIEs are presented in Note 9. "Variable Interest Entities" in "Part I. Item 1. Financial Statements" of this filing.

In January 2010, the FASB issued guidance on improving disclosures about fair value measurements. The guidance requires 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 reconciliation of beginning and ending balances shall 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 new guidance also requires enhanced disclosures on the fair value hierarchy to disaggregate disclosures by each class of assets and liabilities. In addition, an entity is required 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 is effective for interim and annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level III fair value measurements, which are effective for fiscal years beginning after December 15, 2010. The Partnership adopted the guidance, excluding the reconciliation of Level III activity, with the issuance of its March 31, 2010 financial statements. As the guidance is limited to enhanced disclosures, adoption did not have a material impact on the Partnership's financial statements.

In April 2010, the FASB issued guidance on the accounting for stock awards to employees of a foreign operation or employees whose pay is denominated in a currency other than the one in which the equity security trades. The guidance clarifies that share based payment awards with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trade shall not be considered to contain a condition that is not a market, performance, or service condition. Such an award shall not be classified as a liability if it otherwise qualifies for equity classification. The guidance is effective for fiscal years and interim periods ending after December 15, 2010. Blackstone makes share-based payment awards to employees in foreign operations. The guidance is not expected to have a material impact on the Partnership's financial statements.

In July 2010, the FASB issued guidance to enhance existing disclosure requirements relating to the credit quality of financing receivables and the allowance for credit losses. The guidance requires information on the

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credit quality of financing receivables and allowance for credit losses to be disaggregated by portfolio segment and class of financing receivable. The guidance also requires an entity to disclose credit quality indicators, past due information, and modifications of financing receivables. The guidance is effective for interim and annual reporting periods ending on or after December 15, 2010. As the guidance is limited to enhanced disclosures, adoption is not expected to have a material impact on the Partnership's financial statements.

### Contractual Obligations, Commitments and Contingencies

The following table sets forth information relating to our contractual obligations as of September 30, 2010 on a consolidated basis and on a basis deconsolidating the Blackstone funds:

Contractual Obligations	October 1, 2010 to				
	December 31, 2010	2011–2012	2013–2014 (Dollars in Thousands)	Thereafter	Total
Operating Lease Obligations (a)	\$ 14,473	\$ 109,799	\$ 96,559	\$ 296,918	\$ 517,749
Purchase Obligations	4,873	11,208	1,788	1,339	19,208
Blackstone Issued Notes and Revolving Credit Facility (b)	—	—	—	1,000,000	1,000,000
Interest on Blackstone Issued Notes and Revolving Credit Facility (c)	15,813	126,500	126,500	329,740	598,553
Blackstone Operating Entities Loan and Credit Facilities Payable (d)	297	26,956	7,097	—	34,350
Interest on Blackstone Operating Entities Loan and Credit Facilities Payable (e)	56	392	94	—	542
Blackstone Funds Debt Obligations Payable (f)	—	10,940	169,846	6,478,086	6,658,872
Interest on Blackstone Funds Debt Obligations Payable (g)	22,961	183,500	177,794	469,296	853,551
Blackstone Funds Capital Commitments to Investee Funds (h)	23,904	—	—	—	23,904
Due to Certain Non-Controlling Interest Holders in Connection with Tax Receivable Agreements (i)	—	58,483	20,197	959,582	1,038,262
Blackstone Operating Entities Capital Commitments to Blackstone Funds and Other (j)	1,378,222	—	—	—	1,378,222
Consolidated Contractual Obligations	1,460,599	527,778	599,875	9,534,961	12,123,213
Blackstone Funds Debt Obligations Payable (f)	—	(10,940)	(169,846)	(6,478,086)	(6,658,872)
Interest on Blackstone Funds Debt Obligations Payable (g)	(22,961)	(183,500)	(177,794)	(469,296)	(853,551)
Blackstone Funds Capital Commitments to Investee Funds (h)	(23,904)	—	—	—	(23,904)
Blackstone Operating Entities Contractual Obligations	<u>\$ 1,413,734</u>	<u>\$ 333,338</u>	<u>\$ 252,235</u>	<u>\$ 2,587,579</u>	<u>\$ 4,586,886</u>

- (a) We lease our primary office space under agreements that expire through 2024. In connection with certain lease agreements, we are responsible for escalation payments. The contractual obligation table above includes only guaranteed minimum lease payments for such leases and does not project potential escalation or other lease-related payments. These leases are classified as operating leases for financial statement purposes and as such are not recorded as liabilities on the Condensed Consolidated Statements of Financial Condition. The amounts are presented net of contractual sublease commitments.

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- (b) Represents the principal amount due on the 6.625% and 5.875% senior notes we issued. As of September 30, 2010, we had no outstanding borrowings under our revolver.
- (c) Represents interest to be paid over the maturity of our 6.625% and 5.875% senior notes and borrowings under our revolving credit facility which has been calculated assuming no prepayments are made and debt is held until its final maturity date. These amounts exclude commitment fees for unutilized borrowings under our revolver.
- (d) Represents borrowings for employee term facilities program and a capital asset facility.
- (e) Represents interest to be paid over the maturity of the related debt obligation which has been calculated assuming no prepayments are made and debt is held until its final maturity date. The future interest payments are calculated using variable rates in effect as of September 30, 2010, at spreads to market rates pursuant to the financing agreements, and range from 1.11% to 1.50%.
- (f) These obligations are those of the Blackstone Funds including the consolidated CDO and CLO vehicles.
- (g) Represents interest to be paid over the maturity of the related Blackstone Funds' debt obligations which has been calculated assuming no prepayments will be made and debt will be held until its final maturity date. The future interest payments are calculated using variable rates in effect as of September 30, 2010, at spreads to market rates pursuant to the financing agreements, and range from 0.53% to 13.00%. The majority of the borrowings are due on demand and for purposes of this schedule are assumed to mature within one year. Interest on the majority of these borrowings rolls over into the principal balance at each reset date.
- (h) These obligations represent commitments of the consolidated Blackstone Funds to make capital contributions to investee funds and portfolio companies. These amounts are generally due on demand and are therefore presented in the less than one year category.
- (i) Represents obligations by the Partnership's corporate subsidiary to make payments under the Tax Receivable Agreements to certain non-controlling interest holders for the tax savings realized from the taxable purchases of their interests in connection with the reorganization at the time of Blackstone's initial public offering in 2007 and subsequent purchases. The obligation represents the amount of the payments currently expected to be made, which are dependent on the tax savings actually realized as determined annually without discounting for the timing of the payments. As required by GAAP, the amount of the obligation included in the Condensed Consolidated Financial Statements and shown in Note 15, "Related Party Transactions" (see "Part I. Item 1. Financial Statements") differs to reflect the net present value of the payments due to certain non-controlling interest holders.
- (j) These obligations represent commitments by us to provide general partner capital funding to the Blackstone Funds, limited partner capital funding to other funds and Blackstone principal investment commitments. These amounts are generally due on demand and are therefore presented in the less than one year category; however, a substantial amount of the capital commitments are expected to be called over the next three years. We expect to continue to make these general partner capital commitments as we raise additional amounts for our investment funds over time.

### *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 real estate funds were \$4.9 million as of September 30, 2010.

### *Indemnifications*

In many of its service contracts, Blackstone agrees to indemnify the third party service provider under certain circumstances. The terms of the indemnities vary from contract to contract and the amount of indemnification liability, if any, cannot be determined and has not been included in the table above or recorded in our Condensed Consolidated Financial Statements as of September 30, 2010.

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### *Clawback Obligations*

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

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

During the quarter ended September 30, 2010, the Blackstone general partners paid an interim cash clawback obligation of \$16.2 million relating to a real estate fund of which \$13.7 million was paid by Blackstone Holdings and \$2.5 million by current and former Blackstone personnel. During the nine months ended September 30, 2010, the Blackstone general partners paid an interim cash clawback obligation of \$19.3 million relating to a real estate fund of which \$15.4 million was paid by Blackstone Holdings and \$3.9 million by current and former Blackstone personnel. This amount relates to an interim clawback obligation owed to a real estate fund. (See Note 15. "Related Party Transactions" and Note 16. "Commitments and Contingencies" in the "Notes to the Condensed Consolidated Financial Statements" in "Part I. Item 1. Financial Statements" of this filing.)

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

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

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

- The investment process of our carry funds involves a detailed analysis of potential investments, and asset management teams are assigned to oversee the operations, strategic development, financing and capital deployment decisions of each portfolio investment. Key investment decisions are subject to approval by the applicable investment committee, which is comprised of Blackstone senior managing directors and senior management.
- In our capacity as advisor to certain of our credit and marketable alternatives funds, we continuously monitor a variety of markets for attractive trading opportunities, applying a number of traditional and customized risk management metrics to analyze risk related to specific assets or portfolios. In addition, we perform extensive credit and cash-flow analyses of borrowers, credit-based assets and underlying hedge fund managers, and have extensive asset management teams that monitor covenant compliance by, and relevant financial data of, borrowers and other obligors, asset pool performance statistics, tracking of cash payments relating to investments and ongoing analysis of the credit status of investments.

**Effect on Fund Management Fees**

Our management fees are based on (a) third parties' capital commitments to a Blackstone Fund, (b) third parties' capital invested in a Blackstone Fund or (c) the net asset value, or NAV, of a Blackstone Fund, as described in our Condensed Consolidated Financial Statements. Management fees will only be directly affected by short-term changes in market conditions to the extent they are based on NAV or represent permanent impairments of value. These management fees will be increased (or reduced) in direct proportion to the effect of changes in the market value of our investments in the related funds. The proportion of our management fees that are based on NAV is dependent on the number and types of Blackstone Funds in existence and the current stage of each fund's life cycle. For the nine months ended September 30, 2010, approximately 32% of our fund management fees were based on the NAV of the applicable funds. As of September 30, 2009, approximately 29% of our fund management fees were based on the NAV of the applicable funds or separately managed accounts.

**Market Risk**

The Blackstone Funds hold investments which are reported at fair value. Based on the fair value as of September 30, 2010, we estimate that a 10% decline in fair value of the investments would have the following effects: (a) management fees would decrease by \$44.3 million on an annual basis, (b) performance fees and allocations, net of the related compensation expense, would decrease by \$219.2 million, and (c) investment income would decrease by \$183.7 million. Based on the fair value as of September 30, 2009, we estimated that a 10% decline in fair value of the investments would have the following effects: (a) management fees would decrease by \$34.5 million on an annual basis, (b) performance fees and allocations, net of the related compensation expense would decrease by \$142.6 million, and (c) investment income would decrease by \$117.6 million.

Total assets under management, excluding undrawn capital commitments and the amount of capital raised for our CDOs and CLOs, by segment, and the percentage amount classified as Level III investments as defined

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within the fair value standards of GAAP, are: Private Equity \$24.4 billion (87% Level III), Real Estate \$15.8 billion (94% Level III), and Credit and Marketable Alternatives \$41.5 billion (80% Level III), respectively. The fair value of our investments and securities can vary significantly based on a number of factors that take into consideration the diversity of the Blackstone Funds' investment portfolio and on a number of factors and inputs such as similar transactions, financial metrics, and industry comparatives, among others. (See "Part I, Item 1A. Risk Factors" in our 2009 Annual Report on Form 10-K. Also see "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Investments, at Fair Value.") We believe these estimated fair value amounts should be utilized with caution as our intent and strategy is to hold investments and securities until prevailing market conditions are beneficial for investment sales.

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

### Exchange Rate Risk

The Blackstone Funds hold investments that are denominated in non-U.S. dollar currencies that may be affected by movements in the rate of exchange between the U.S. dollar and non-U.S. dollar currencies. Additionally, a portion of our management fees are denominated in non-U.S. dollar currencies. We estimate that as of September 30, 2010, a 10% decline in the rate of exchange of all foreign currencies against the U.S. dollar would have the following effects: (a) management fees would decrease by \$9.1 million on an annual basis, (b) performance fees and allocations would decrease by \$37.4 million, net of the related compensation expense and (c) investment income would decrease by \$30.6 million.

As of September 30, 2009, we estimated that a 10% decline in the rate of exchange against the U.S. dollar would have the following effects: (a) management fees would decrease by \$9.1 million on an annual basis, (b) performance fees and allocations would decrease by \$36.6 million, net of the related compensation expense and (c) investment income would decrease by \$19.2 million.

### Interest Rate Risk

Blackstone has debt obligations payable that accrue interest at variable rates. Additionally, we have swapped a portion of our 6.625% senior notes into a variable rate instrument. Interest rate changes may therefore affect the amount of interest payments, future earnings and cash flows. Based on our debt obligations payable as of September 30, 2010 and our outstanding interest rate swaps, we estimate that interest expense relating to variable rates would increase by \$5.0 million on an annual basis, in the event interest rates were to increase by one percentage point.

Based on our debt obligations payable as of September 30, 2009, we estimated that interest expense relating to variable rate debt obligations payable would have increased by \$5.2 million on an annual basis, in the event interest rates increased by one percentage point.

Blackstone's Treasury cash management strategies consists of a diversified portfolio of highly liquid assets to meet the liquidity needs of various businesses (the "Treasury Liquidity Portfolio"). This portfolio includes cash, open-ended money market mutual funds, open-ended bond mutual funds, marketable investment securities, free standing derivative contracts, repurchase and reverse repurchase agreements. We estimate that our investment income would decrease by \$15.9 million, or 0.8% of the Treasury Liquidity Portfolio, if interest rates



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were to increase by one percentage point. This would be offset by an estimated increase in interest income of \$7.8 million on an annual basis from interest on floating rate assets.

### Credit Risk

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

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

We estimate that our investment income would decrease by \$9.6 million, or 0.5% of the Treasury Liquidity Portfolio, if credit spreads were to increase by one percentage point.

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

## ITEM 4. CONTROLS AND PROCEDURES

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

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

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



## **PART II OTHER INFORMATION**

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

We may from time to time be involved in litigation and claims incidental to the conduct of our business. Our businesses are also subject to extensive regulation, which may result in regulatory proceedings against us. See “Item 1A. Risk Factors” in our 2009 Annual Report on Form 10-K. We are not currently subject to any pending judicial, administrative or arbitration proceedings that we expect to have a material impact on our consolidated financial statements.

In December 2007, a purported class of shareholders in public companies acquired by one or more private equity firms filed a lawsuit against sixteen private equity firms and investment banks, including The Blackstone Group L.P., in the United States District Court in Massachusetts. The suit alleges that from mid-2003 defendants have violated antitrust laws by allegedly conspiring to rig bids, restrict the supply of private equity financing, fix the prices for target companies at artificially low levels, and divide up an alleged market for private equity services for leveraged buyouts. The complaint seeks injunctive relief on behalf of all persons who sold securities to any of the defendants in leveraged buyout transactions. The amended complaint also includes five purported sub-classes of plaintiffs seeking damages and/or restitution and comprised of shareholders of five companies.

In the spring of 2008, six substantially identical complaints were brought against Blackstone and some of its executive officers purporting to be class actions on behalf of purchasers of common units in Blackstone’s June 2007 initial public offering. These suits were subsequently consolidated into one complaint filed in the Southern District of New York in October 2008 against Blackstone, Stephen A. Schwarzman (Blackstone’s Chairman and Chief Executive Officer), Peter G. Peterson (Blackstone’s former Senior Chairman), Hamilton E. James (Blackstone’s President and Chief Operating Officer) and Michael A. Puglisi (Blackstone’s Chief Financial Officer at the time of the IPO). The amended complaint alleged that (1) the IPO prospectus was false and misleading for failing to disclose that (a) certain investments made by Blackstone’s private equity funds were performing poorly at the time of the IPO and were materially impaired and (b) prior to the IPO the U.S. real estate market had started to deteriorate, adversely affecting the value of Blackstone’s real estate investments; and (2) the financial statements in the IPO prospectus were materially inaccurate principally because they overstated the value of the investments referred to in clause (1). In September 2009 the District Court judge dismissed the complaint with prejudice, ruling that even if the allegations in the complaint were assumed to be true, the alleged omissions were immaterial. The plaintiffs have appealed the District Court’s ruling.

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

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

For a discussion of our potential risks and uncertainties, see the information under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2009 and in our subsequently filed Quarterly Reports on Form 10-Q, all of which are accessible on the Securities and Exchange Commission’s website at [www.sec.gov](http://www.sec.gov).

See Part I. Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Business Environment” in this report for a discussion of the conditions in the financial markets and economic conditions affecting our businesses. This discussion updates, and should be read together with, the risk factor entitled “Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments made by our investment funds, reducing the ability of our investment funds to raise or deploy capital and reducing the volume of the transactions involving our financial advisory business, each of which could materially reduce our revenue and cash flows and adversely affect our financial condition” in our Annual Report on Form 10-K for the year ended December 31, 2009.

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

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

In January 2008, the Board of Directors authorized the repurchase of up to \$500 million of Blackstone common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased in open market transactions, in privately negotiated transactions or otherwise. The unit repurchase program may be suspended or discontinued at any time and does not have a final specified date. No purchases of our common units were made by us or on our behalf during the three months ended September 30, 2010. See “Part I. Item 1. Financial Statements — Notes to Condensed Consolidated Financial Statements — Note 13. Net Loss Per Common Unit” and “Part I. Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Our Sources of Cash and Liquidity Needs” for further information regarding this unit repurchase program.

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

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. (REMOVED AND RESERVED)**

**ITEM 5. OTHER INFORMATION**

None.

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## Table of Contents

### ITEM 6. EXHIBITS

<u>Exhibit Number</u>	<u>Exhibit Description</u>
4.4	Second Supplemental Indenture dated as of September 20, 2010, among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on September 22, 2010).
4.5	Form of 5.875% Senior Note due 2021 (included in Exhibit 4.4 hereto).
10.6.1	Amended and Restated Exchange Agreement, dated as of November 2, 2010, among The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and the Blackstone Holdings Limited Partners party thereto.
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

\* XBRL (Extensible Business Reporting Language) information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

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

**SIGNATURES**

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

Date: November 5, 2010

**The Blackstone Group L.P.**

By: Blackstone Group Management L.L.C.,  
its general partner

\_\_\_\_\_  
/ s / L AURENCE A. T OSI  
Name: Laurence A. Tosi  
Title: Chief Financial Officer  
(Principal Financial Officer and Authorized Signatory)

## AMENDED AND RESTATED EXCHANGE AGREEMENT

AMENDED AND RESTATED EXCHANGE AGREEMENT (the “Agreement”), dated as of November 2, 2010, among The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P., and the Blackstone Holdings Limited Partners from time to time party hereto.

WHEREAS, the parties hereto desire to provide for the exchange of certain Blackstone Holdings Partnership Units for Common Units, on the terms and subject to the conditions set forth herein;

WHEREAS, the right to exchange Blackstone Holdings Partnership Units set forth in Section 2.1(a) below, once exercised, represents a several, and not a joint and several, obligation of the Blackstone Holdings Partnerships (on a *pro rata* basis), and no Blackstone Holdings Partnership shall have any obligation or right to acquire Blackstone Holdings Partnership Units issued by another Blackstone Holdings Partnership;

NOW, THEREFORE, in consideration of the mutual covenants and undertakings contained herein and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

### ARTICLE I

#### DEFINITIONS

##### SECTION 1.1. Definitions

The following definitions shall be for all purposes, unless otherwise clearly indicated to the contrary, applied to the terms used in this Agreement.

“A Exchange” has the meaning set forth in Section 2.1(a)(i) of this Agreement.

“Agreement” has the meaning set forth in the preamble of this Agreement.

“B Exchange” has the meaning set forth in Section 2.1(a)(i)(ii) of this Agreement.

“Blackstone Holdings I” means Blackstone Holdings I L.P., a limited partnership formed under the laws of the State of Delaware, and any successor thereto.

“Blackstone Holdings II” means Blackstone Holdings II L.P., a limited partnership formed under the laws of the State of Delaware, and any successor thereto.

“Blackstone Holdings I/II General Partner” means Blackstone Holdings I/II GP Inc., a corporation formed under the laws of the State of Delaware and the general partner of Blackstone Holdings I and Blackstone Holdings II, and any successor general partner thereof.

“Blackstone Holdings III” means Blackstone Holdings III L.P., a société en commandite formed under the laws of the Province of Québec, and any successor thereto.

“ Blackstone Holdings III General Partner ” means Blackstone Holdings III GP L.P., a limited partnership formed under the laws of the State of Delaware, and the general partner of Blackstone Holdings III, and any successor general partner thereof.

“ Blackstone Holdings IV ” means Blackstone Holdings IV L.P., a société en commandite formed under the laws of the Province of Québec, and any successor thereto.

“ Blackstone Holdings IV General Partner ” means Blackstone Holdings IV GP L.P., a société en commandite formed under the laws of the Province of Québec and the general partner of Blackstone Holdings IV, and any successor general partner thereof.

“ Blackstone Holdings General Partners ” means, collectively, Blackstone Holdings I/II General Partner, Blackstone Holdings III General Partner and Blackstone Holdings IV General Partner.

“ Blackstone Holdings Limited Partner ” means each Person that is as of the date of this Agreement or becomes from time to time a limited partner of each of the Blackstone Holdings Partnerships pursuant to the terms of the Blackstone Holdings Partnership Agreements.

“ Blackstone Holdings Partnership Agreements ” means, collectively, the Amended and Restated Limited Partnership Agreement of Blackstone Holdings I, the Amended and Restated Limited Partnership Agreement of Blackstone Holdings II, the Second Amended and Restated Limited Partnership Agreement of Blackstone Holdings III and the Second Amended and Restated Limited Partnership Agreement of Blackstone Holdings IV, as they may each be amended, supplemented or restated from time to time.

“ Blackstone Holdings Partnership Unit ” means, collectively, one unit of partnership interest in each of Blackstone Holdings I, Blackstone Holdings II, Blackstone Holdings III and Blackstone Holdings IV, issued pursuant to their respective Blackstone Holdings Partnership Agreements.

“ Blackstone Holdings Partnerships ” means, collectively, Blackstone Holdings I, Blackstone Holdings II, Blackstone Holdings III and Blackstone Holdings IV.

“ Business Day ” means each day that is not a Saturday, Sunday or other day on which banking institutions in New York, New York are authorized or required by law to close.

“ Charity ” means any organization that is organized and operated for a purpose described in Section 170(c) of the Code (determined without reference to Section 170(c)(2)(A) of the Code) and described in Sections 2055(a) and 2522 of the Code.

“ Code ” means the Internal Revenue Code of 1986, as amended.

“ Common Unit ” means a partnership interest in the Issuer representing a fractional part of the partnership interests in the Issuer of all limited partners of the Issuer having the rights and obligations specified with respect to Common Units in the Issuer Partnership Agreement.

“Exchange Rate” means the number of Common Units for which a Blackstone Holdings Partnership Unit is entitled to be exchanged. On the date of this Agreement, the Exchange Rate shall be 1 for 1, which Exchange Rate shall be subject to modification as provided in Section 2.4.

“Issuer” means The Blackstone Group L.P., a limited partnership formed under the laws of the State of Delaware, and any successor thereto.

“Insider Trading Policy” means the Insider Trading Policy of the Issuer applicable to the directors and executive officers of its general partner, as such insider trading policy may be amended from time to time.

“Issuer Partnership Agreement” means the Amended and Restated Agreement of Limited Partnership of the Issuer dated as of June 27, 2007, as amended by Amendment No. 1, dated as of November 3, 2009, and as such agreement of limited partnership may be further amended, supplemented or restated from time to time.

“Person” means an individual or a corporation, limited liability company, partnership, joint venture, trust, estate, unincorporated organization, association (including any group, organization, co-tenancy, plan, board, council or committee), government (including a country, state, county, or any other governmental or political subdivision, agency or instrumentality thereof) or other entity (or series thereof).

“Quarter” means, unless the context requires otherwise, a fiscal quarter of the Issuer.

“Quarterly Exchange Date” means, unless the Issuer cancels such Quarterly Exchange Date pursuant to Section 2.9 hereof, the date that is the later to occur of either: (1) the second Business Day after the date on which the Issuer makes a public news release of its quarterly earnings for the prior Quarter or (2) the first day each Quarter that directors and executive officers of the Issuer’s general partner are permitted to trade under the Insider Trading Policy.

“Sale Transaction” has the meaning set forth in Section 2.9 of this Agreement.

“Transfer Agent” means such bank, trust company or other Person as shall be appointed from time to time by the Issuer pursuant to the Issuer Partnership Agreement to act as registrar and transfer agent for the Common Units.

## ARTICLE II

### EXCHANGE OF BLACKSTONE HOLDINGS PARTNERSHIP UNITS

#### SECTION 2.1. Exchange of Blackstone Holdings Partnership Units.

(a) Subject to adjustment as provided in this Article II, to the provisions of the Blackstone Holdings Partnership Agreements and the Issuer Partnership Agreement and to the provisions of Section 2.2 hereof, each Blackstone Holdings Limited Partner shall be entitled to exchange Blackstone Holdings Partnership Units held by such Blackstone Holdings Limited Partner on any Quarterly Exchange Date as follows; provided that any such exchange is for a

minimum of the lesser of 1,000 Blackstone Holdings Partnership Units or all of the vested Blackstone Holdings Partnership Units held by such Blackstone Holdings Limited Partner:

(i) For the purpose of making a gratuitous transfer to any Charity, a Blackstone Holdings Limited Partner may surrender Blackstone Holdings Partnership Units to the Issuer in exchange for the delivery by the Issuer of a number of Common Units equal to the product of the number of Blackstone Holdings Partnership Units surrendered multiplied by the Exchange Rate (such exchange, an “A Exchange”); or

(ii) A Blackstone Holdings Limited Partner may surrender Blackstone Holdings Partnership Units to the Blackstone Holdings Partnerships in exchange for the delivery by the Blackstone Holdings Partnerships of a number of Common Units equal to the product of such number of Blackstone Holdings Partnership Units surrendered multiplied by the Exchange Rate (such exchange, a “B Exchange”).

(b) On the date Blackstone Holdings Partnership Units are surrendered for exchange, all rights of the exchanging Blackstone Holdings Limited Partner as holder of such Blackstone Holdings Partnership Units shall cease, and such exchanging Blackstone Holdings Limited Partner shall be treated for all purposes as having become the Record Holder (as defined in the Issuer Partnership Agreement) of such Common Units and shall be admitted as a Limited Partner (as defined in the Issuer Partnership Agreement) of the Issuer in accordance and upon compliance with Section 10.2 of the Issuer Partnership Agreement.

(c) For the avoidance of doubt, any exchange of Blackstone Holdings Partnership Units shall be subject to the provisions of the Blackstone Holdings Partnership Agreements, including without limitation the provisions of Sections 8.01, 8.03 and 8.04.

**SECTION 2.2. Exchange Procedures.** (a) A Blackstone Holdings Limited Partner may exercise the right to exchange Blackstone Holdings Partnership Units set forth in Section 2.1(a) above by providing a written notice of exchange at least sixty (60) days prior to the applicable Quarterly Exchange Date to: (i) in the case of an A Exchange, the Issuer substantially in the form of Exhibit A hereto, and (ii) in the case of a B Exchange, each of the Blackstone Holdings General Partners substantially in the form of Exhibit B hereto, duly executed by such holder or such holder’s duly authorized attorney in respect of the Blackstone Holdings Partnership Units to be exchanged, in each case delivered during normal business hours at the principal executive offices of the Issuer or the Blackstone Holdings General Partners, as applicable.

(b) As promptly as practicable following the surrender for exchange of Blackstone Holdings Partnership Units in the manner provided in this Article II, the Issuer, in the case of an A Exchange, or the Blackstone Holdings Partnerships, in the case of a B Exchange, shall deliver or cause to be delivered at the principal executive offices of the Issuer or at the office of the Transfer Agent the number of Common Units issuable upon such exchange, issued in the name of such exchanging Blackstone Holdings Limited Partner.

(c) The Issuer, in the case of an A Exchange, or the Blackstone Holdings Partnerships, in the case of a B Exchange, may adopt reasonable procedures for the implementation of the exchange provisions set forth in this Article II, including, without limitation, procedures for the giving of notice of an election for exchange.



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### SECTION 2.3. Blackout Periods and Ownership Restrictions.

(a) Notwithstanding anything to the contrary, a Blackstone Holdings Limited Partner shall not be entitled to exchange Blackstone Holdings Partnership Units, and the Issuer and the Blackstone Holdings Partnerships shall have the right to refuse to honor any request for exchange of Blackstone Holdings Partnership Units, (i) at any time or during any period if the Issuer or the Blackstone Holdings Partnerships shall determine, based on the advice of counsel (which may be inside counsel), that there may be material non-public information that may affect the trading price per Common Unit at such time or during such period, (ii) if such exchange would be prohibited under applicable law or regulation, or (iii) unless the general partner of the Issuer provides its prior written consent, in the case of a Category 1 Limited Partner, Category 2 Limited Partner, Category 3 Limited Partner, Category 4 Limited Partner, or Category 5 Limited Partner (in each case as defined in the Blackstone Holdings Partnership Agreements), if such Blackstone Holdings Limited Partner, at the time of such request for exchange, is, for U.S. federal income tax purposes, a partner of the Issuer.

### SECTION 2.4. Splits, Distributions and Reclassifications.

(a) The Exchange Rate shall be adjusted accordingly if there is: (1) any subdivision (by split, distribution, reclassification, recapitalization or otherwise) or combination (by reverse split, reclassification, recapitalization or otherwise) of the Blackstone Holdings Partnership Units that is not accompanied by an identical subdivision or combination of the Common Units; or (2) any subdivision (by split, distribution, reclassification, recapitalization or otherwise) or combination (by reverse split, reclassification, recapitalization or otherwise) of the Common Units that is not accompanied by an identical subdivision or combination of the Blackstone Holdings Partnership Units. In the event of a reclassification or other similar transaction as a result of which the Common Units are converted into another security, then a Blackstone Holdings Limited Partner shall be entitled to receive upon exchange the amount of such security that such Blackstone Holdings Limited Partner would have received if such exchange had occurred immediately prior to the effective date of such reclassification or other similar transaction. Except as may be required in the immediately preceding sentence, no adjustments in respect of distributions shall be made upon the exchange of any Blackstone Holdings Partnership Unit.

### SECTION 2.5. Common Units to be Issued.

(a) The Issuer covenants that if any Common Units require registration with or approval of any governmental authority under any U.S. federal or state law before such Common Units may be issued upon exchange pursuant to this Article II, the Issuer shall use commercially reasonable efforts to cause such Common Units to be duly registered or approved, as the case may be. The Issuer shall use commercially reasonable efforts to list the Common Units required to be delivered upon exchange prior to such delivery upon each national securities exchange or inter-dealer quotation system upon which the outstanding Common Units may be listed or traded at the time of such delivery. Nothing contained herein shall be construed to

preclude the Issuer or the Blackstone Holdings Partnership from satisfying their obligations in respect of the exchange of the Blackstone Holdings Partnership Units by delivery of Common Units which are held in the treasury of the Issuer or the Blackstone Holdings Partnership or any of their subsidiaries.

**SECTION 2.6. Taxes.**

(a) The delivery of Common Units upon exchange of Blackstone Holdings Partnership Units shall be made without charge to the Blackstone Holdings Limited Partners for any stamp or other similar tax in respect of such issuance.

**SECTION 2.7. Restrictions.**

(a) The provisions of Sections 8.02, 8.03 (other than paragraphs (a), (b) and (d)), 8.04 and 8.06 of the Blackstone Holdings Partnership Agreements shall apply, mutatis mutandis, to any Common Units issued upon exchange of Blackstone Holdings Partnership Units; and the provisions of paragraphs (b) and (d) of Section 8.03 of the Blackstone Holdings Partnership Agreements shall permit Transfers of Common Units issued upon exchange of Blackstone Holdings Partnership Units to the same extent as Exchange Transactions (as defined in the Blackstone Holdings Partnership Agreements) with respect to Blackstone Holdings Partnership Units may be permitted under such provisions. In each case, the provisions of Sections 8.03 and 8.04 of the Blackstone Holdings Partnership Agreements shall apply in the aggregate to Blackstone Holdings Partnership Units and Common Units received in exchange for Blackstone Holdings Partnership Units held by each Blackstone Holdings Limited Partner or Limited Partner (as defined in the Issuer Partnership Agreement) of the Issuer.

**SECTION 2.8. Disposition of Common Units Issued.**

(a) A Blackstone Holdings Limited Partner requesting an exchange under this Agreement covenants to use reasonable best efforts to sell or otherwise dispose of any Common Units received in such an exchange within ten (10) days of the receipt thereof or any other specified period as the general partner of the Issuer determines to be in the best interests of the Issuer, and that no other Common Units will be acquired or held by such Blackstone Holdings Limited Partner during such period. Any Blackstone Holdings Limited Partner holding any Common Units on the last day of such period shall cause all such Common Units to be transferred immediately to a partnership, trust or other entity (other than an entity disregarded as an entity separate from its parent for United States federal income tax purposes).

**SECTION 2.9. Subsequent Offerings.**

(a) The Issuer may from time to time provide the opportunity for Blackstone Holdings Limited Partners to sell their Blackstone Holdings Partnership Units to the Issuer, the Blackstone Holdings Partnerships or any of their subsidiaries (a “Sale Transaction”); provided that no Sale Transaction shall occur unless the Issuer cancels the nearest Quarterly Exchange Date scheduled to occur in the same fiscal year of the Issuer as such Sale Transaction. A Blackstone Limited Partner selling Blackstone Holdings Partnership Units in connection with a Sale Transaction must provide notice to Issuer at least thirty (30) days prior to the cash settlement of such Sale Transaction in respect of the Blackstone Holdings Partnership Units to be

sold, in each case delivered during normal business hours at the principal executive offices of the Issuer. For the avoidance of doubt, the total aggregate number of Quarterly Exchange Dates and Sale Transactions occurring during any fiscal year of the Issuer shall not exceed four (4).

### ARTICLE III

#### GENERAL PROVISIONS

SECTION 3.1. Amendment. (a) The provisions of this Agreement may be amended by the affirmative vote or written consent of: (i) in the case of matters relating solely to A Exchanges, the Issuer and each of the Blackstone Holdings Partnerships and, after a Change of Control (as such term as defined in the Blackstone Holdings Partnership Agreements), the holders of at least a majority of the Vested Percentage Interests (as such term as defined in the Blackstone Holdings Partnership Agreements) of the holders of Blackstone Holdings Partnership Units (excluding Blackstone Holdings Partnership Units held by the Issuer and the Blackstone Holdings General Partners), and (ii) for all other matters, each of the Blackstone Holdings Partnerships and, after a Change of Control (as such term as defined in the Blackstone Holdings Partnership Agreements), the holders of at least a majority of the Vested Percentage Interests (as such term as defined in the Blackstone Holdings Partnership Agreements) of the Blackstone Holdings Partnership Units (excluding Blackstone Holdings Partnership Units held by the Issuer and the Blackstone Holdings General Partners).

(b) Each Blackstone Holdings Limited Partner hereby expressly consents and agrees that, whenever in this Agreement it is specified that an action may be taken upon the affirmative vote or written consent of less than all of the Blackstone Holdings Limited Partners, such action may be so taken upon the concurrence of less than all of the Blackstone Holdings Limited Partners and each Blackstone Holdings Limited Partner shall be bound by the results of such action.

SECTION 3.2. Addresses and Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given (and shall be deemed to have been duly given upon receipt) by delivery in person, by courier service, by fax, by electronic mail (delivery receipt requested) or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties at the following addresses (or at such other address for a party as shall be as specified in a notice given in accordance with this Section 3.2):

(a) If to the Issuer, to:

345 Park Avenue  
New York, New York 10154  
Attention: Chief Legal Officer  
Fax: (212) 583-5660  
Electronic Mail: john.finley@blackstone.com

(b) If to Blackstone Holdings I L.P.  
Blackstone Holdings II L.P.  
Blackstone Holdings III L.P.

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Blackstone Holdings IV L.P., to:

345 Park Avenue  
New York, New York, 10154  
Attention: Chief Legal Officer  
Fax: (212) 583-5660  
Electronic Mail: john.finley@blackstone.com

(c) If to any Blackstone Holdings Limited Partner, to:

c/o The Blackstone Group L.P.  
345 Park Avenue New York,  
New York 10154  
Attention: Chief Legal Officer  
Fax: (212) 583-5660  
Electronic Mail: john.finley@blackstone.com

SECTION 3.3. Further Action. The parties shall execute and deliver all documents, provide all information and take or refrain from taking action as may be necessary or appropriate to achieve the purposes of this Agreement.

SECTION 3.4. Binding Effect. This Agreement shall be binding upon and inure to the benefit of all of the parties and, to the extent permitted by this Agreement, their successors, executors, administrators, heirs, legal representatives and assigns.

SECTION 3.5. Severability. If any term or other provision of this Agreement is held to be invalid, illegal or incapable of being enforced by any rule of law, or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions is not affected in any manner materially adverse to any party. Upon a determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the fullest extent possible.

SECTION 3.6. Integration. This Agreement constitutes the entire agreement among the parties hereto pertaining to the subject matter hereof and supersedes all prior agreements and understandings pertaining thereto.

SECTION 3.7. Waiver. No failure by any party to insist upon the strict performance of any covenant, duty, agreement or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute waiver of any such breach of any other covenant, duty, agreement or condition.

**SECTION 3.8. Submission to Jurisdiction; Waiver of Jury Trial.**

(a) Any and all disputes which cannot be settled amicably, including any ancillary claims of any party, arising out of, relating to or in connection with the validity, negotiation, execution, interpretation, performance or non-performance of this Agreement (including the validity, scope and enforceability of this arbitration provision) shall be finally settled by arbitration conducted by a single arbitrator in New York in accordance with the then-existing Rules of Arbitration of the International Chamber of Commerce. If the parties to the dispute fail to agree on the selection of an arbitrator within thirty (30) days of the receipt of the request for arbitration, the International Chamber of Commerce shall make the appointment. The arbitrator shall be a lawyer and shall conduct the proceedings in the English language. Performance under this Agreement shall continue if reasonably possible during any arbitration proceedings.

(b) Notwithstanding the provisions of paragraph (a), in the case of matters relating to an A Exchange, the Issuer may bring, and in the case of matters relating to a B Exchange, the Blackstone Holdings Partnerships may cause any Blackstone Holdings Partnership to bring, on behalf of the Issuer or such Blackstone Holdings Partnership or on behalf of one or more Blackstone Holdings Limited Partners, an action or special proceeding in any court of competent jurisdiction for the purpose of compelling a party to arbitrate, seeking temporary or preliminary relief in aid of an arbitration hereunder, and/or enforcing an arbitration award and, for the purposes of this paragraph (b), each Blackstone Holdings Limited Partner (i) expressly consents to the application of paragraph (c) of this Section 3.8 to any such action or proceeding, (ii) agrees that proof shall not be required that monetary damages for breach of the provisions of this Agreement would be difficult to calculate and that remedies at law would be inadequate, and (iii) irrevocably appoints the Issuer, in the case of matters relating to an A Exchange, or the Blackstone Holdings Partnerships, in the case of matters relating to a B Exchange, as such Blackstone Holdings Limited Partner's agents for service of process in connection with any such action or proceeding and agrees that service of process upon such agent, who shall promptly advise such Blackstone Holdings Limited Partner of any such service of process, shall be deemed in every respect effective service of process upon the Blackstone Holdings Limited Partner in any such action or proceeding.

(c) (i) EACH BLACKSTONE HOLDINGS LIMITED PARTNER HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF COURTS LOCATED IN NEW YORK, NEW YORK FOR THE PURPOSE OF ANY JUDICIAL PROCEEDING BROUGHT IN ACCORDANCE WITH THE PROVISIONS OF THIS SECTION 3.8, OR ANY JUDICIAL PROCEEDING ANCILLARY TO AN ARBITRATION OR CONTEMPLATED ARBITRATION ARISING OUT OF OR RELATING TO OR CONCERNING THIS AGREEMENT. Such ancillary judicial proceedings include any suit, action or proceeding to compel arbitration, to obtain temporary or preliminary judicial relief in aid of arbitration, or to confirm an arbitration award. The parties acknowledge that the fora designated by this paragraph (c) have a reasonable relation to this Agreement, and to the parties' relationship with one another.

(ii) The parties hereby waive, to the fullest extent permitted by applicable law, any objection which they now or hereafter may have to personal

jurisdiction or to the laying of venue of any such ancillary suit, action or proceeding brought in any court referred to in the preceding paragraph of this Section 3.8 and such parties agree not to plead or claim the same.

(d) Notwithstanding any provision of this Agreement to the contrary, this Section 3.8 shall be construed to the maximum extent possible to comply with the laws of the State of Delaware, including the Delaware Uniform Arbitration Act (10 Del. C. § 5701 et seq.) (the “Delaware Arbitration Act”). If, nevertheless, it shall be determined by a court of competent jurisdiction that any provision or wording of this Section 3.8, including any rules of the International Chamber of Commerce, shall be invalid or unenforceable under the Delaware Arbitration Act, or other applicable law, such invalidity shall not invalidate all of this Section 3.8. In that case, this Section 3.8 shall be construed so as to limit any term or provision so as to make it valid or enforceable within the requirements of the Delaware Arbitration Act or other applicable law, and, in the event such term or provision cannot be so limited, this Section 3.8 shall be construed to omit such invalid or unenforceable provision.

SECTION 3.9. Counterparts. This Agreement may be executed and delivered (including by facsimile transmission) in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed and delivered shall be deemed to be an original but all of which taken together shall constitute one and the same agreement. Copies of executed counterparts transmitted by telecopy or other electronic transmission service shall be considered original executed counterparts for purposes of this Section 3.9.

SECTION 3.10. Tax Treatment. To the extent this Agreement imposes obligations upon a particular Blackstone Holdings Partnership or a Blackstone Holdings General Partner, this Agreement shall be treated as part of the relevant Blackstone Holdings Partnership Agreement as described in Section 761(c) of the Code and Sections 1.704-1(b)(2)(ii)(h) and 1.761-1(c) of the Treasury Regulations. As required by the Code and the Treasury Regulations, the parties shall report any B Exchange consummated hereunder as a taxable sale of Blackstone Holdings Partnership Units by a Blackstone Holdings Limited Partner to Blackstone Holdings I/II General Partner, Blackstone Holdings III General Partner or Blackstone Holdings IV General Partner, as the case may be, and no party shall take a contrary position on any income tax return, amendment thereof or communication with a taxing authority.

SECTION 3.11. Applicable Law. This Agreement shall be governed by, and construed in accordance with, the law of the State of Delaware.

[Remainder of Page Intentionally Left Blank]

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IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed and delivered, all as of the date first set forth above.

THE BLACKSTONE GROUP L.P.

By: Blackstone Group Management L.L.C., its general partner

By: /s/ John G. Finley

Name: John G. Finley

Title: Chief Legal Officer

BLACKSTONE HOLDINGS I L.P.

By: Blackstone Holdings I/II GP Inc., its general partner

By: /s/ John G. Finley

Name: John G. Finley

Title: Chief Legal Officer

BLACKSTONE HOLDINGS II L.P.

By: Blackstone Holdings I/II GP Inc., its general partner

By: /s/ John G. Finley

Name: John G. Finley

Title: Chief Legal Officer

BLACKSTONE HOLDINGS III L.P.

By: Blackstone Holdings III GP L.P., its general partner

By: Blackstone Holdings III GP Management  
L.L.C., its general partner

By: /s/ John G. Finley

Name: John G. Finley

Title: Chief Legal Officer

[Amended and Restated Exchange Agreement]

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BLACKSTONE HOLDINGS IV L.P.

By: Blackstone Holdings IV GP L.P., its general partner

By: Blackstone Holdings IV GP Management

(Delaware) L.P., its general partner

By: Blackstone Holdings IV GP Management

L.L.C., its general partner

By: /s/ John G. Finley

Name: John G. Finley

Title: Chief Legal Officer

[Amended and Restated Exchange Agreement]



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**EXHIBIT A**

**[FORM OF]  
NOTICE OF A EXCHANGE**

The Blackstone Group L.P.  
345 Park Avenue  
New York, New York 10154  
Attention: Chief Legal Officer  
Fax: (212) 583-5660  
Electronic Mail: john.finley@blackstone.com

Reference is hereby made to the Amended and Restated Exchange Agreement, dated as of November 2, 2010 (the “Exchange Agreement”), among The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P., and the Blackstone Holdings Limited Partners from time to time party thereto, as amended from time to time. Capitalized terms used but not defined herein shall have the meanings given to them in the Exchange Agreement.

The undersigned Blackstone Holdings Limited Partner desires to exchange the number of Blackstone Holdings Partnership Units set forth below in the form of exchange selected below to be issued in its name as set forth below.

Legal Name of Blackstone Holdings Limited Partner: \_\_\_\_\_

Address: \_\_\_\_\_

Number of Blackstone Holdings Partnership Units to be exchanged: \_\_\_\_\_

The undersigned (1) hereby represents that the Blackstone Holdings Partnership Units set forth above are owned by the undersigned, (2) hereby exchanges such Blackstone Holdings Partnership Units for Common Units as set forth in the Exchange Agreement, (3) hereby irrevocably constitutes and appoints any officer of the Blackstone Holdings Partnerships, the Blackstone Holdings General Partners, the Issuer or Blackstone Group Management L.L.C. as its attorney, with full power of substitution, to exchange said Blackstone Holdings Partnership Units on the books of the Blackstone Holdings Partnerships for Common Units on the books of the Issuer, with full power of substitution in the premises.

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IN WITNESS WHEREOF the undersigned, by authority duly given, has caused this Notice of Exchange to be executed and delivered by the undersigned or by its duly authorized attorney.

\_\_\_\_\_  
Name:

Dated: \_\_\_\_\_

**EXHIBIT B**  
[FORM OF]  
NOTICE OF B EXCHANGE

Blackstone Holdings I L.P.  
Blackstone Holdings II L.P.  
Blackstone Holdings III L.P.  
Blackstone Holdings IV L.P.  
345 Park Avenue  
New York, New York, 10154  
Attention: Chief Legal Officer  
Fax: (212) 583-5660  
Electronic Mail: john.finley@blackstone.com

Reference is hereby made to the Amended and Restated Exchange Agreement, dated as of November 2, 2010 (the “Exchange Agreement”), among The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P., and the Blackstone Holdings Limited Partners from time to time party thereto, as amended from time to time. Capitalized terms used but not defined herein shall have the meanings given to them in the Exchange Agreement.

The undersigned Blackstone Holdings Limited Partner desires to exchange the number of Blackstone Holdings Partnership Units set forth below in the form of exchange selected below to be issued in its name as set forth below.

Legal Name of Blackstone Holdings Limited Partner: \_\_\_\_\_

Address: \_\_\_\_\_

Number of Blackstone Holdings Partnership Units to be exchanged: \_\_\_\_\_

The undersigned (1) hereby represents that the Blackstone Holdings Partnership Units set forth above are owned by the undersigned, (2) hereby exchanges such Blackstone Holdings Partnership Units for Common Units as set forth in the Exchange Agreement, (3) hereby irrevocably constitutes and appoints any officer of the Blackstone Holdings Partnerships, the Blackstone Holdings General Partners, the Issuer or Blackstone Group Management L.L.C. as its attorney, with full power of substitution, to exchange said Blackstone Holdings Partnership Units on the books of the Blackstone Holdings Partnerships for Common Units on the books of the Issuer, with full power of substitution in the premises.

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IN WITNESS WHEREOF the undersigned, by authority duly given, has caused this Notice of Exchange to be executed and delivered by the undersigned or by its duly authorized attorney.

\_\_\_\_\_  
Name:

Dated: \_\_\_\_\_

**CHIEF EXECUTIVE OFFICER CERTIFICATION**

I, Stephen A. Schwarzman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 of The Blackstone Group L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 5, 2010

/s/ Stephen A. Schwarzman

Stephen A. Schwarzman

Chief Executive Officer

of Blackstone Group Management L.L.C.

**CHIEF FINANCIAL OFFICER CERTIFICATION**

I, Laurence A. Tosi, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 of The Blackstone Group L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 5, 2010

/s/ Laurence A. Tosi

Laurence A. Tosi  
Chief Financial Officer  
of Blackstone Group Management L.L.C.

**Certification of the Chief Executive Officer  
Pursuant to 18 U.S.C. Section 1350,  
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of The Blackstone Group L.P. (the "Partnership") on Form 10-Q for the quarter ended September 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen A. Schwarzman, Chief Executive Officer of Blackstone Group Management L.L.C., the general partner of the Partnership, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date: November 5, 2010

/s/ Stephen A. Schwarzman

Stephen A. Schwarzman

Chief Executive Officer

of Blackstone Group Management L.L.C.

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\* The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

**Certification of the Chief Financial Officer**  
**Pursuant to 18 U.S.C. Section 1350,**  
**As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of The Blackstone Group L.P. (the "Partnership") on Form 10-Q for the quarter ended September 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Laurence A. Tosi, Chief Financial Officer of Blackstone Group Management L.L.C., the general partner of the Partnership, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date: November 5, 2010

/s/ Laurence A. Tosi  
\_\_\_\_\_  
Laurence A. Tosi  
Chief Financial Officer  
of Blackstone Group Management L.L.C.

\* The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.