# BLACKSTONE GROUP L.P.

# FORM 10-Q
(Quarterly Report)

Filed 08/05/11 for the Period Ending 06/30/11

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

# FORM 10-Q

**(Mark One)**

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

**OR**

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

**Commission File Number: 001-33551**

# The Blackstone Group L.P.
**(Exact name of Registrant as specified in its charter)**

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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 ☐ (Do not check if a smaller reporting company) | Smaller reporting company ☐ |

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

The number of the Registrant's voting common units representing limited partner interests outstanding as of July 29, 2011 was 367,444,752. The number of the Registrant's non-voting common units representing limited partner interests outstanding as of July 29, 2011 was 109,083,468.

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**Forward-Looking Statements**

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as "outlook," "believes," "expects," "potential," "continues," "may," "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, 2010 and in this report, as such factors may be updated from time to time in our periodic filings with the SEC, which are accessible on the SEC's website at www.sec.gov. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

### THE BLACKSTONE GROUP L.P.

**Condensed Consolidated Statements of Financial Condition (Unaudited)**
**(Dollars in Thousands, Except Unit Data)**

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| **Assets** | | |
| Cash and Cash Equivalents | $ 434,803 | $ 588,621 |
| Cash Held by Blackstone Funds and Other | 996,666 | 790,399 |
| Investments (including assets pledged of $76,997 and $62,670 at June 30, 2011 and December 31, 2010, respectively) | 15,319,002 | 11,974,472 |
| Accounts Receivable | 528,960 | 495,893 |
| Reverse Repurchase Agreements | 93,975 | 181,425 |
| Due from Affiliates | 756,056 | 795,395 |
| Intangible Assets, Net | 720,134 | 779,311 |
| Goodwill | 1,703,602 | 1,703,602 |
| Other Assets | 339,986 | 293,194 |
| Deferred Tax Assets | 1,437,947 | 1,242,293 |
| **Total Assets** | $22,331,131 | $18,844,605 |
| **Liabilities and Partners' Capital** | | |
| Loans Payable | $ 9,300,142 | $ 7,198,898 |
| Due to Affiliates | 1,881,290 | 1,762,287 |
| Accrued Compensation and Benefits | 980,558 | 821,568 |
| Securities Sold, Not Yet Purchased | 74,897 | 116,688 |
| Repurchase Agreements | 77,198 | 62,672 |
| Accounts Payable, Accrued Expenses and Other Liabilities | 735,814 | 629,135 |
| **Total Liabilities** | 13,049,899 | 10,591,248 |
| **Commitments and Contingencies** | | |
| **Redeemable Non-Controlling Interests in Consolidated Entities** | 775,185 | 600,836 |
| **Partners' Capital** | | |
| Partners' Capital (common units: 478,349,193 issued and outstanding as of June 30, 2011; 416,092,022 issued and outstanding as of December 31, 2010) | 4,391,399 | 3,888,211 |
| Appropriated Partners' Capital | 211,758 | 470,583 |
| Accumulated Other Comprehensive Income | 2,630 | 4,302 |
| Non-Controlling Interests in Consolidated Entities | 1,175,984 | 870,908 |
| Non-Controlling Interests in Blackstone Holdings | 2,724,276 | 2,418,517 |
| **Total Partners' Capital** | 8,506,047 | 7,652,521 |
| **Total Liabilities and Partners' Capital** | $22,331,131 | $18,844,605 |

continued…

See notes to condensed consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**

**Condensed Consolidated Statements of Financial Condition (Unaudited)**
**(Dollars in Thousands)**

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

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| **Assets** | | |
| Cash Held by Blackstone Funds and Other | $ 879,166 | $ 707,622 |
| Investments | 9,181,088 | 7,424,329 |
| Accounts Receivable | 40,965 | 22,380 |
| Due from Affiliates | 31,175 | 30,182 |
| Other Assets | 115,771 | 19,823 |
| **Total Assets** | $10,248,165 | $8,204,336 |
| **Liabilities** | | |
| Loans Payable | $ 8,267,661 | $6,154,179 |
| Due to Affiliates | 327,878 | 304,969 |
| Accounts Payable, Accrued Expenses and Other | 388,909 | 330,675 |
| **Total Liabilities** | $ 8,984,448 | $6,789,823 |

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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| **Revenues** | | | | |
| Management and Advisory Fees | $ 498,040 | $ 406,062 | $ 910,778 | $ 760,882 |
| Performance Fees | | | | |
| Realized | 61,763 | 51,750 | 157,966 | 105,799 |
| Unrealized | 610,488 | (19,299) | 1,122,889 | 112,480 |
| Total Performance Fees | 672,251 | 32,451 | 1,280,855 | 218,279 |
| Investment Income (Loss) | | | | |
| Realized | 19,303 | 10,225 | 32,086 | 15,951 |
| Unrealized | 108,711 | 95,043 | 216,106 | 244,263 |
| Total Investment Income (Loss) | 128,014 | 105,268 | 248,192 | 260,214 |
| Interest and Dividend Revenue | 8,848 | 6,952 | 18,338 | 15,847 |
| Other | 1,128 | (645) | 3,387 | (3,895) |
| **Total Revenues** | 1,308,281 | 550,088 | 2,461,550 | 1,251,327 |
| **Expenses** | | | | |
| Compensation and Benefits | | | | |
| Compensation | 699,432 | 967,711 | 1,358,915 | 1,892,661 |
| Performance Fee Compensation | | | | |
| Realized | 27,712 | 22,879 | 42,255 | 30,620 |
| Unrealized | 118,098 | (892) | 280,623 | 53,708 |
| Total Compensation and Benefits | 845,242 | 989,698 | 1,681,793 | 1,976,989 |
| General, Administrative and Other | 126,118 | 121,183 | 255,504 | 227,562 |
| Interest Expense | 14,185 | 7,682 | 27,988 | 14,867 |
| Fund Expenses | (714) | 9,203 | 10,410 | 9,062 |
| **Total Expenses** | 984,831 | 1,127,766 | 1,975,695 | 2,228,480 |
| **Other Income** | | | | |
| Net Gains (Losses) from Fund Investment Activities | (74,654) | (59,250) | (119,845) | 112,554 |
| **Income (Loss) Before Provision (Benefit) for Taxes** | 248,796 | (636,928) | 366,010 | (864,599) |
| **Provision for Taxes** | 64,199 | 19,392 | 103,049 | 29,027 |
| **Net Income (Loss)** | 184,597 | (656,320) | 262,961 | (893,626) |
| **Net Income (Loss) Attributable to Redeemable Non- Controlling Interests in Consolidated Entities** | (140) | (421) | 21,885 | 23,548 |
| **Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities** | (92,408) | (57,873) | (185,489) | 78,093 |
| **Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings** | 190,908 | (404,706) | 297,624 | (680,570) |
| **Net Income (Loss) Attributable to The Blackstone Group L.P.** | $ 86,237 | $ (193,320) | $ 128,941 | $ (314,697) |
| **Net Income (Loss) Per Common Unit — Basic and Diluted** | $ 0.18 | $ (0.55) | $ 0.28 | $ (0.91) |
| **Weighted-Average Common Units Outstanding — Basic and Diluted** | | 354,399,780 | | 344,084,390 |
| **Weighted-Average Common Units Outstanding — Basic** | 476,289,647 | | 462,094,878 | |
| **Weighted-Average Common Units Outstanding — Diluted** | 483,643,646 | | 468,618,734 | |
| **Revenues Earned from Affiliates** | | | | |
| **Management and Advisory Fees** | $ 118,916 | $ 37,347 | $ 188,954 | $ 76,114 |

See notes to condensed consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**

**Condensed Consolidated Statements of Cash Flows (Unaudited)**
**(Dollars in Thousands)**

| | Six Months Ended June 30, 2011 | Six Months Ended June 30, 2010 |
|---|---|---|
| **Operating Activities** | | |
| Net Income (Loss) | $ 262,961 | $ (893,626) |
| 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 | 7,598 | (125,290) |
| Net Realized Gains on Investments | (296,433) | (99,565) |
| Changes in Unrealized Gains on Investments Allocable to Blackstone Group | (206,735) | (234,015) |
| Unrealized Appreciation on Hedge Activities | (7,278) | (2,172) |
| Non-Cash Performance Fees | (857,921) | (92,215) |
| Non-Cash Performance Fee Compensation | 322,878 | 84,328 |
| Equity-Based Compensation Expense | 834,923 | 1,466,979 |
| Amortization of Intangibles | 82,425 | 80,334 |
| Other Non-Cash Amounts Included in Net Income | 39,807 | 12,678 |
| Cash Flows Due to Changes in Operating Assets and Liabilities: | | |
| Cash Held by Blackstone Funds and Other | 166,464 | (61,739) |
| Cash Relinquished with Continuing Liquidation of Partnership | 966 | 2,465 |
| Accounts Receivable | 3,059 | (25,845) |
| Reverse Repurchase Agreements | 87,450 | (20,038) |
| Due from Affiliates | 60,662 | (129,431) |
| Other Assets | 68,269 | (69,114) |
| Accrued Compensation and Benefits | (132,816) | 2,167 |
| Securities Sold, Not Yet Purchased | (43,302) | 1,270 |
| Accounts Payable, Accrued Expenses and Other Liabilities | (235,626) | 175,815 |
| Repurchase Agreements | 14,527 | 45,169 |
| Due to Affiliates | (111,175) | (17,285) |
| Short Term Investments Purchased | (1,755,013) | (722,882) |
| Proceeds from Sale of Investments | 1,733,108 | 448,340 |
| Blackstone Funds Related: | | |
| Investments Purchased | (4,378,272) | (1,559,246) |
| Proceeds from Sale of Investments | 4,712,168 | 1,759,758 |
| Net Cash Provided by Operating Activities | 372,694 | 26,840 |
| **Investing Activities** | | |
| Purchase of Furniture, Equipment and Leasehold Improvements | (17,170) | (18,807) |
| Net Cash Paid for Acquisition of Management Contracts | (23,247) | (21,492) |
| Changes in Restricted Cash | 332 | 26 |
| Net Cash Used in Investing Activities | (40,085) | (40,273) |

continued…

See notes to condensed consolidated financial statements.

**THE BLACKSTONE GROUP L.P.**

**Condensed Consolidated Statements of Cash Flows (Unaudited)—(Continued)**
**(Dollars in Thousands)**

| | Six Months Ended June 30, 2011 | Six Months Ended June 30, 2010 |
|---|---|---|
| **Financing Activities** | | |
| Distributions to Non-Controlling Interest Holders in Consolidated Entities | (214,952) | (71,320) |
| Contributions from Non-Controlling Interest Holders in Consolidated Entities | 488,094 | 89,938 |
| Purchase of Interests from Certain Non-Controlling Interest Holders | $ (2,239) | $ (140) |
| Net Settlement of Vested Common Units and Repurchase of Common and Holdings Units | (31,390) | (21,243) |
| Proceeds from Loans Payable | 3,111 | 3,312 |
| Repayment of Loans Payable | (22,445) | (29,373) |
| Distributions to Unitholders | (482,241) | (379,294) |
| Blackstone Funds Related: | | |
| Proceeds from Loans Payable | 404 | — |
| Repayment of Loans Payable | (224,777) | (23,804) |
| Net Cash Used in Financing Activities | (486,435) | (431,924) |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | 8 | — |
| **Net Decrease in Cash and Cash Equivalents** | (153,818) | (445,357) |
| Cash and Cash Equivalents, Beginning of Period | 588,621 | 952,096 |
| Cash and Cash Equivalents, End of Period | $ 434,803 | $ 506,739 |
| **Supplemental Disclosure of Cash Flows Information** | | |
| Payments for Interest | $ 1,970 | $ 1,366 |
| Payments for Income Taxes | $ 26,698 | $ 42,813 |
| **Supplemental Disclosure of Non-Cash Operating Activities** | | |
| Net Activities Related to Capital Transactions of Consolidated Blackstone Funds | $ 5,153 | $ 4,794 |
| Net Assets Related to the Consolidation of CLO Vehicles | $ 86,130 | $ 400,059 |
| Reclassification of Capital Due to Non-Controlling Interest Holders | $ — | $ (60,197) |
| In-kind Redemption of Capital | $ — | $ (14,862) |
| In-kind Contribution of Capital | $ — | $ 41,053 |
| Transfer of Interests to Non-Controlling Interest Holders | $ 1,600 | $ (16,675) |
| Change in The Blackstone Group L.P.’s Ownership Interest | $ (6,045) | $ (5,393) |
| Net Settlement of Vested Common Units | $ 102,894 | $ 116,610 |
| Conversion of Blackstone Holdings Units to Common Units | $ 208,257 | $ 82,887 |
| Exchange of Founders’ and Non-Controlling Interest Holders’ Interests in Blackstone Holdings: | | |
| Deferred Tax Asset | $(271,000) | $(145,080) |
| Due to Affiliates | $ 221,445 | $ 119,869 |
| Partners’ Capital | $ 49,555 | $ 25,211 |

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, collateralized loan obligation ("CLO") vehicles, separately managed accounts, publicly traded closed-end mutual funds and registered investment companies (collectively referred to as the "Blackstone Funds"). Blackstone also provides various financial advisory services, including financial advisory, restructuring and reorganization advisory and fund placement services. Blackstone's business is organized into five segments: private equity, real estate, hedge fund solutions, credit businesses, and financial advisory.

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

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

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

**THE BLACKSTONE GROUP L.P.**

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

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

The condensed consolidated financial statements include the accounts of the Partnership, its wholly-owned or majority-owned subsidiaries, the consolidated entities which are considered to be variable interest entities and for which the Partnership is considered the primary beneficiary, and certain partnerships or similar entities which are not considered variable interest entities but in which the general partner is presumed to have control.

All intercompany balances and transactions have been eliminated in consolidation.

Restructurings within consolidated CLOs are treated as investment purchases or sales, as applicable, in the Condensed Consolidated Statements of Cash Flows.

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

- In January 2011, Blackstone separated its Credit and Marketable Alternatives segment into two new segments: Hedge Fund Solutions and Credit Businesses. The Hedge Fund Solutions segment is comprised primarily of Blackstone Alternative Asset Management, an institutional solutions provider utilizing hedge funds across a variety of strategies, and the Indian-focused and Asian-focused closed-end mutual funds. The Credit Businesses segment, which is comprised principally of GSO Capital Partners ("GSO"), manages credit-oriented funds, CLOs, credit-focused separately managed accounts and publicly registered debt-focused investment companies. This change in Blackstone's segment reporting aligns it to its management reporting and organization structure and is consistent with the manner in which resource deployment and compensation decisions are made. Blackstone's segment results have been retrospectively presented for all periods reported.
- As of March 31, 2011, Blackstone elected to aggregate changes in assets and liabilities relating to hedging activities within Unrealized Depreciation on Hedge Activities in the Condensed Consolidated Statements of Cash Flows. Previously, amounts relating to changes in hedging instruments had been presented in Cash Flows Due to Changes in Operating Assets and Liabilities — Other Assets. The reclassification of amounts in 2010 had no impact on Net Cash Provided by Operating Activities.
- As of June 30, 2011, Blackstone elected to separately present Repurchase Agreements in the Condensed Consolidated Statements of Financial Condition. Previously, these amounts were included in Accounts Payable, Accrued Expenses and Other Liabilities. The reclassification had no impact on Total Liabilities.
- As of June 30, 2011, Blackstone elected to separately present changes in operating assets and liabilities relating to repurchase agreements in the Condensed Consolidated Statements of Cash Flows. Previously, amounts relating to changes in repurchase agreements had been presented in Cash Flows Due to Changes in Operating Assets and Liabilities — Accounts Payable, Accrued Expenses and Other Liabilities. The reclassification had no impact on Net Cash Provided by Operating Activities.

**Consolidation**

The Partnership consolidates all entities that it controls through a majority voting interest or otherwise, including those Blackstone Funds in which the general partner is presumed to have control. Although the Partnership has a non-controlling interest in the Blackstone Holdings partnerships, the limited partners do not have the right to dissolve the partnerships or have substantive kick out rights or participating rights that would overcome the presumption of control by the Partnership. Accordingly, the Partnership consolidates Blackstone Holdings and records non-controlling interests to reflect the economic interests of the limited partners of Blackstone Holdings.

In addition, the Partnership consolidates all variable interest entities ("VIE") in which it is the primary beneficiary. An enterprise is determined to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. The consolidation guidance requires an analysis to (a) determine whether an entity in which the Partnership holds a variable interest is a variable interest entity and (b) whether the Partnership's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., management and performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment. Variable interest entities qualify for the deferral of this consolidation guidance if all of the following conditions have been met:

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

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

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

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

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Assets of consolidated variable interest entities that can only be used to settle obligations of the consolidated VIE and liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of The Blackstone Group L.P. are separately presented in the Condensed Consolidated Statements of Financial Condition.

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

**Fair Value of Financial Instruments**

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

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

- Level I — Quoted prices are available in active markets for identical financial instruments as of the reporting date. The type of financial instruments in Level I include listed equities, listed derivatives and mutual funds with quoted prices. The Partnership does not adjust the quoted price for these investments, even in situations where Blackstone holds a large position and a sale could reasonably impact the quoted price.
- Level II — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and loans, government and agency securities, less liquid and restricted equity securities, certain over-the-counter derivatives where the fair value is based on observable inputs, and certain fund of hedge funds investments in which Blackstone has the ability to redeem its investment at net asset value at, or within three months of, the reporting date.
- Level III — Pricing inputs are unobservable for the financial instruments and includes situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category generally include general and limited partnership interests in private equity and real estate funds, credit-oriented funds, distressed debt and non-investment grade residual interests in securitizations, collateralized loan obligations, certain over the counter derivatives where the fair value is based on unobservable inputs and certain funds of hedge funds which use net asset value per share to determine fair value in which Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date. Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date if an investee fund manager has the ability to limit the amount of redemptions, and/or the ability to side-pocket investments, irrespective of whether such ability has been exercised.

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

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

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

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

In the absence of observable market prices, Blackstone values its investments using valuation methodologies applied on a consistent basis. For some investments little market activity may exist; management's determination of fair value is then based on the best information available in the circumstances, and may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Investments for which market prices are not observable include private investments in the equity of operating companies, real estate properties or certain funds of hedge funds. The valuation technique for each of these investments is described below:

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

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

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

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

**Investments, at Fair Value**

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

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

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

In addition, the Partnership has elected the fair value option for the assets and liabilities of certain CLO vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of variable interest entity consolidation guidance. The Partnership has also elected the fair value option for CLO vehicles consolidated as of April 1, 2010, July 20, 2010 and May 16, 2011, as a result of the acquisitions of CLO management contracts. The adjustment resulting from the difference between the fair value of assets and liabilities for each of these events is presented as a transition and acquisition adjustment to Appropriated Partners' Capital. Assets of the consolidated CLOs are presented within Investments within the Consolidated Statements of Financial Condition and Liabilities within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by non-consolidated affiliates. The methodology for measuring the fair value of such assets and liabilities is consistent with the methodology applied to private equity, real estate, and credit-oriented investments. Changes in the fair value of consolidated CLO assets and liabilities and related interest, dividend and other income subsequent to adoption and acquisition are presented within Net Gains from Fund Investment Activities. Amounts attributable to Non-Controlling Interests in Consolidated Entities have a corresponding adjustment to Appropriated Partners' Capital.

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

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

**Equity Method Investments**

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

**Repurchase and Reverse Repurchase Agreements**

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

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

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

**Securities Sold, Not Yet Purchased**

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

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

**Derivative Instruments**

The Partnership recognizes all derivatives as assets or liabilities on its Condensed Consolidated Statements of Financial Condition at fair value. On the date the Partnership enters into a derivative contract, it designates and documents each derivative contract as one of the following: (a) a hedge of a recognized asset or liability ("fair value hedge"), (b) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), (c) a hedge of a net investment in a foreign operation, or (d) a derivative instrument not designated as a hedging instrument ("freestanding derivative"). For a fair value hedge, Blackstone records changes in the fair value of the derivative and, to the extent that it is highly effective, changes in the fair value of the hedged asset or liability attributable to the hedged risk, in current period earnings in the same caption in the Condensed Consolidated Statements of Operations as the hedged item. Changes in the fair value of derivatives designated as hedging instruments caused by factors other than changes in the risk being hedged, which are excluded from the assessment of hedge effectiveness, are recognized in current period earnings. For freestanding derivative contracts, the Partnership presents changes in fair value in current period earnings.

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

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

**Affiliates**

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

**Distributions**

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

**Recent Accounting Developments**

In January 2010, the FASB issued guidance on improving disclosures about fair value measurements. The guidance 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. Adoption of the guidance, including the gross presentation of activity in Level III, did not have a material impact on the Partnership's financial statements.

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

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

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

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

The guidance also requires enhanced disclosures about fair value measurements, including, among other things, (a) for fair value measurements categorized within Level III of the fair value hierarchy, (1) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, (2) the valuation process used by the reporting entity, and (3) a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, if any, and (b) the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position but for which the fair value is required to be disclosed (for example, a financial instrument that is measured at amortized cost in the statement of financial position but for which fair value is disclosed). The guidance also amends disclosure requirements for significant transfers between Level I and Level II and now requires disclosure of all transfers between Levels I and II in the fair value hierarchy.

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

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

## 3. ACQUISITION, GOODWILL AND INTANGIBLE ASSETS

### Acquisition

On May 16, 2011, the Partnership, through GSO, completed the acquisition of management agreements relating to four collateralized loan obligation vehicles previously managed by Allied Irish Bank for net consideration of $22.9 million. The assets acquired are finite-lived contractual rights.

### Goodwill and Intangible Assets

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

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

Intangible Assets, Net consists of the following:

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Finite-Lived Intangible Assets / Contractual Rights | $1,393,502 | $1,370,255 |
| Accumulated Amortization | (673,368) | (590,944) |
| Intangible Assets, Net | $ 720,134 | $ 779,311 |

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Amortization expense associated with Blackstone’s intangible assets was $41.6 million and $82.4 million for the three and six month periods ended June 30, 2011, respectively, and $40.8 million and $80.3 million for the three and six month periods ended June 30, 2010, respectively. Amortization expense is included within General, Administrative and Other in the accompanying Condensed Consolidated Statements of Operations.

Amortization of Intangible Assets held at June 30, 2011 is expected to be $167.1 million, $114.5 million, $62.9 million, $58.0 million, and $52.0 million for each of the years ending December 31, 2011, 2012, 2013, 2014, and 2015, respectively.

## 4. INVESTMENTS

### Investments

Investments consists of the following:

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Investments of Consolidated Blackstone Funds | $10,292,007 | $ 8,192,327 |
| Equity Method Investments | 2,109,231 | 1,921,665 |
| Blackstone’s Treasury Cash Management Strategies | 930,077 | 896,367 |
| Performance Fees | 1,956,044 | 937,227 |
| Other Investments | 31,643 | 26,886 |
| | $15,319,002 | $11,974,472 |

Blackstone’s share of Investments of Consolidated Blackstone Funds totaled $542.8 million and $500.2 million at June 30, 2011 and December 31, 2010, respectively.

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

### Investments of Consolidated Blackstone Funds

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 (losses) resulting from changes in the fair value of the consolidated Blackstone Funds’ investments. The following table presents the realized and net change in unrealized gains (losses) on investments held by the consolidated Blackstone Funds:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Realized Gains (Losses) | $ 36,654 | $ 3,087 | $ 106,755 | $(20,437) |
| Net Change in Unrealized Gains (Losses) | (142,941) | (93,162) | (277,831) | 91,522 |
| | $ (106,287) | $ (90,075) | $(171,076) | $ 71,085 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Realized and Net Change in Unrealized Gains (Losses) from Blackstone Funds | $ (106,287) | $ (90,075) | $(171,076) | $ 71,085 |
| Reclassification to Investment Income (Loss) and Other Attributable to Blackstone Side-by-Side Investment Vehicles | — | 17,453 | — | — |
| Interest, Dividend and Other Revenue Attributable to Consolidated Blackstone Funds | 31,633 | 27,793 | 51,231 | 41,469 |
| Investment Income Attributable to Non-Controlling Interest Holders | — | (14,421) | — | — |
| Other Income — Net Gains (Losses) from Fund Investment Activities | $ (74,654) | $ (59,250) | $(119,845) | $112,554 |

**Equity Method Investments**

The Partnership recognized net gains related to its equity method investments of $183.6 million and $227.4 million for the six months ended June 30, 2011 and 2010, respectively.

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

**Blackstone's Treasury Cash Management Strategies**

The portion of Blackstone's Treasury cash management strategies included in Investments represents the Partnership's liquid investments in government and other investment and non-investment grade securities. These strategies are managed by third-party institutions. The Partnership has managed its credit risk through diversification of its investments among major financial institutions, all of which have investment grade ratings. The following table presents the realized and net change in unrealized gains on investments held by Blackstone's Treasury cash management strategies:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Realized Gains | $ 1,321 | $ 284 | $ 1,020 | $ 1,727 |
| Net Change in Unrealized Gains | 1,592 | 3,848 | 2,221 | 6,605 |
| | $ 2,913 | $ 4,132 | $ 3,241 | $ 8,332 |

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**Performance Fees**

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

| | Private Equity | Real Estate | Hedge Fund Solutions | Credit Businesses | Total |
|---|---|---|---|---|---|
| Performance Fees, December 31, 2010 | $573,042 | $ 65,477 | $ 9,534 | $289,174 | $ 937,227 |
| Change in Fair Value of Funds | 292,455 | 778,020 | 8,171 | 121,836 | 1,200,482 |
| Foreign Exchange Gains | — | 862 | — | — | 862 |
| Fund Cash Distributions | (85,353) | (21,228) | (5,911) | (70,035) | (182,527) |
| Performance Fees, June 30, 2011 | $780,144 | $823,131 | $ 11,794 | $340,975 | $1,956,044 |

**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 in other investments:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Realized Gains (Losses) | $ 399 | $ (237) | $ 399 | $ 942 |
| Net Change in Unrealized Gains | 343 | 457 | 1,292 | 927 |
| | $ 742 | $ 220 | $ 1,691 | $ 1,869 |

**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 June 30, 2011 is presented below:

| Strategy | Fair Value | Unfunded Commitments | Redemption Frequency (if currently eligible) | Redemption Notice Period |
|---|---|---|---|---|
| Diversified Instruments | $219,852 | $ 3,447 | (a) | (a) |
| Credit Driven | 208,540 | 3,871 | (b) | (b) |
| Event Driven | 107,140 | — | (c) | (c) |
| Equity | 282,343 | — | (d) | (d) |
| Commodities | 52,240 | — | (e) | (e) |
| | $870,115 | $ 7,318 | | |

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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) 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 18% of Blackstone's investments. The time at which this redemption restriction may lapse cannot be estimated. The remaining 2% of investments within this category represent investments in hedge funds that are in the process of liquidating. Distributions from these funds will be received as underlying investments are liquidated.

(b) The Credit Driven category includes investments in hedge funds that invest primarily in domestic and international bonds. Investments representing 60% of the value of the investments in this category may not be redeemed at, or within three months of, the reporting date. Investments representing 22% of the value in the credit driven category are subject to redemption restrictions at the discretion of the investee fund manager who may choose (but may not have exercised such ability) to side-pocket such investments. Investments representing 3% of the value 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 15% 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 80% of the total value of investments in this category may not be redeemed at, or within three months of, the reporting date. The remaining 20% are subject to redemption restrictions at the discretion of the investee fund manager who may choose (but may not have elected such ability) to side-pocket such investments. As of the reporting date, the investee fund manager had not elected to side-pocket Blackstone's investments.

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

## 6. DERIVATIVE FINANCIAL INSTRUMENTS

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

### Fair Value Hedges

The Partnership uses interest rate swaps to hedge a portion of the interest rate risk associated with its fixed rate borrowings. The Partnership has designated these financial instruments as fair value hedges. Changes in 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.

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)

**Freestanding Derivatives**

Freestanding derivatives are instruments that Blackstone and certain of the consolidated Blackstone Funds have entered into as part of their overall risk management and investment strategies. These derivative contracts are not designated as hedging instruments for accounting purposes. Such contracts may include foreign exchange contracts, equity swaps, options, futures and other derivative contracts. Changes in the fair value of derivative instruments held by consolidated Blackstone Funds are reflected in Net Gains from Funds Investment Activities or, where derivative instruments are held by the Partnership, within Investment Income (Loss), in the Condensed Consolidated Statements of Operations. The fair value of freestanding derivative assets are recorded within Investments and freestanding derivative liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Condensed Consolidated Statements of Financial Condition.

The table below summarizes the aggregate notional amount and fair value of the derivative financial instruments:

| | June 30, 2011 | | | | December 31, 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Assets | | Liabilities | | Assets | | Liabilities | |
| | Notional | Fair Value | Notional | Fair Value | Notional | Fair Value | Notional | Fair Value |
| **Fair Value Hedges** | | | | | | | | |
| Interest Rate Swaps | $ 450,000 | $32,269 | $ — | $ — | $450,000 | $26,192 | $ — | $— |
| **Freestanding Derivatives** | | | | | | | | |
| Blackstone — Other | | | | | | | | |
| Interest Rate Contracts | 276,250 | 2,006 | 409,565 | 1,115 | 57,200 | 56 | 366,857 | 922 |
| Foreign Exchange Contracts | 24,224 | 425 | 14,685 | 327 | 10,088 | 283 | 13,221 | 74 |
| Investments of Consolidated Blackstone Funds | | | | | | | | |
| Foreign Currency Swaps | 428,413 | 48,980 | — | — | — | — | — | — |
| Interest Rate Swaps | — | — | 162,500 | 14,100 | — | — | — | — |
| Other | — | — | 313 | 53 | 409 | 2 | 212 | 2 |
| Freestanding Derivatives | 728,887 | 51,411 | 587,063 | 15,595 | 67,697 | 341 | 380,290 | 998 |
| Total | $1,178,887 | $83,680 | $587,063 | $15,595 | $517,697 | $26,533 | $380,290 | $998 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| **Fair Value Hedges — Interest Rate Swaps** | | | | |
| Hedge Ineffectiveness | $ 1,164 | $ 3,713 | $ 597 | $ 4,639 |
| Excluded from Assessment of Effectiveness | 7,049 | 4,915 | (374) | (2,104) |
| **Freestanding Derivatives** | | | | |
| Realized Gains (Losses) | (2,073) | (158) | (1,849) | (457) |
| Net Change in Unrealized Gain (Loss) | 7,602 | (1,609) | 6,154 | (1,730) |

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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)

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

## 7. FAIR VALUE OPTION

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

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| **Assets** | | |
| Loans and Receivables | $ 127,108 | $ 131,290 |
| Assets of Consolidated CLO Vehicles | | |
| Corporate Loans | 7,980,891 | 6,351,966 |
| Corporate Bonds | 142,389 | 157,997 |
| Other | 37,383 | 12,076 |
| | $8,287,771 | $6,653,329 |
| **Liabilities** | | |
| Liabilities of Consolidated CLO Vehicles | | |
| Senior Secured Notes | $7,859,527 | $5,877,957 |
| Subordinated Notes | 706,649 | 555,632 |
| | $8,566,176 | $6,433,589 |

The following table presents the realized and net change in unrealized gains (losses) on financial instruments on which the fair value option was elected:

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| | Realized Gains (Losses) | Net Change in Unrealized Gains (Losses) | Realized Gains (Losses) | Net Change in Unrealized Gains (Losses) |
| **Assets** | | | | |
| Loans and Receivables | $ — | $ (287) | $ 385 | $ 1,767 |
| Debt Securities | — | — | (16) | — |
| Equity Securities | — | — | — | 501 |
| Assets of Consolidated CLO Vehicles | | | | |
| Corporate Loans | 65,112 | (33,721) | (6,802) | 61,286 |
| Corporate Bonds | 2,149 | (1,322) | — | (6,441) |
| Other | 480 | 4,128 | 702 | (298) |
| | $67,741 | $ (31,202) | $(5,731) | $ 56,815 |
| **Liabilities** | | | | |
| Liabilities of Consolidated CLO Vehicles | | | | |
| Senior Secured Notes | $ (7,714) | $ (332,477) | $(1,374) | $ (1,514) |
| Subordinated Notes | — | (67,704) | — | (87,156) |
| | $ (7,714) | $ (400,181) | $(1,374) | $ (88,670) |

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

| | As of June 30, 2011 | | | As of December 31, 2010 | | |
|---|---|---|---|---|---|---|
| | | For Financial Assets Past Due (a) | | | For Financial Assets Past Due (a) | |
| | Excess (Deficiency) of Fair Value Over Principal | Fair Value | Excess (Deficiency) of Fair Value Over Principal | Excess (Deficiency) of Fair Value Over Principal | Fair Value | Excess (Deficiency) of Fair Value Over Principal |
| Loans and Receivables | $ 929 | $ — | $ — | $ 1,391 | $ — | $ — |
| Assets of Consolidated CLO Vehicles | | | | | | |
| Corporate Loans | (356,771) | 15,818 | (21,445) | (244,233) | 5,393 | (2,164) |
| Corporate Bonds | (1,500) | 13,965 | (3,917) | (1,545) | 5,630 | (2,082) |
| | $ (357,342) | $29,783 | $ (25,362) | $ (244,387) | $11,023 | $ (4,246) |

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

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

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)

## 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 June 30, 2011 and December 31, 2010, respectively:

| | June 30, 2011 | | | |
|---|---|---|---|---|
| | Level I | Level II | Level III | Total |
| **Assets** | | | | |
| Investments of Consolidated Blackstone Funds (a) | | | | |
| Investment Funds | $ — | $ 1,450 | $ 868,665 | $ 870,115 |
| Equity Securities | 177,194 | 24,231 | 107,905 | 309,330 |
| Partnership and LLC Interests | 49,731 | — | 573,907 | 623,638 |
| Debt Instruments | 119 | 268,695 | 10,467 | 279,281 |
| Assets of Consolidated CLO Vehicles | | | | |
| Corporate Loans | — | 7,714,026 | 271,932 | 7,985,958 |
| Corporate Bonds | — | 142,389 | — | 142,389 |
| Freestanding Derivatives — Foreign Currency Swaps | — | 48,980 | — | 48,980 |
| Other | — | 27,339 | 4,977 | 32,316 |
| Total Investments of Blackstone Consolidated Funds | 227,044 | 8,227,110 | 1,837,853 | 10,292,007 |
| Blackstone's Treasury Cash Management Strategies | 301,787 | 510,862 | 117,428 | 930,077 |
| Money Market Funds | 73,521 | — | — | 73,521 |
| Freestanding Derivatives | | | | |
| Interest Rate Contracts | 89 | 1,917 | — | 2,006 |
| Foreign Exchange Contracts | — | 425 | — | 425 |
| Derivative Instruments Used as Fair Value Hedges | — | 32,269 | — | 32,269 |
| Loans and Receivables | — | — | 127,108 | 127,108 |
| Other Investments | 9,716 | 642 | 21,285 | 31,643 |
| | $612,157 | $8,773,225 | $2,103,674 | $11,489,056 |
| **Liabilities** | | | | |
| Liabilities of Consolidated CLO Vehicles (a) | | | | |
| Senior Secured Notes | $ — | $ — | $7,859,527 | $ 7,859,527 |
| Subordinated Notes | — | — | 706,649 | 706,649 |
| Freestanding Derivatives — Interest Rate Swaps | — | 14,100 | — | 14,100 |
| Freestanding Derivatives | | | | |
| Interest Rate Contracts | 693 | 422 | — | 1,115 |
| Foreign Exchange Contracts | — | 327 | — | 327 |
| Securities Sold, Not Yet Purchased | 1,090 | 73,807 | — | 74,897 |
| | $ 1,783 | $ 88,656 | $8,566,176 | $ 8,656,615 |

THE BLACKSTONE GROUP L.P.

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

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

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

During the quarter ended June 30, 2011, the Partnership reclassified $27.1 million of Investments of Consolidated Blackstone Funds — Partnership and LLC Interests from Level II to Level I. This occurred when a restriction discount was no longer applied to a quoted price obtained in an active market.

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

| Valuation Methodology | Private Equity | Real Estate | Hedge Fund Solutions | Credit Businesses | Financial Advisory | Total |
|---|---|---|---|---|---|---|
| Third-Party Fund Managers | — | — | 39% | — | — | 39% |
| Specific Valuation Metrics | 17% | 25% | 2% | 16% | 1% | 61% |
| | 17% | 25% | 41% | 16% | 1% | 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 June 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | 2010 | | | |
| | Investments of Consolidated Funds | Loans and Receivables | Other Investments | Total | Investments of Consolidated Funds | Loans and Receivables | Other Investments | Total |
| Balance, Beginning of Period | $ 1,741,692 | $ 14,034 | $ 20,970 | $1,776,696 | $ 1,371,701 | $ 65,972 | $ 18,207 | $1,455,880 |
| Transfer In Due to Consolidation and Acquisition (a) | 9,570 | — | — | 9,570 | 61,107 | — | — | 61,107 |
| Transfer In to Level III (b) | 4,607 | — | — | 4,607 | 156 | — | — | 156 |
| Transfer Out of Level III (b) | (112,780) | — | — | (112,780) | (183) | — | — | (183) |
| Purchases | 308,430 | 119,861 | 117,200 | 545,491 | N/A | N/A | N/A | N/A |
| Sales | (154,861) | (7,719) | (531) | (163,111) | N/A | N/A | N/A | N/A |
| Settlements | 4,933 | (71) | — | 4,862 | N/A | N/A | N/A | N/A |
| Purchases (Sales), Net | N/A | N/A | N/A | N/A | (46,342) | (42,543) | (252) | (89,137) |
| Realized Gains (Losses), Net | (3,764) | — | 531 | (3,233) | (18,360) | 304 | 501 | (17,555) |
| Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date | 40,026 | 1,003 | 543 | 41,572 | 46,527 | 3,111 | 419 | 50,057 |
| Balance, End of Period | $ 1,837,853 | $ 127,108 | $ 138,713 | $2,103,674 | $ 1,414,606 | $ 26,844 | $ 18,875 | $1,460,325 |

## 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)

| | Level III Financial Assets at Fair Value Six Months Ended June 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | 2010 | | | |
| | Investments of Consolidated Funds | Loans and Receivables | Other Investments | Total | Investments of Consolidated Funds | Loans and Receivables | Other Investments | Total |
| Balance, Beginning of Period | $ 1,602,371 | $ 131,290 | $ 19,672 | $1,753,333 | $ 1,192,464 | $ 68,549 | $ 46,578 | $1,307,591 |
| Transfer In Due to Consolidation and Acquisition (a) | 9,570 | — | — | 9,570 | 227,594 | — | — | 227,594 |
| Transfer In to Level III (b) | 11,162 | — | — | 11,162 | 180 | — | — | 180 |
| Transfer Out of Level III (b) | (134,243) | — | — | (134,243) | (20,547) | — | — | (20,547) |
| Purchases | 436,529 | 126,090 | 117,200 | 679,819 | N/A | N/A | N/A | N/A |
| Sales | (217,826) | (129,900) | (531) | (348,257) | N/A | N/A | N/A | N/A |
| Settlements | — | (1,441) | — | (1,441) | N/A | N/A | N/A | N/A |
| Purchases (Sales), Net | N/A | N/A | N/A | N/A | (85,564) | (45,118) | (29,468) | (160,150) |
| Realized Gains (Losses), Net | 4,087 | — | 531 | 4,618 | (17,393) | 385 | 955 | (16,053) |
| Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date | 126,203 | 1,069 | 1,841 | 129,113 | 117,872 | 3,028 | 810 | 121,710 |
| Balance, End of Period | $ 1,837,853 | $ 127,108 | $ 138,713 | $2,103,674 | $ 1,414,606 | $ 26,844 | $ 18,875 | $1,460,325 |

| | Level III Financial Liabilities at Fair Value Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | |
| | Collateralized Loan Obligations Senior Notes | Collateralized Loan Obligations Subordinated Notes | Total | Collateralized Loan Obligations Senior Notes | Collateralized Loan Obligations Subordinated Notes | Total |
| Balance, Beginning of Period | $6,023,892 | $ 567,436 | $6,591,328 | $3,254,543 | $ 281,146 | $3,535,689 |
| Transfer In Due to Consolidation and Acquisition (a) | 1,829,899 | 95,567 | 1,925,466 | 2,377,947 | 103,285 | 2,481,232 |
| Issuances | 204 | — | 204 | N/A | N/A | N/A |
| Settlements | (73,830) | (228) | (74,058) | N/A | N/A | N/A |
| Purchases (Sales), Net | N/A | N/A | N/A | (23,210) | — | (23,210) |
| Realized Gains (Losses), Net | 2,319 | — | 2,319 | — | — | — |
| Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date | 77,043 | 43,874 | 120,917 | (125,797) | 59,416 | (66,381) |
| Balance, End of Period | $7,859,527 | $ 706,649 | $8,566,176 | $5,483,483 | $ 443,847 | $5,927,330 |

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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)

| | Level III Financial Liabilities at Fair Value Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | |
| | Collateralized Loan Obligations Senior Notes | Collateralized Loan Obligations Subordinated Notes | Total | Collateralized Loan Obligations Senior Notes | Collateralized Loan Obligations Subordinated Notes | Total |
| Balance, Beginning of Period | $5,877,957 | $ 555,632 | $6,433,589 | $ — | $ — | $ — |
| Transfer In Due to Consolidation and Acquisition (a) | 1,829,899 | 95,567 | 1,925,466 | 5,649,175 | 364,829 | 6,014,004 |
| Issuances | 404 | — | 404 | N/A | N/A | N/A |
| Settlements | (235,273) | (12,481) | (247,754) | N/A | N/A | N/A |
| Purchases (Sales), Net | N/A | N/A | N/A | (23,210) | — | (23,210) |
| Realized Gains (Losses), Net | 7,715 | — | 7,715 | — | — | — |
| Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date | 378,825 | 67,931 | 446,756 | (142,482) | 79,018 | (63,464) |
| Balance, End of Period | $7,859,527 | $ 706,649 | $8,566,176 | $5,483,483 | $ 443,847 | $5,927,330 |

N/A Not applicable.

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

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

## 9. VARIABLE INTEREST ENTITIES

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

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

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

| | June 30, 2011 | | | December 31, 2010 | | |
|---|---|---|---|---|---|---|
| | Consolidated CLO Vehicles | All Other Consolidated Blackstone Funds | Total | Consolidated CLO Vehicles | All Other Consolidated Blackstone Funds | Total |
| **Assets** | | | | | | |
| Cash Held by Blackstone Funds and Other | $ 833,762 | $ 45,404 | $ 879,166 | $ 662,776 | $ 44,846 | $ 707,622 |
| Investments | 8,209,644 | 971,444 | 9,181,088 | 6,522,038 | 902,291 | 7,424,329 |
| Accounts Receivable | 38,880 | 2,085 | 40,965 | 21,669 | 711 | 22,380 |
| Due from Affiliates | — | 31,175 | 31,175 | — | 30,182 | 30,182 |
| Other Assets | 113,927 | 1,844 | 115,771 | 17,651 | 2,172 | 19,823 |
| **Total Assets** | $9,196,213 | $1,051,952 | $10,248,165 | $7,224,134 | $ 980,202 | $8,204,336 |
| **Liabilities** | | | | | | |
| Loans Payable | $8,258,955 | $ 8,706 | $ 8,267,661 | $6,144,490 | $ 9,689 | $6,154,179 |
| Due to Affiliates | 307,220 | 20,658 | 327,878 | 289,099 | 15,870 | 304,969 |
| Accounts Payable, Accrued Expenses and Other | 381,846 | 7,063 | 388,909 | 311,965 | 18,710 | 330,675 |
| **Total Liabilities** | $8,948,021 | $ 36,427 | $ 8,984,448 | $6,745,554 | $ 44,269 | $6,789,823 |

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

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

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Investments | $182,744 | $ 89,743 |
| Receivables | 81,297 | 178,719 |
| Total VIE Assets | 264,041 | 268,462 |
| VIE Liabilities | — | 168 |
| Potential Clawback Obligation | 8,618 | 4,717 |
| Maximum Exposure to Loss | $272,659 | $ 273,347 |

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Notes to Condensed Consolidated Financial Statements—(Continued)
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## 10. REVERSE REPURCHASE AND REPURCHASE AGREEMENTS

At June 30, 2011, the Partnership received securities, primarily U.S. and non-U.S. government and agency securities, asset-backed securities and corporate debt, with a fair value of $93.3 million and cash as collateral for reverse repurchase agreements that could be repledged, delivered or otherwise used. Securities with a fair value of $73.8 million were repledged, delivered or used to settle Securities Sold, Not Yet Purchased. The Partnership also pledged securities with a carrying value of $77.0 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

## 11. BORROWINGS

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

The fair value of the Blackstone issued notes as of June 30, 2011 and December 31, 2010 was:

| | Fair Value | |
|---|---|---|
| | June 30, 2011 | December 31, 2010 |
| Blackstone Issued 5.875%, $400 Million Par, Notes Due 3/15/2021 | $407,720 | $ 398,097 |
| Blackstone Issued 6.625%, $600 Million Par, Notes Due 8/15/2019 | $643,140 | $ 612,814 |

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

| | June 30, 2011 | | | December 31, 2010 | | |
|---|---|---|---|---|---|---|
| | Borrowing Outstanding | Weighted Average Interest Rate | Weighted Average Remaining Maturity in Years | Borrowing Outstanding | Weighted Average Interest Rate | Weighted Average Remaining Maturity in Years |
| Senior Secured Notes | $8,275,354 | 1.56% | 4.4 | $6,466,794 | 1.33% | 5.2 |
| Subordinated Notes | 1,133,529 | (a) | 7.0 | 895,300 | (a) | 7.7 |
| | $9,408,883 | | | $7,362,094 | | |

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

Included within Senior Secured Notes and Subordinated Notes are amounts due to non-consolidated affiliates of $104.6 million and $298.3 million, respectively. The fair value of Senior Secured and Subordinated Notes as of June 30, 2011 was $7.9 billion and $715.6 million, respectively, of which $110.4 million and $196.8 million represents the amounts Due to Affiliates.

The Loans Payable of the consolidated CLO vehicles are collateralized by assets held by each respective CLO vehicle and assets of one vehicle may not be used to satisfy the liabilities of another. As of June 30, 2011, the fair value of the CLO assets was $9.2 billion. This collateral consisted of Cash, Corporate Loans, Corporate Bonds and other securities.

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Notes to Condensed Consolidated Financial Statements—(Continued)
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Scheduled principal payments for borrowings as of June 30, 2011 were as follows:

| | Operating Borrowings | Blackstone Fund Facilities / CLO Vehicles | Total Borrowings |
|---|---|---|---|
| 2011 | $ 594 | $ — | $ 594 |
| 2012 | 7,912 | 8,706 | 16,618 |
| 2013 | 1,923 | 78,138 | 80,061 |
| 2014 | 5,040 | 430,866 | 435,906 |
| 2015 | — | 737,726 | 737,726 |
| Thereafter | 1,000,000 | 8,162,152 | 9,162,152 |
| Total | $1,015,469 | $ 9,417,588 | $10,433,057 |

## 12. INCOME TAXES

Blackstone's effective tax rate was 25.80% and (3.04)% for the three months ended June 30, 2011 and 2010, respectively, and 28.16% and (3.36)% for the six months ended June 30, 2011 and 2010, respectively. Blackstone's income tax provision was $64.2 million and $19.4 million for the three months ended June 30, 2011 and 2010, respectively, and $103.0 million and $29.0 million for the six months ended June 30, 2011 and 2010, respectively.

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

## 13. NET INCOME (LOSS) PER COMMON UNIT

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Net Income (Loss) Attributable to The Blackstone Group L.P. | $ 86,237 | $ (193,320) | $ 128,941 | $ (314,697) |
| **Basic Net Income (Loss) Per Common Unit:** | | | | |
| Weighted-Average Common Units Outstanding | 476,289,647 | 354,399,780 | 462,094,878 | 344,084,390 |
| Basic Net Income (Loss) Per Common Unit | $ 0.18 | $ (0.55) | $ 0.28 | $ (0.91) |
| **Diluted Net Income (Loss) Per Common Unit:** | | | | |
| Weighted-Average Common Units Outstanding | 476,289,647 | 354,399,780 | 462,094,878 | 344,084,390 |
| Weighted-Average Unvested Deferred Restricted Common Units | 7,353,999 | — | 6,523,856 | — |
| Weighted-Average Diluted Common Units Outstanding | 483,643,646 | 354,399,780 | 468,618,734 | 344,084,390 |
| Diluted Net Income (Loss) Per Common Unit | $ 0.18 | $ (0.55) | $ 0.28 | $ (0.91) |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Weighted-Average Unvested Deferred Restricted Common Units | (a) | 27,418,933 | (a) | 28,019,298 |
| Weighted-Average Blackstone Holdings Partnership Units | 625,526,089 | 743,034,050 | 641,817,877 | 753,889,719 |

(a) These units were dilutive and are included in the diluted per common unit calculation for the applicable period.

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

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

## 14. EQUITY-BASED COMPENSATION

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

For the three and six months ended June 30, 2011, the Partnership recorded compensation expense of $408.6 million and $834.9 million, respectively, in relation to its equity-based awards with corresponding tax benefits of $4.5 million and $8.7 million, respectively. For the three and six months ended June 30, 2010, the Partnership recorded compensation expense of $743.8 million and $1.5 billion, respectively, in relation to its equity-based awards with corresponding tax benefits of $3.0 million and $4.6 million, respectively. As of

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June 30, 2011, there was $3.0 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.

Total vested and unvested outstanding units, including Blackstone Common Units, Blackstone Holdings Partnership Units and deferred restricted common units, were 1,123,396,542 as of June 30, 2011. Total outstanding unvested phantom units were 223,531 as of June 30, 2011.

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

| | Blackstone Holdings | | The Blackstone Group L.P. | | | |
|---|---|---|---|---|---|---|
| | | | Equity Settled Awards | | Cash Settled Awards | |
| Unvested Units | Partnership Units | Weighted-Average Grant Date Fair Value | Deferred Restricted Common Units and Options | Weighted-Average Grant Date Fair Value | Phantom Units | Weighted-Average Grant Date Fair Value |
| Balance, December 31, 2010 | 149,225,318 | $ 30.58 | 19,118,949 | $ 21.00 | 225,841 | $ 13.98 |
| Granted | 3,032,015 | 14.45 | 2,650,908 | 14.18 | 532 | 14.84 |
| Vested | (49,576,031) | 30.70 | (4,009,911) | 25.66 | (2,842) | 13.98 |
| Forfeited | (9,141,120) | 30.55 | (799,550) | 22.58 | — | — |
| Balance, June 30, 2011 | 93,540,182 | $ 30.00 | 16,960,396 | $ 18.75 | 223,531 | $ 16.17 |

### Units Expected to Vest

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

| | Units | Weighted-Average Service Period in Years |
|---|---|---|
| Blackstone Holdings Partnership Units | 86,462,153 | 3.8 |
| Deferred Restricted Blackstone Common Units and Options | 13,967,994 | 3.0 |
| Total Equity-Based Awards | 100,430,147 | 3.7 |
| Phantom Units | 203,027 | 3.9 |

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Notes to Condensed Consolidated Financial Statements—(Continued)
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## 15. RELATED PARTY TRANSACTIONS

### Affiliate Receivables and Payables

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

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| **Due from Affiliates** | | |
| Accrual for Potential Clawback of Previously Distributed Carried Interest | $ 144,782 | $ 180,672 |
| Primarily Interest Bearing Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees for Investments in Blackstone Funds | 166,649 | 169,413 |
| Amounts Due from Portfolio Companies and Funds | 192,140 | 175,872 |
| Investments Redeemed in Non-Consolidated Funds of Funds | 57,172 | 43,790 |
| Management and Performance Fees Due from Non-Consolidated Funds of Funds | 77,909 | 107,547 |
| Payments Made on Behalf of Non-Consolidated Entities | 110,635 | 81,689 |
| Advances Made to Certain Non-Controlling Interest Holders and Blackstone Employees | 6,769 | 36,412 |
| | $ 756,056 | $ 795,395 |

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| **Due to Affiliates** | | |
| Due to Certain Non-Controlling Interest Holders in Connection with the Tax Receivable Agreements | $1,287,099 | $1,114,609 |
| Accrual for Potential Repayment of Previously Received Performance Fees | 228,683 | 273,829 |
| Due to Note-Holders of Consolidated CLO Vehicles | 307,220 | 274,020 |
| Distributions Received on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees | 25,196 | 77,362 |
| Distributions Received on Behalf of Non-Consolidated Entities | 23,535 | 15,970 |
| Payments Made by Non-Consolidated Entities | 9,557 | 6,497 |
| | $1,881,290 | $1,762,287 |

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

The founder, senior managing directors and employees invest on a discretionary basis in the Blackstone Funds both directly and through consolidated entities. Their investments may be subject to preferential management fee and performance fee arrangements. As of June 30, 2011 and December 31, 2010, the founder's, other senior managing directors' and employees' investments aggregated $942.1 million and $832.8 million, respectively, and the founder's, other senior managing directors' and employees' share of the Net Income Attributable to Redeemable Non-Controlling and Non-Controlling Interests in Consolidated Entities aggregated $61.1 million and $24.9 million for the three months ended June 30, 2011 and 2010, respectively, and $131.9 million and $81.7 million for the six months ended June 30, 2011 and 2010, respectively.

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Notes to Condensed Consolidated Financial Statements—(Continued)
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**Revenues Earned from Affiliates**

Management and Advisory Fees earned from affiliates totaled $118.9 million and $37.3 million for the three months ended June 30, 2011 and 2010, respectively. Management and Advisory Fees earned from affiliates totaled $189.0 million and $76.1 million for the six months ended June 30, 2011 and 2010, respectively. Fees relate primarily to transaction and monitoring fees which are made in the ordinary course of business and under terms that would have been obtained from unaffiliated third parties.

**Loans to Affiliates**

Loans to affiliates consist of interest-bearing advances to certain Blackstone individuals to finance their investments in certain Blackstone Funds. These loans earn interest at Blackstone's cost of borrowing and such interest totaled $0.6 million and $0.4 million for the three months ended June 30, 2011 and 2010, respectively, and $1.3 million and $1.1 million for the six months ended June 30, 2011 and 2010, respectively. No such loans to any director or executive officer of Blackstone have been made or were outstanding since March 22, 2007, the date of Blackstone's initial filing with the Securities and Exchange Commission of a registration statement relating to its initial public offering.

**Contingent Repayment Guarantee**

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

**Aircraft and Other Services**

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

**Tax Receivable Agreements**

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

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

Assuming no material changes in the relevant tax law and that the corporate taxpayers earn sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, the expected future payments under the tax receivable agreements (which are taxable to the recipients) will aggregate $1,287.0 million over the next 15 years. The after-tax net present value of these estimated payments totals $352.7 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 $1.2 billion of investment commitments as of June 30, 2011 representing general partner capital funding commitments to the Blackstone Funds, limited partner capital funding to other funds and Blackstone principal investment commitments. The consolidated Blackstone Funds had signed investment commitments of $23.3 million as of June 30, 2011 which includes $6.9 million of signed investment commitments for portfolio company acquisitions in the process of closing.

### Contingencies

#### *Guarantees*

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

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***Contingent Performance Fees***

There were $166.3 million of segment level Performance Fees related to the hedge funds in the Hedge Fund Solutions, Credit Businesses and Real Estate segments through the period ended June 30, 2011 attributable to arrangements where the measurement period had not ended. Measurement periods may be greater than the current reporting period. On a consolidated basis, after eliminations, such Performance Fees were $164.4 million for the six months ended June 30, 2011.

***Litigation***

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

***Contingent Obligations (Clawback)***

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

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

The following table presents the clawback obligations by segment:

| | June 30, 2011 | | | December 31, 2010 | | |
|---|---|---|---|---|---|---|
| Segment | Blackstone Holdings | Current and Former Personnel | Total | Blackstone Holdings | Current and Former Personnel | Total |
| Private Equity | $ 53,277 | $ 117,074 | $170,351 | $ 62,534 | $ 118,845 | $181,379 |
| Real Estate | 30,624 | 27,708 | 58,332 | 30,623 | 61,827 | 92,450 |
| Total | $ 83,901 | $ 144,782 | $228,683 | $ 93,157 | $ 180,672 | $273,829 |

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

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## 17. SEGMENT REPORTING

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

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

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

- Private Equity — Blackstone's Private Equity segment comprises its management of private equity funds.
- Real Estate — Blackstone's Real Estate segment primarily comprises its management of general opportunistic real estate funds and internationally focused opportunistic real estate funds. In addition, the segment has debt investment funds targeting non-controlling real estate debt-related investment opportunities in the public and private markets, primarily in the United States and Europe.
- Hedge Fund Solutions — Blackstone's Hedge Fund Solutions segment is comprised of Blackstone Alternative Asset Management ("BAAM"), an institutional solutions provider utilizing hedge funds across a variety of strategies and the Indian-focused and Asian-focused closed-end mutual funds.
- Credit Businesses — Blackstone's Credit Businesses segment is comprised principally of GSO and manages credit-oriented funds, CLOs, credit-focused separately managed accounts and publicly registered debt-focused investment companies.
- Financial Advisory — Blackstone's Financial Advisory segment comprises its financial advisory services, restructuring and reorganization advisory services and Park Hill Group, which provides fund placement services for alternative investment funds.

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

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

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

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

| | Three Months Ended June 30, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Private Equity | Real Estate | Hedge Fund Solutions | Credit Businesses | Financial Advisory | Total Segments |
| Segment Revenues | | | | | | |
| Management and Advisory Fees | | | | | | |
| Base Management Fees | $ 82,297 | $ 97,467 | $ 79,290 | $ 57,420 | $ — | $ 316,474 |
| Advisory Fees | — | — | — | — | 102,243 | 102,243 |
| Transaction and Other Fees, Net | 52,353 | 49,288 | 861 | 849 | 210 | 103,561 |
| Management Fee Offsets | (7,629) | (745) | (196) | (105) | — | (8,675) |
| Total Management and Advisory Fees | 127,021 | 146,010 | 79,955 | 58,164 | 102,453 | 513,603 |
| Performance Fees | | | | | | |
| Realized | 1,362 | 20,832 | 667 | 37,354 | — | 60,215 |
| Unrealized | 187,190 | 429,458 | 3,441 | (7,246) | — | 612,843 |
| Total Performance Fees | 188,552 | 450,290 | 4,108 | 30,108 | — | 673,058 |
| Investment Income (Loss) | | | | | | |
| Realized | 3,021 | 11,394 | 12,855 | 3,236 | 226 | 30,732 |
| Unrealized | 76,947 | 37,332 | (12,864) | 5,437 | (15) | 106,837 |
| Total Investment Income (Loss) | 79,968 | 48,726 | (9) | 8,673 | 211 | 137,569 |
| Interest and Dividend Revenue | 3,197 | 2,989 | 472 | 902 | 1,723 | 9,283 |
| Other | 665 | 515 | (38) | (47) | 33 | 1,128 |
| Total Revenues | 399,403 | 648,530 | 84,488 | 97,800 | 104,420 | 1,334,641 |
| Expenses | | | | | | |
| Compensation and Benefits | | | | | | |
| Compensation | 66,694 | 71,618 | 32,288 | 34,170 | 73,968 | 278,738 |
| Performance Fee Compensation | | | | | | |
| Realized | 49 | 9,382 | 253 | 18,027 | — | 27,711 |
| Unrealized | 29,309 | 91,021 | 2,955 | (5,188) | — | 118,097 |
| Total Compensation and Benefits | 96,052 | 172,021 | 35,496 | 47,009 | 73,968 | 424,546 |
| Other Operating Expenses | 30,124 | 22,971 | 16,075 | 10,226 | 19,967 | 99,363 |
| Total Expenses | 126,176 | 194,992 | 51,571 | 57,235 | 93,935 | 523,909 |
| Economic Net Income | $273,227 | $453,538 | $ 32,917 | $ 40,565 | $ 10,485 | $ 810,732 |

## 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 June 30, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Private Equity | Real Estate | Hedge Fund Solutions | Credit Businesses | Financial Advisory | Total Segments |
| Segment Revenues | | | | | | |
| Management and Advisory Fees | | | | | | |
| Base Management Fees | $ 66,795 | $ 82,916 | $ 65,533 | $ 47,670 | $ — | $262,914 |
| Advisory Fees | — | — | — | — | 134,099 | 134,099 |
| Transaction and Other Fees, Net | 16,367 | 2,979 | 870 | 299 | 102 | 20,617 |
| Management Fee Offsets | — | (110) | (72) | 3 | — | (179) |
| Total Management and Advisory Fees | 83,162 | 85,785 | 66,331 | 47,972 | 134,201 | 417,451 |
| Performance Fees | | | | | | |
| Realized | 1,106 | 16,319 | 1,021 | 27,928 | — | 46,374 |
| Unrealized | (24,020) | 21,117 | (2,596) | (15,239) | — | (20,738) |
| Total Performance Fees | (22,914) | 37,436 | (1,575) | 12,689 | — | 25,636 |
| Investment Income (Loss) | | | | | | |
| Realized | 3,141 | 3,900 | 5,438 | 3,291 | (49) | 15,721 |
| Unrealized | 17,275 | 79,543 | (6,749) | (3,444) | 561 | 87,186 |
| Total Investment Income (Loss) | 20,416 | 83,443 | (1,311) | (153) | 512 | 102,907 |
| Interest and Dividend Revenue | 2,728 | 2,178 | 353 | 403 | 1,268 | 6,930 |
| Other | 460 | (390) | (40) | (332) | (342) | (644) |
| Total Revenues | 83,852 | 208,452 | 63,758 | 60,579 | 135,639 | 552,280 |
| Expenses | | | | | | |
| Compensation and Benefits | | | | | | |
| Compensation | 46,612 | 44,528 | 26,388 | 26,982 | 76,152 | 220,662 |
| Performance Fee Compensation | | | | | | |
| Realized | 128 | 8,895 | 356 | 13,500 | — | 22,879 |
| Unrealized | (10,296) | 15,999 | (977) | (5,618) | — | (892) |
| Total Compensation and Benefits | 36,444 | 69,422 | 25,767 | 34,864 | 76,152 | 242,649 |
| Other Operating Expenses | 28,677 | 17,647 | 12,353 | 12,167 | 17,316 | 88,160 |
| Total Expenses | 65,121 | 87,069 | 38,120 | 47,031 | 93,468 | 330,809 |
| Economic Net Income | $ 18,731 | $121,383 | $ 25,638 | $ 13,548 | $ 42,171 | $221,471 |

**THE BLACKSTONE GROUP L.P.**

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

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

| | Three Months Ended June 30, 2011 | | | Three Months Ended June 30, 2010 | | |
|---|---|---|---|---|---|---|
| | Total Segments | Consolidation Adjustments and Reconciling Items | Blackstone Consolidated | Total Segments | Consolidation Adjustments and Reconciling Items | Blackstone Consolidated |
| Revenues | $1,334,641 | $ (26,360)(a) | $1,308,281 | $552,280 | $ (2,192)(a) | $ 550,088 |
| Expenses | $ 523,909 | $ 460,922 (b) | $ 984,831 | $330,809 | $ 796,957 (b) | $1,127,766 |
| Other Income | $ — | $ (74,654)(c) | $ (74,654) | $ — | $ (59,250)(c) | $ (59,250) |
| Economic Net Income (Loss) | $ 810,732 | $ (561,936)(d) | $ 248,796 | $221,471 | $ (858,399)(d) | $ (636,928) |

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

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

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

| | Three Months Ended June 30, 2011 | Three Months Ended June 30, 2010 |
|---|---|---|
| Fund Management Fees and Performance Fees Eliminated in Consolidation | $ 24,416 | $ (8,428) |
| Fund Expenses Added in Consolidation | 403 | 10,072 |
| Non-Controlling Interests in Income (Loss) of Consolidated Entities | (92,548) | (58,294) |
| Transaction-Related Other Income | (6,925) | (2,600) |
| Total Consolidation Adjustments and Reconciling Items | $ (74,654) | $ (59,250) |

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

| | Three Months Ended June 30, 2011 | Three Months Ended June 30, 2010 |
|---|---|---|
| Economic Net Income | $ 810,732 | $ 221,471 |
| Adjustments | | |
| Amortization of Intangibles | (44,905) | (40,822) |
| IPO and Acquisition-Related Charges | (424,483) | (749,930) |
| Non-Controlling Interests in Income (Loss) of Consolidated Entities | (92,548) | (67,647) |
| Total Consolidation Adjustments and Reconciling Items | (561,936) | (858,399) |
| Income (Loss) Before Provision (Benefit) for Taxes | $ 248,796 | $ (636,928) |

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**THE BLACKSTONE GROUP L.P.**

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

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

| | Six Months Ended June 30, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Private Equity | Real Estate | Hedge Fund Solutions | Credit Businesses | Financial Advisory | Total Segments |
| Segment Revenues | | | | | | |
| Management and Advisory Fees | | | | | | |
| Base Management Fees | $ 162,232 | $ 192,906 | $ 154,902 | $ 112,021 | $ — | $ 622,061 |
| Advisory Fees | — | — | — | — | 172,495 | 172,495 |
| Transaction and Other Fees, Net | 87,695 | 70,831 | 1,588 | 1,594 | 216 | 161,924 |
| Management Fee Offsets | (15,518) | (1,250) | (320) | (123) | — | (17,211) |
| Total Management and Advisory Fees | 234,409 | 262,487 | 156,170 | 113,492 | 172,711 | 939,269 |
| Performance Fees | | | | | | |
| Realized | 83,751 | 23,425 | 1,560 | 47,079 | — | 155,815 |
| Unrealized | 219,727 | 797,562 | 22,694 | 78,057 | — | 1,118,040 |
| Total Performance Fees | 303,478 | 820,987 | 24,254 | 125,136 | — | 1,273,855 |
| Investment Income (Loss) | | | | | | |
| Realized | 20,928 | 14,313 | 14,196 | 4,471 | 323 | 54,231 |
| Unrealized | 106,073 | 98,738 | (5,744) | 9,969 | 378 | 209,414 |
| Total Investment Income (Loss) | 127,001 | 113,051 | 8,452 | 14,440 | 701 | 263,645 |
| Interest and Dividend Revenue | 6,702 | 6,277 | 988 | 1,355 | 3,409 | 18,731 |
| Other | 1,476 | 1,375 | 66 | 51 | 419 | 3,387 |
| Total Revenues | 673,066 | 1,204,177 | 189,930 | 254,474 | 177,240 | 2,498,887 |
| Expenses | | | | | | |
| Compensation and Benefits | | | | | | |
| Compensation | 122,948 | 130,119 | 60,945 | 64,495 | 130,129 | 508,636 |
| Performance Fee Compensation | | | | | | |
| Realized | 7,767 | 10,612 | 553 | 23,322 | — | 42,254 |
| Unrealized | 34,773 | 197,522 | 8,313 | 40,014 | — | 280,622 |
| Total Compensation and Benefits | 165,488 | 338,253 | 69,811 | 127,831 | 130,129 | 831,512 |
| Other Operating Expenses | 58,837 | 51,337 | 29,083 | 25,583 | 37,498 | 202,338 |
| Total Expenses | 224,325 | 389,590 | 98,894 | 153,414 | 167,627 | 1,033,850 |
| Economic Net Income | $ 448,741 | $ 814,587 | $ 91,036 | $ 101,060 | $ 9,613 | $ 1,465,037 |
| Segment Assets as of June 30, 2011 | $4,374,920 | $4,026,627 | $ 802,623 | $1,663,683 | $662,383 | $11,530,236 |

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)

| | Six Months Ended June 30, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Private Equity | Real Estate | Hedge Fund Solutions | Credit Businesses | Financial Advisory | Total Segments |
| Segment Revenues | | | | | | |
| Management and Advisory Fees | | | | | | |
| Base Management Fees | $132,227 | $165,976 | $129,399 | $ 87,283 | $ — | $ 514,885 |
| Advisory Fees | — | — | — | — | 210,667 | 210,667 |
| Transaction and Other Fees, Net | 48,339 | 4,921 | 1,679 | 835 | 103 | 55,877 |
| Management Fee Offsets | — | (599) | (72) | (686) | — | (1,357) |
| Total Management and Advisory Fees | 180,566 | 170,298 | 131,006 | 87,432 | 210,770 | 780,072 |
| Performance Fees | | | | | | |
| Realized | 47,281 | 22,267 | 3,138 | 27,569 | — | 100,255 |
| Unrealized | 21,529 | 32,508 | 7,817 | 49,741 | — | 111,595 |
| Total Performance Fees | 68,810 | 54,775 | 10,955 | 77,310 | — | 211,850 |
| Investment Income | | | | | | |
| Realized | 2,646 | 6,532 | 5,188 | 6,524 | 138 | 21,028 |
| Unrealized | 101,959 | 126,435 | 5,131 | 4,391 | 791 | 238,707 |
| Total Investment Income | 104,605 | 132,967 | 10,319 | 10,915 | 929 | 259,735 |
| Interest and Dividend Revenue | 6,156 | 4,896 | 828 | 1,076 | 2,664 | 15,620 |
| Other | 560 | (2,266) | (123) | (791) | (1,274) | (3,894) |
| Total Revenues | 360,697 | 360,670 | 152,985 | 175,942 | 213,089 | 1,263,383 |
| Expenses | | | | | | |
| Compensation and Benefits | | | | | | |
| Compensation | 93,522 | 84,678 | 47,130 | 55,325 | 130,644 | 411,299 |
| Performance Fee Compensation | | | | | | |
| Realized | 6,133 | 10,419 | 1,127 | 12,941 | — | 30,620 |
| Unrealized | (3,952) | 22,936 | 2,806 | 31,918 | — | 53,708 |
| Total Compensation and Benefits | 95,703 | 118,033 | 51,063 | 100,184 | 130,644 | 495,627 |
| Other Operating Expenses | 53,108 | 31,937 | 23,638 | 20,457 | 32,043 | 161,183 |
| Total Expenses | 148,811 | 149,970 | 74,701 | 120,641 | 162,687 | 656,810 |
| Economic Net Income | $211,886 | $210,700 | $ 78,284 | $ 55,301 | $ 50,402 | $ 606,573 |

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

| | June 30, 2011 and the Six Months Then Ended | | | Six Months Ended June 30, 2010 | | |
|---|---|---|---|---|---|---|
| | Total Segments | Consolidation Adjustments and Reconciling Items | Blackstone Consolidated | Total Segments | Consolidation Adjustments and Reconciling Items | Blackstone Consolidated |
| Revenues | $ 2,498,887 | $ (37,337)(a) | $ 2,461,550 | $1,263,383 | $ (12,056)(a) | $1,251,327 |
| Expenses | $ 1,033,850 | $ 941,845(b) | $ 1,975,695 | $ 656,810 | $ 1,571,670(b) | $2,228,480 |
| Other Income | $ — | $ (119,845)(c) | $ (119,845) | $ — | $ 112,554(c) | $ 112,554 |
| Economic Net Income (Loss) | $ 1,465,037 | $ (1,099,027)(d) | $ 366,010 | $ 606,573 | $ (1,471,172)(d) | $ (864,599) |
| Total Assets | $11,530,236 | $ 10,800,895(e) | $22,331,131 | | | |

THE BLACKSTONE GROUP L.P.

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

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2011 | 2010 |
| Fund Management Fees and Performance Fees Eliminated in Consolidation | $ 33,519 | $ (5,666) |
| Fund Expenses Added in Consolidation | 12,616 | 10,780 |
| Non-Controlling Interests in Income (Loss) of Consolidated Entities | (163,604) | 101,641 |
| Transactional Other Income | (2,376) | 5,799 |
| Total Consolidation Adjustments and Reconciling Items | $(119,845) | $112,554 |

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2011 | 2010 |
| Economic Net Income | $ 1,465,037 | $ 606,573 |
| Adjustments | | |
| Amortization of Intangibles | (89,079) | (80,334) |
| IPO and Acquisition-Related Charges | (846,344) | (1,476,652) |
| Non-Controlling Interests in Income (Loss) of Consolidated Entities | (163,604) | 85,814 |
| Total Consolidation Adjustments and Reconciling Items | (1,099,027) | (1,471,172) |
| Income (Loss) Before Provision for Taxes | $ 366,010 | $ (864,599) |

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

## 18. SUBSEQUENT EVENTS

There have been no events since June 30, 2011 that require recognition or disclosure in the Condensed Consolidated Financial Statements.

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## ITEM 1A. UNAUDITED SUPPLEMENTAL PRESENTATION OF STATEMENTS OF FINANCIAL CONDITION

### THE BLACKSTONE GROUP L.P.

### Unaudited Consolidating Statements of Financial Condition (Dollars in Thousands)

| | June 30, 2011 | | | |
|---|---|---|---|---|
| | Consolidated Operating Partnerships | Consolidated Blackstone Funds (a) | Reclasses and Eliminations | Consolidated |
| **Assets** | | | | |
| Cash and Cash Equivalents | $ 434,803 | $ — | $ — | $ 434,803 |
| Cash Held by Blackstone Funds and Other | 67,829 | 928,837 | — | 996,666 |
| Investments† | 5,594,207 | 10,252,561 | (527,766) | 15,319,002 |
| Accounts Receivable | 463,492 | 65,468 | — | 528,960 |
| Reverse Repurchase Agreements | 93,975 | — | — | 93,975 |
| Due from Affiliates | 741,673 | 90,211 | (75,828) | 756,056 |
| Intangible Assets, Net | 720,134 | — | — | 720,134 |
| Goodwill | 1,703,602 | — | — | 1,703,602 |
| Other Assets | 272,573 | 69,535 | (2,122) | 339,986 |
| Deferred Tax Assets | 1,437,947 | — | — | 1,437,947 |
| **Total Assets** | $11,530,235 | $11,406,612 | $ (605,716) | $22,331,131 |
| **Liabilities and Partners' Capital** | | | | |
| Loans Payable | $ 1,032,481 | $ 8,267,661 | $ — | $ 9,300,142 |
| Due to Affiliates | 1,558,455 | 376,996 | (54,161) | 1,881,290 |
| Accrued Compensation and Benefits | 980,558 | — | — | 980,558 |
| Securities Sold, Not Yet Purchased | 73,795 | 1,102 | — | 74,897 |
| Repurchase Agreements | 77,198 | — | — | 77,198 |
| Accounts Payable, Accrued Expenses and Other Liabilities | 305,230 | 485,161 | (54,577) | 735,814 |
| **Total Liabilities** | 4,027,717 | 9,130,920 | (108,738) | 13,049,899 |
| **Redeemable Non-Controlling Interests in Consolidated Entities** | — | 775,185 | — | 775,185 |
| **Partners' Capital** | | | | |
| Partners' Capital | 4,391,449 | 498,929 | (498,979) | 4,391,399 |
| Appropriated Partners' Capital | — | 211,758 | — | 211,758 |
| Accumulated Other Comprehensive Income | 2,644 | (14) | — | 2,630 |
| Non-Controlling Interests in Consolidated Entities | 384,149 | 789,834 | 2,001 | 1,175,984 |
| Non-Controlling Interests in Blackstone Holdings | 2,724,276 | — | — | 2,724,276 |
| **Total Partners' Capital** | 7,502,518 | 1,500,507 | (496,978) | 8,506,047 |
| **Total Liabilities and Partners' Capital** | $11,530,235 | $11,406,612 | $ (605,716) | $22,331,131 |

† Included within Investments of the Consolidated Operating Partnerships is $1.9 billion representing Performance Fees due from the Blackstone Funds.

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## THE BLACKSTONE GROUP L.P.

### Unaudited Consolidating Statements of Financial Condition—(Continued)
### (Dollars in Thousands)

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

(a) The Consolidated Blackstone Funds consisted of the following:

Blackstone Distressed Securities Fund L.P.
Blackstone Market Opportunities Fund L.P.
Blackstone Strategic Alliance Fund L.P.
Blackstone Strategic Alliance Fund II L.P.*
Blackstone Strategic Equity Fund L.P.
Blackstone Value Recovery Fund L.P.
Blackstone/GSO Market Neutral Credit Fund L.P.*
Blackstone/GSO Secured Trust Ltd

BTD CP Holdings, LP
GSO Co-Investment Partners LLC
GSO Legacy Associates II LLC
GSO Legacy Associates LLC
Shanghai Blackstone Equity Investment Partnership L.P.*
The Asia Opportunities Fund L.P.
Private equity side-by-side investment vehicles
Real estate side-by-side investment vehicles
Mezzanine side-by-side investment vehicles
Collateralized loan obligation vehicles

* Consolidated as of June 30, 2011 only.

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

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

### Our Business

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

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

Our business is organized into five business segments:

- **Private Equity.** We are a world leader in private equity investing, having managed five general private equity funds, as well as two sector focused funds and a regionally focused fund, since we established this business in 1987. In January 2011, we commenced the investment period on our sixth general private equity fund. Through our private equity funds we pursue transactions throughout the world, including leveraged buyout acquisitions of seasoned companies, transactions involving growth equity or start-up businesses in established industries, minority investments, corporate partnerships, distressed debt, structured securities and industry consolidations, in all cases in strictly friendly transactions.
- **Real Estate.** We are a world leader in real estate investing with an assortment of real estate funds that are diversified geographically and across a variety of sectors. We launched our first real estate fund in 1994 and have managed six opportunistic real estate funds, three European focused real estate funds, and a number of real estate debt investment funds. In addition, in November 2010, we commenced our management of the Bank of America Merrill Lynch Asia real estate platform. Our real estate funds have made significant investments in lodging, major urban office buildings and a variety of real estate operating companies. In addition, our debt investment funds target high yield real estate debt related investment opportunities in the public and private markets, primarily in the United States and Europe.
- **Hedge Fund Solutions.** Blackstone's Hedge Fund Solutions segment is comprised of Blackstone Alternative Asset Management ("BAAM") and the Indian-focused and Asian-focused closed-end mutual funds. BAAM was organized in 1990 and has developed into a leading institutional solutions provider utilizing hedge funds across a wide variety of strategies. BAAM is the world's largest discretionary allocator to hedge funds.
- **Credit Businesses.** Our Credit Businesses segment is comprised principally of GSO Capital Partners ("GSO"). GSO manages a variety of credit-oriented funds including senior credit-oriented funds, distressed debt funds, mezzanine funds and general credit-oriented funds. GSO is a world-wide leader in credit oriented products.
- **Financial Advisory** . Our Financial Advisory segment serves a diverse and global group of clients with financial advisory services, restructuring and reorganization advisory services and fund placement services for alternative investment funds.

We generate our 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 cyclicality of the different businesses in which we operate. Net investment gains and investment income generated by the Blackstone Funds, principally private equity and real estate funds, are driven by value created by our operating and strategic initiatives as well as overall market conditions. Our funds initially record fund investments at cost and then such investments are subsequently recorded at fair value. Fair values are affected by changes in the fundamentals of the portfolio company, the portfolio company’s industry, the overall economy and other market conditions.

**Business Environment**

Global equity markets were mixed in the second quarter of 2011. Equity indices in developed markets ended the quarter mostly flat, while indices in emerging markets declined 5-10%. Credit markets were more resilient than equities, although high yield spreads moderately widened. Market volatility increased late in the quarter as investor optimism, following a strong first-quarter corporate earnings season, was supplanted by renewed European sovereign concerns, volatility in commodities and concerns over emerging market inflation. In the U.S. specifically, markets continue to be impacted by uncertainty around economic growth and employment.

The operating and investment environment for real estate remained favorable during the second quarter of 2011. The slowly improving U.S. economy has resulted in modest increases in tenant demand, while new supply has been limited due to the financial infeasibility of development and the continued lack of construction financing. The strengthening fundamentals as well as slowly recovering debt markets for stabilized assets have resulted in growing demand from institutional investors for high quality leased properties, which in turn has led to improving valuations. Notwithstanding the demand for stabilized properties, significant distress remains in the sector, with overleveraged assets and impaired loans providing attractive investment opportunities. Our primary investment focus remains on bankruptcies, recapitalizations and debt acquisitions.

In the office sector, increased tenant activity has led to the strongest occupancy gains across the U.S. market in nearly four years, with some markets seeing sharp increases in asking rents, particularly for Class A space. The hospitality sector continued to realize steady growth during the second quarter of 2011, with U.S. RevPAR (Revenue Per Available Room) growing 8.1%, resulting in part from improving group demand and an increase in ADRs (Average Daily Rates) in the luxury and upscale segments.

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

**Key Financial Measures and Indicators**

Our key financial measures and indicators are discussed below.

***Revenues***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Expenses***

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

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

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

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

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

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

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

***Income Taxes***

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

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

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

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

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

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

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

In May 2010, the U.S. House of Representatives passed similar legislation that would have generally taxed, after 2010, income and gains, including gain on sale, attributable to an 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 would have been considered to be a qualified capital interest under the legislation. The interests we hold in entities that are entitled to receive Carried Interest would have likely been classified as ISPIs for purposes of this legislation. The legislation provided that, for taxable years beginning ten years after the date of enactment, income derived with respect to an ISPI that is not a qualified capital interest and that is treated as ordinary income under this legislation would not be qualifying income under the tax rules applicable to publicly traded partnerships. Therefore, if similar legislation were to be enacted, we generally would be required to hold interests in entities earning income from Carried Interest through taxable subsidiary corporations following such ten-year period.

The Obama administration has indicated that 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 proposal for 2012, the Obama administration proposed that the current law regarding the treatment of Carried Interest be changed to subject such income to ordinary income tax (which would be taxed at a higher rate than the proposed blended rate under the House legislation). President Obama reiterated his support for such a change during the course of the deficit reduction deliberations among the President and Congressional leaders from April through July 2011. The Obama administration proposed similar changes in its published revenue proposals for 2010 and 2011. In June 2010, the U.S. Senate considered but did not pass legislation that is generally similar to the legislation passed by the U.S. House of Representatives in May 2010. In September 2010, this previously considered legislation was reintroduced in the U.S. Senate. It is unclear whether or when the U.S. Congress will reconsider similar legislation or if enacted, what provision will be included in any final legislation.

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

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

***Economic Net Income***

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

***Distributable Earnings***

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

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

***Net Fee Related Earnings from Operations***

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

***Operating Metrics***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Consolidated Results of Operations**

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

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

| | Three Months Ended June 30, 2011 | Three Months Ended June 30, 2010 | 2011 vs. 2010 $ | 2011 vs. 2010 % | Six Months Ended June 30, 2011 | Six Months Ended June 30, 2010 | 2011 vs. 2010 $ | 2011 vs. 2010 % |
|---|---|---|---|---|---|---|---|---|
| | (Dollars in Thousands) | | | | | | | |
| **Revenues** | | | | | | | | |
| Management and Advisory Fees | $ 498,040 | $ 406,062 | $ 91,978 | 23% | $ 910,778 | $ 760,882 | $ 149,896 | 20% |
| Performance Fees | | | | | | | | |
| Realized | 61,763 | 51,750 | 10,013 | 19% | 157,966 | 105,799 | 52,167 | 49% |
| Unrealized | 610,488 | (19,299) | 629,787 | N/M | 1,122,889 | 112,480 | 1,010,409 | N/M |
| Total Performance Fees | 672,251 | 32,451 | 639,800 | N/M | 1,280,855 | 218,279 | 1,062,576 | N/M |
| Investment Income (Loss) | | | | | | | | |
| Realized | 19,303 | 10,225 | 9,078 | 89% | 32,086 | 15,951 | 16,135 | 101% |
| Unrealized | 108,711 | 95,043 | 13,668 | 14% | 216,106 | 244,263 | (28,157) | -12% |
| Total Investment Income (Loss) | 128,014 | 105,268 | 22,746 | 22% | 248,192 | 260,214 | (12,022) | -5% |
| Interest and Dividend Revenue | 8,848 | 6,952 | 1,896 | 27% | 18,338 | 15,847 | 2,491 | 16% |
| Other | 1,128 | (645) | 1,773 | N/M | 3,387 | (3,895) | 7,282 | N/M |
| **Total Revenues** | 1,308,281 | 550,088 | 758,193 | 138% | 2,461,550 | 1,251,327 | 1,210,223 | 97% |
| **Expenses** | | | | | | | | |
| Compensation and Benefits | | | | | | | | |
| Compensation | 699,432 | 967,711 | (268,279) | -28% | 1,358,915 | 1,892,661 | (533,746) | -28% |
| Performance Fee Compensation | | | | | | | | |
| Realized | 27,712 | 22,879 | 4,833 | 21% | 42,255 | 30,620 | 11,635 | 38% |
| Unrealized | 118,098 | (892) | 118,990 | N/M | 280,623 | 53,708 | 226,915 | N/M |
| Total Compensation and Benefits | 845,242 | 989,698 | (144,456) | -15% | 1,681,793 | 1,976,989 | (295,196) | -15% |
| General, Administrative and Other | 126,118 | 121,183 | 4,935 | 4% | 255,504 | 227,562 | 27,942 | 12% |
| Interest Expense | 14,185 | 7,682 | 6,503 | 85% | 27,988 | 14,867 | 13,121 | 88% |
| Fund Expenses | (714) | 9,203 | (9,917) | N/M | 10,410 | 9,062 | 1,348 | 15% |
| **Total Expenses** | 984,831 | 1,127,766 | (142,935) | -13% | 1,975,695 | 2,228,480 | (252,785) | -11% |
| **Other Income** | | | | | | | | |
| Net Gains from Fund Investment Activities | (74,654) | (59,250) | (15,404) | -26% | (119,845) | 112,554 | (232,399) | N/M |
| **Income (Loss) Before Provision for Taxes** | 248,796 | (636,928) | 885,724 | N/M | 366,010 | (864,599) | 1,230,609 | N/M |
| **Provision for Taxes** | 64,199 | 19,392 | 44,807 | N/M | 103,049 | 29,027 | 74,022 | N/M |
| **Net Income (Loss)** | 184,597 | (656,320) | 840,917 | N/M | 262,961 | (893,626) | 1,156,587 | N/M |
| **Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities** | (140) | (421) | 281 | 67% | 21,885 | 23,548 | (1,663) | -7% |
| **Net Income (Loss) Attributable to Non- Controlling Interests in Consolidated Entities** | (92,408) | (57,873) | (34,535) | -60% | (185,489) | 78,093 | (263,582) | N/M |
| **Net Income (Loss) Attributable to Non- Controlling Interests in Blackstone Holdings** | 190,908 | (404,706) | 595,614 | N/M | 297,624 | (680,570) | 978,194 | N/M |
| **Net Income (Loss) Attributable to The Blackstone Group L.P.** | $ 86,237 | $ (193,320) | $ 279,557 | N/M | $ 128,941 | $ (314,697) | $ 443,638 | N/M |

**N/M = not meaningful.**

*Revenues*

Total Revenues were $1.3 billion for the three months ended June 30, 2011, an increase of $758.2 million compared to Total Revenues for the three months ended June 30, 2010 of $550.1 million. The increase in revenues was primarily attributable to an increase of $639.8 million in Performance Fees, an increase of $92.0 million in Management and Advisory Fees and an increase of $22.7 million in Investment Income. The increase in Performance Fees was largely driven by the appreciation in fair value of the investments in our BREP V and BREP VI carry funds in our Real Estate segment, and the positive performance of our BCP IV Private Equity fund. The increase in Management and Advisory Fees was primarily attributable to (a) increases in transaction fees in our Real Estate segment, due to the continued increase in investment activity in our BREP funds, primarily as a result of BREP VI's acquisition of the U.S. assets of Centro in the second quarter of 2011, and management fees earned from the management of the Bank of America Merrill Lynch Asia real estate platform, (b) increases in management fees in our Private Equity segment, driven by fees generated from BCP VI, which had its investment period commence during the first quarter of 2011, and one time fees earned from the termination of management advisory service agreements related to portfolio companies that completed initial public offerings, and (c) increases in management fees in our Credit Businesses and Hedge Fund Solutions segments due to higher Fee-Earning Assets Under Management.

Total Revenues were $2.5 billion for the six months ended June 30, 2011, an increase of $1.2 billion compared to Total Revenues for the six months ended June 30, 2010 of $1.3 billion. The increase in revenues was primarily attributable to an increase of $1.1 billion in Performance Fees and an increase of $149.9 million in Management and Advisory Fees. The increase in Performance Fees across all segments was due to improved operating performance and projected cash flows resulting in the appreciation in fair value of the investments across our Real Estate carry funds' investments, positive changes in the BCP portfolio driven by increases in value of the public holdings and appreciation in the energy industry, and the strong performance across the Credit Businesses' strategies. The increase in Management and Advisory Fees was attributed to (a) increases in transaction fees in our Real Estate segment, driven by the continued increase in investment activity in our BREP funds, primarily as a result of BREP VI's acquisition of the U.S. assets of Centro in the second quarter of 2011, and management fees earned from the management of the Bank of America Merrill Lynch Asia real estate platform, (b) increases in management fees in our Private Equity segment driven by fees generated from BCP VI, which commenced its investment period during the first quarter of 2011, and one time fees earned from the termination of management advisory service agreements related to portfolio companies that completed initial public offerings, and (c) increases in management fees in our Credit Businesses and Hedge Fund Solutions segments due to higher Fee-Earning Assets Under Management.

*Expenses*

Expenses were $984.8 million for the three months ended June 30, 2011, a decrease of $142.9 million, or 13%, compared to $1.1 billion for the three months ended June 30, 2010. The decrease was primarily attributable to a decrease of $144.5 million in Compensation and Benefits driven by a decrease in Compensation, partially offset by an increase in Performance Fee Compensation due to improved performance in our Real Estate and Private Equity segments. Compensation decreased $268.3 million from the prior year period to $699.4 million. This decrease was primarily attributed to a decrease in equity-based compensation as a result of the absence of expense related to certain of our equity-based compensation awards that vested at the end of the second quarter of 2010. Interest Expense increased $6.5 million in the current year quarter due to Blackstone's issuance of its $400 million of senior notes in September 2010. General, Administrative and Other expenses were $126.1 million for the current year, an increase of $4.9 million, driven primarily by the levels of business activity, revenue growth and headcount.

Expenses were $2.0 billion for the six months ended June 30, 2011, a decrease of $252.8 million, or 11%, compared to $2.2 billion for the six months ended June 30, 2010. The decrease was primarily attributable to a decrease of $295.2 million in Compensation and Benefits driven by a decrease in Compensation, partially offset by an increase in Performance Fee Compensation due to improved performance in our Real Estate, Private

Equity and Credit Businesses segments. Compensation decreased $533.7 million from the prior year period to $1.4 billion. This decrease was primarily attributed to a decrease in equity-based compensation as a result of the absence of expense related to certain of our equity-based compensation awards that vested at the end of the second quarter of 2010. General, Administrative and Other expenses were $255.5 million for the current year, an increase of $27.9 million driven by the same factors as for the quarterly period noted above. Interest Expense was $28.0 million for the current year, an increase of $13.1 million from 2010, due to the senior notes issuance noted above.

*Other Income*

Other Income was $(74.7) million for the three months ended June 30, 2011, a decrease of $15.4 million compared to $(59.3) million for the three months ended June 30, 2010. Other Income is attributable to the non-controlling interest holders of the consolidated Blackstone Funds. The change was principally attributable to an increase in certain liabilities of the consolidated CLO vehicles resulting from the general improvement in the CLO vehicles market.

Other Income was $(119.8) million for the six months ended June 30, 2011, a decrease of $232.4 million compared to $112.6 million for the six months ended June 30, 2010. Other Income is attributable to the non-controlling interest holders of the consolidated Blackstone Funds. The change was principally driven by the same factors discussed above for the three month period.

*Operating Metrics*

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

| | Fee-Earning Assets Under Management June 30, | | Assets Under Management June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (Dollars in Thousands) | | | |
| Private Equity | $ 35,778,240 | $ 25,190,195 | $ 46,728,301 | $ 28,360,282 |
| Real Estate | 27,919,000 | 23,841,360 | 37,605,560 | 23,922,589 |
| Hedge Fund Solutions | 37,244,509 | 28,832,317 | 40,578,219 | 30,176,931 |
| Credit Businesses | 28,059,457 | 23,556,109 | 33,791,093 | 28,688,608 |
| Balance, End of Period (a) | $129,001,206 | $101,419,981 | $158,703,173 | $111,148,410 |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (Dollars in Thousands) | | | |
| Fee-Earning Assets Under Management | | | | |
| Balance, Beginning of Period | $124,032,696 | $ 98,070,172 | $109,500,222 | $ 96,096,997 |
| Inflows, including Commitments (b) | 7,172,639 | 6,282,532 | 25,211,296 | 8,783,150 |
| Outflows, including Distributions (c) | (2,221,019) | (1,966,897) | (7,037,716) | (2,931,235) |
| Market Appreciation (Depreciation) (d) | 16,890 | (965,826) | 1,327,404 | (528,931) |
| Balance, End of Period (a) | $129,001,206 | $101,419,981 | $129,001,206 | $101,419,981 |
| Increase | $ 4,968,510 | $ 3,349,809 | $ 19,500,984 | $ 5,322,984 |
| Increase | 4% | 3% | 18% | 6% |

| | Three Months Ended June 30, 2011 | Three Months Ended June 30, 2010 | Six Months Ended June 30, 2011 | Six Months Ended June 30, 2010 |
|---|---|---|---|---|
| | (Dollars in Thousands) | | | |
| Assets Under Management | | | | |
| Balance, Beginning of Period | $149,963,465 | $104,515,848 | $128,123,920 | $ 98,183,128 |
| Inflows, including Commitments (b) | 7,370,936 | 7,673,062 | 28,576,660 | 10,415,257 |
| Outflows, including Distributions (c) | (3,001,199) | (2,581,274) | (7,273,636) | (4,017,230) |
| Market Appreciation (Depreciation) (d) | 4,369,971 | 1,540,774 | 9,276,229 | 6,567,255 |
| Balance, End of Period (a) | $158,703,173 | $111,148,410 | $158,703,173 | $111,148,410 |
| Increase | $ 8,739,708 | $ 6,632,562 | $ 30,579,253 | $ 12,965,282 |
| Increase | 6% | 6% | 24% | 13% |

| | Three Months Ended June 30, 2011 | Three Months Ended June 30, 2010 | 2011 vs. 2010 $ | 2011 vs. 2010 % | Six Months Ended June 30, 2011 | Six Months Ended June 30, 2010 | 2011 vs. 2010 $ | 2011 vs. 2010 % |
|---|---|---|---|---|---|---|---|---|
| | (Dollars in Thousands) | | | | (Dollars in Thousands) | | | |
| Capital Deployed | | | | | | | | |
| Limited Partner Capital Invested | $3,605,411 | $1,377,717 | $2,227,694 | 162% | $5,067,084 | $2,347,541 | $2,719,543 | 116% |

(a) Fee-Earning Assets Under Management and Assets Under Management as of June 30, 2011 include $553.5 million from a joint venture in which we are the minority interest holder.

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

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

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

*Fee-Earning Assets Under Management*

Fee-Earning Assets Under Management were $129.0 billion at June 30, 2011, an increase of $5.0 billion, or 4%, compared to $124.0 billion at March 31, 2011. Inflows of $7.2 billion were primarily related to (a) inflows and drawdowns of $3.5 billion in our Credit Businesses segment principally due to the acquisition of $2.2 billion of CLO vehicles during the quarter, (b) inflows of $2.2 billion in our Hedge Fund Solutions segment primarily due to growth in its commingled and customized investment products and long only solutions business, and (c) inflows of $1.5 billion in our Real Estate segment primarily related to the deployment of additional co-investment capital, which included $1.1 billion of fee-earning co-investment capital related to the acquisition of the U.S. assets of Centro in the second quarter of 2011. Outflows of $2.2 billion were primarily attributable to (a) outflows of $1.3 billion in our Credit Businesses segment, due for the most part to deleveraging of certain CLO vehicles post their reinvestment periods and realizations in the drawdown funds, and (b) outflows of $585.4 million in our Hedge Fund Solutions segment as a result of, in general, the liquidity needs of limited partners.

Fee-Earning Assets Under Management were $129.0 billion at June 30, 2011, an increase of $19.5 billion, or 18%, compared to $109.5 billion at December 31, 2010. Inflows of $25.2 billion were primarily related to inflows of $14.3 billion in our Private Equity segment primarily due to the commencement of BCP VI's investment period, inflows of $4.7 billion in our Hedge Fund Solutions segment primarily due to growth in its commingled and customized investment products and long only solutions business, and inflows and drawdowns of $4.5 billion in our Credit Businesses segment primarily due to the acquisition of $2.2 billion of CLO vehicles in the second quarter of 2011. Outflows of $7.0 billion were primarily attributable to (a) reductions of $2.7 billion in our Private Equity segment's Fee-Earning Assets Under Management due for the most part to the end of BCP V's investment period during the first quarter of 2011 and dispositions in funds which earn fees based on remaining invested capital, and (b) outflows of $2.3 billion in our Credit Businesses segment substantially due to deleveraging of certain CLO vehicles post their reinvestment periods and realizations in the drawdown funds.

*Assets Under Management*

Assets Under Management were $158.7 billion at June 30, 2011, an increase of $8.7 billion, or 6%, compared to $150.0 billion at March 31, 2011. Inflows of $7.4 billion were primarily related to (a) inflows of $3.7 billion in our Credit Businesses segment driven by the acquisition of $2.3 billion of CLO vehicles in the second quarter of 2011, (b) inflows of $1.9 billion in our Hedge Fund Solutions segment due to growth in the long only solutions business and its commingled and customized investment products, and (c) inflows of $1.5 billion in our Real Estate segment mostly due to the deployment of additional co-investment capital related to our acquisition of the U.S. assets of Centro in the second quarter of 2011. Outflows of $3.0 billion principally from our Credit Businesses and Hedge Fund Solutions segments for the same reasons noted in Fee-Earning Assets Under Management above, were more than offset by market appreciation of $4.4 billion resulting from increases in the carrying values of the existing portfolios.

Assets Under Management were $158.7 billion at June 30, 2011, an increase of $30.6 billion, or 24%, compared to $128.1 billion at December 31, 2010. Inflows of $28.6 billion were primarily related to (a) inflows of $15.1 billion in our Private Equity segment driven by the commencement of BCP VI's investment period, (b) inflows of $6.6 billion in our Hedge Fund Solutions segment due to growth in the hedge fund manager seeding platform, long only solutions business and its commingled and customized investment products, and (c) inflows of $4.5 billion in our Credit Businesses segment principally due to the acquisition of $2.3 billion of CLO vehicles. Outflows of $7.3 billion, principally from our Credit Businesses and Hedge Fund Solutions segments for the same reasons noted in Fee-Earning Assets Under Management above, were more than offset by market appreciation of $9.3 billion.

*Limited Partner Capital Invested*

Limited Partner Capital Invested was $3.6 billion for the three months ended June 30, 2011, an increase of $2.2 billion, or 162%, from $1.4 billion for the three months ended June 30, 2010. Limited Partner Capital Invested was $5.1 billion for the six months ended June 30, 2011, an increase of $2.7 billion, or 116%, compared to $2.3 billion for the six months ended June 30, 2010. The change for the six month period primarily reflected an increase of $2.1 billion in our Real Estate segment, which was primarily related to increased investment activity by our investment funds and the acquisition of the U.S. assets of Centro.

**Segment Analysis**

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

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

***Private Equity***

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

| | Three Months Ended June 30, | | 2011 vs. 2010 | | Six Months Ended June 30, | | 2011 vs. 2010 | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | $ | % | 2011 | 2010 | $ | % |
| | (Dollars in Thousands) | | | | | | | |
| Segment Revenues | | | | | | | | |
| Management Fees | | | | | | | | |
| Base Management Fees | $ 82,297 | $ 66,795 | $ 15,502 | 23% | $162,232 | $132,227 | $ 30,005 | 23% |
| Transaction and Other Fees, Net | 52,353 | 16,367 | 35,986 | N/M | 87,695 | 48,339 | 39,356 | 81% |
| Management Fee Offsets | (7,629) | — | (7,629) | N/M | (15,518) | — | (15,518) | N/M |
| Total Management Fees | 127,021 | 83,162 | 43,859 | 53% | 234,409 | 180,566 | 53,843 | 30% |
| Performance Fees | | | | | | | | |
| Realized | 1,362 | 1,106 | 256 | 23% | 83,751 | 47,281 | 36,470 | 77% |
| Unrealized | 187,190 | (24,020) | 211,210 | N/M | 219,727 | 21,529 | 198,198 | N/M |
| Total Performance Fees | 188,552 | (22,914) | 211,466 | N/M | 303,478 | 68,810 | 234,668 | N/M |
| Investment Income | | | | | | | | |
| Realized | 3,021 | 3,141 | (120) | -4% | 20,928 | 2,646 | 18,282 | N/M |
| Unrealized | 76,947 | 17,275 | 59,672 | N/M | 106,073 | 101,959 | 4,114 | 4% |
| Total Investment Income | 79,968 | 20,416 | 59,552 | N/M | 127,001 | 104,605 | 22,396 | 21% |
| Interest and Dividend Revenue | 3,197 | 2,728 | 469 | 17% | 6,702 | 6,156 | 546 | 9% |
| Other | 665 | 460 | 205 | 45% | 1,476 | 560 | 916 | 164% |
| Total Revenues | 399,403 | 83,852 | 315,551 | N/M | 673,066 | 360,697 | 312,369 | 87% |
| Expenses | | | | | | | | |
| Compensation and Benefits | | | | | | | | |
| Compensation | 66,694 | 46,612 | 20,082 | 43% | 122,948 | 93,522 | 29,426 | 31% |
| Performance Fee Compensation | | | | | | | | |
| Realized | 49 | 128 | (79) | -62% | 7,767 | 6,133 | 1,634 | 27% |
| Unrealized | 29,309 | (10,296) | 39,605 | N/M | 34,773 | (3,952) | 38,725 | N/M |
| Total Compensation and Benefits | 96,052 | 36,444 | 59,608 | 164% | 165,488 | 95,703 | 69,785 | 73% |
| Other Operating Expenses | 30,124 | 28,677 | 1,447 | 5% | 58,837 | 53,108 | 5,729 | 11% |
| Total Expenses | 126,176 | 65,121 | 61,055 | 94% | 224,325 | 148,811 | 75,514 | 51% |
| Economic Net Income | $273,227 | $ 18,731 | $254,496 | N/M | $448,741 | $211,886 | $236,855 | 112% |

*Revenues*

Revenues were $399.4 million for the three months ended June 30, 2011 compared to $83.9 million for the three months ended June 30, 2010, an increase of $315.6 million. The increase in revenues was attributable to increases in Performance Fees, Investment Income and Total Management Fees of $211.5 million, $59.6 million and $43.9 million, respectively.

Performance Fees, which are determined on a fund by fund basis, were $188.6 million for the three months ended June 30, 2011, an increase of $211.5 million, compared to $(22.9) million for the three months ended June 30, 2010. The increase was driven by the BCP IV investments as discussed below. Two of the other holdings of our funds, Freescale and Vanguard, also completed their initial public offerings during the quarter. Investment Income was $80.0 million compared to $20.4 million for the three months ended June 30, 2010, due to positive performance across all contributed funds, which appreciated 9% during the period. The returns in BCP V were driven by an increase in the share price and resulting value of Nielsen which completed its initial public offering in the first quarter and the performance of privately held investments in the energy sector.

BCP IV's performance was driven by the initial public offering of Kosmos and gains in some of the other companies that were taken public in recent quarters, most notably Team Health. At June 30, 2011, the unrealized value and cumulative realized proceeds, before Carried Interest, fees and expenses, of our contributed private equity funds represented 1.5 times investors' original investments. On a realized/partially realized basis, this multiple was 2.3 times investors' original investments for contributed funds.

Total Management Fees were $127.0 million for the three months ended June 30, 2011, an increase of $43.9 million compared to $83.2 million for the three months ended June 30, 2010, driven by higher Base Management Fees and Transaction and Other Fees but slightly offset by Management Fee Offsets. Base Management Fees were $82.3 million for the three months ended June 30, 2011, an increase of $15.5 million compared to $66.8 million for the three months ended June 30, 2010, principally as a result of fees generated from BCP VI, which commenced its investment period during the first quarter of 2011. Transaction and Other Fees were $52.4 million for the three months ended June 30, 2011, an increase of $36.0 million compared to $16.4 million for the three months ended June 30, 2010, principally as a result of one time fees earned from the termination of management advisory service agreements related to portfolio companies that completed initial public offerings. Management Fee Offsets relate to a reduction of management fees payable by our limited partners in BCP VI based on the amount they reimbursed Blackstone for placement fees.

Revenues were $673.1 million for the six months ended June 30, 2011, an increase of $312.4 million compared to $360.7 million for the six months ended June 30, 2010. The increase in revenues was attributed to increases in Performance Fees, Total Management Fees and Investment Income of $234.7 million, $53.8 million and $22.4 million, respectively.

Performance Fees, which are determined on a fund by fund basis, were $303.5 million for the six months ended June 30, 2011, an increase of $234.7 million, compared to $68.8 million for the six months ended June 30, 2010, principally due to positive performance in the BCP IV portfolio driven by public holdings and appreciation of investments in the energy and hospitality industries. Investment Income was $127.0 million, an increase of $22.4 million, compared to $104.6 million for the six months ended June 30, 2010, principally driven by BCP IV, which appreciated 27% during the six months ended June 30, 2011. BCP V had positive performance for the year to date period, but such performance was significantly outpaced by returns during the six months ended June 30, 2010.

Total Management Fees were $234.4 million for the six months ended June 30, 2011, an increase of $53.8 million compared to $180.6 million for the six months ended June 30, 2010, driven by increased Base Management Fees and Transaction and Other Fees, partially offset by Management Fee Offsets. Base Management Fees were $162.2 million for the six months ended June 30, 2011, an increase of $30.0 million compared to $132.2 million for the six months ended June 30, 2010, principally as a result of fees generated from BCP VI, which commenced its investment period during the first quarter of 2011. Transaction and Other Fees were $87.7 million for the six months ended June 30, 2011, an increase of $39.4 million compared to $48.3 million for the six months ended June 30, 2010, principally as a result of one time fees earned from the termination of management advisory service agreements related to portfolio companies that completed initial public offerings as well as fees generated from the increase in new investment activity. Management Fee Offsets relate to a reduction of management fees payable by our limited partners in BCP VI based on the amount they reimbursed Blackstone for placement fees.

*Expenses*

Expenses were $126.2 million for the three months ended June 30, 2011, an increase of $61.1 million, compared to $65.1 million for the three months ended June 30, 2010. The $61.1 million increase was primarily attributed to a $39.5 million increase in Performance Fee Compensation and a $20.1 million increase in Compensation. Performance Fee Compensation increased as a result of the increases in Performance Fees revenue. Compensation increased as a result of the increased Management Fees revenue described above as a portion of compensation expense is related to the results of the business. Other Operating Expenses slightly increased to $30.1 million, principally due to an increase in interest expense allocated to the segment offset by decreases in other non-compensation expenses.

Expenses were $224.3 million for the six months ended June 30, 2011, an increase of $75.5 million, compared to $148.8 million for the six months ended June 30, 2010. The $75.5 million increase was primarily attributed to a $29.4 million increase in Compensation, a $40.4 million increase in Performance Fee Compensation and a $5.7 million increase in Other Operating Expenses. Performance Fee Compensation increased as a result of the increases in Performance Fees revenue. Compensation increased as a result of the increased Management Fees revenue described above. Other Operating Expenses increased $5.7 million to $58.8 million, principally due to an increase in interest expense allocated to the segment.

*Operating Metrics*

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (Dollars in Thousands) | | | |
| Fee-Earning Assets Under Management | | | | |
| Balance, Beginning of Period | $35,892,804 | $25,173,936 | $24,188,555 | $24,521,394 |
| Inflows, including Commitments | 24,867 | 49,452 | 14,289,311 | 866,350 |
| Outflows, including Distributions | (163,777) | (8,828) | (2,728,754) | (180,458) |
| Market Appreciation (Depreciation) | 24,346 | (24,365) | 29,128 | (17,091) |
| Balance, End of Period (a) | $35,778,240 | $25,190,195 | $35,778,240 | $25,190,195 |
| Increase (Decrease) | $ (114,564) | $ 16,259 | $11,589,685 | $ 668,801 |
| Increase (Decrease) | 0% | 0% | 48% | 3% |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (Dollars in Thousands) | | | |
| Assets Under Management | | | | |
| Balance, Beginning of Period | $43,955,392 | $28,022,326 | $29,319,136 | $24,758,992 |
| Inflows, including Commitments | 240,871 | 31,706 | 15,101,669 | 566,547 |
| Outflows, including Distributions | (147,308) | (178,537) | (1,888,745) | (714,698) |
| Market Appreciation (Depreciation) | 2,679,346 | 484,787 | 4,196,241 | 3,749,441 |
| Balance, End of Period (a) | $46,728,301 | $28,360,282 | $46,728,301 | $28,360,282 |
| Increase | $ 2,772,909 | $ 337,956 | $17,409,165 | $ 3,601,290 |
| Increase | 6% | 1% | 59% | 15% |

| | Three Months Ended June 30, | | 2011 vs. 2010 | | Six Months Ended June 30, | | 2011 vs. 2010 | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | $ | % | 2011 | 2010 | $ | % |
| | (Dollars in Thousands) | | | | (Dollars in Thousands) | | | |
| Capital Deployed | | | | | | | | |
| Limited Partner Capital Invested | $667,341 | $469,808 | $197,533 | 42% | $1,320,288 | $857,712 | $462,576 | 54% |

(a) Fee-Earning Assets Under Management and Assets Under Management as of June 30, 2011 include $553.5 million from a joint venture in which we are the minority interest holder.

*Fee-Earning Assets Under Management*

Fee-Earning Assets Under Management were $35.8 billion at June 30, 2011, relatively flat compared with March 31, 2011. Inflows of $24.9 million were from additional capital raised for BCP VI as well as from investments and commitments made in funds that generate fees on remaining invested capital. Outflows of $163.8 million were primarily a result of dispositions in BCP V and BCP IV. Market appreciation of $24.3 million in the second quarter of 2011 was primarily due to the impact of foreign exchange rates. Fee-Earning Assets Under Management increased $10.6 billion from $25.2 billion at June 30, 2010 to $35.8 billion at June 30, 2011 due to capital raised for our BCP VI fund, partially offset by the termination of BCP V's investment period and the disposition of investments in funds that are in their post investment periods.

Fee-Earning Assets Under Management were $35.8 billion at June 30, 2011, an increase of $11.6 billion, or 48%, compared with $24.2 billion at December 31, 2010. Inflows of $14.3 billion were primarily due to the commencement of the investment period for BCP VI, which had raised $13.8 billion of third party capital through June 30, 2011. Outflows of $2.7 billion were primarily a result of the end of BCP V's investment period during the first quarter of 2011 and dispositions in funds which earn fees based on remaining invested capital. After the close of a fund's investment period, management fees are based on invested capital and binding commitments to new investments. Market appreciation of $29.1 million in the first half of 2011 was due primarily to the impact of foreign exchange rates.

*Assets Under Management*

Assets Under Management were $46.7 billion at June 30, 2011, an increase of $2.8 billion, or 6%, compared with $44.0 billion at March 31, 2011. The increase was primarily due to market appreciation in our existing portfolio of $2.7 billion and inflows of $240.9 million driven by additional capital raised for BCP VI, partially offset by outflows of $147.3 million resulting from dispositions of investments.

Assets Under Management were $46.7 billion at June 30, 2011, an increase of $17.4 billion, or 59%, compared with $29.3 billion at December 31, 2010. The increase was primarily due to inflows of $15.1 billion driven by the commencement of BCP VI's investment period and market appreciation of $4.2 billion in our existing portfolio, partially offset by outflows of $1.9 billion resulting from the dispositions of investments and the termination of BCP V's investment period during the first quarter of 2011.

*Limited Partner Capital Invested*

Limited Partner Capital Invested was $667.3 million for the three months ended June 30, 2011, an increase of $197.5 million, compared to $469.8 million for the three months ended June 30, 2010. Limited Partner Capital Invested was $1.3 billion for the six months ended June 30, 2011, an increase of $462.6 million, compared to $857.7 million for the six months ended June 30, 2010. The increases were primarily attributable to an increase in new transaction and follow-on activity mostly in the energy, industrial and chemical industries and across all regions.

*Fund Returns*

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

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

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | | June 30, 2011 Inception to Date | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2011 | | 2010 | | Total | | Realized (b) | |
| Fund (a) | Gross | Net | Gross | Net | Gross | Net | Gross | Net | Gross | Net | Gross | Net |
| BCP IV | 17% | 15% | -1% | -1% | 30% | 27% | 9% | 8% | 53% | 40% | 66% | 52% |
| BCP V | 7% | 7% | 5% | 4% | 10% | 10% | 25% | 25% | 3% | 2% | 12% | 8% |
| BCP VI (c) | N/M | N/M | N/A | N/A | N/M | N/M | N/A | N/A | N/M | N/M | N/A | N/A |

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

N/M Not meaningful.
N/A Not applicable.
(a) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and Carried Interest allocations.
(b) 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.
(c) Returns for BCP VI are not meaningful as investment period commenced in January 2011.

The net internal rate of return for BCP IV for the quarter ended June 30, 2011 was higher compared to the returns in the same quarter last year, driven by our publicly held investments. The net internal rate of return for BCP V for the quarter ended June 30, 2011 was higher compared to the positive returns in the same quarter last year driven by private holdings in the energy and retail sectors as well as by our publicly held investments.

The following table presents the investment record of the significant private equity funds from inception through June 30, 2011 for funds with closed investment periods:

| | Fully Invested Funds | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total Investments | | | | | Realized / Partially Realized Investments (a) | | | | |
| | Total | | | | | Total | | | | |
| Fund (Investment Period) | Invested Capital (b) | Carrying Value (c) | Gross IRR | Net IRR (d) | MOIC (e) | Invested Capital (b) | Carrying Value (c) (f) | Gross IRR | Net IRR (d) | MOIC (e) |
| | (Dollars in Millions) | | | | | (Dollars in Millions) | | | | |
| BCP I (Oct 1987 / Oct 1993) | $ 679 | $ 1,742 | 28% | 19% | 2.6 | $ 679 | $ 1,742 | 28% | 19% | 2.6 |
| BCP II (Oct 1993 / Aug 1997) | 1,292 | 3,257 | 50% | 32% | 2.5 | 1,292 | 3,257 | 50% | 32% | 2.5 |
| BCP III (Aug 1997 / Nov 2002) | 4,026 | 9,023 | 18% | 14% | 2.2 | 3,752 | 8,012 | 20% | 15% | 2.1 |
| BCOM (June 2000 / Jun 2006) | 2,132 | 2,994 | 15% | 8% | 1.4 | 1,215 | 2,149 | 27% | 24% | 1.8 |
| BCP IV (Nov 2002 / Dec 2005) | 7,373 | 20,306 | 53% | 40% | 2.8 | 5,192 | 15,567 | 66% | 52% | 3.0 |
| BCP V (Dec 2005 / Jan 2011) | 19,190 | 21,215 | 3% | 2% | 1.1 | 2,556 | 3,242 | 12% | 8% | 1.3 |

**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) Invested Capital includes recalled capital and side-by-side investments made by our employees.
(c) Carrying value includes realized proceeds and unrealized fair value.

(d) Net Internal Rate of Return ("IRR") represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized value after management fees, expenses and Carried Interest.
(e) Multiple of Invested Capital ("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 $4.2 billion.

The following table presents the investment record of the significant private equity funds from inception through June 30, 2011 for funds with open investment periods:

| | Funds in the Investment Period | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Total Investments | | | | | Realized / Partially Realized Investments (a) | | | | |
| | | Total | | Gross | | | Total | | Gross | | |
| Fund (Investment Period) | Available Capital (b) | Invested Capital (c) | Carrying Value (d) | IRR | Net IRR (e) | MOIC (f) | Invested Capital (c) | Carrying Value (d) | IRR | Net IRR (e) | MOIC (f) |
| | (Dollars in Millions) | | | | | | (Dollars in Millions) | | | | |
| BCP VI (Jan 2011 / Jan 2017) | $ 14,489 | $ 99 | $ 98 | N/M | N/M | 1.0 | $ — | $ — | N/A | N/A | N/A |

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

N/M Not meaningful.
N/A Not applicable.
(a) 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, including side-by-side, adjusted for certain expenses and expired or recallable capital, less invested capital.
(c) Invested Capital includes recalled capital and side-by-side investments made by our employees.
(d) Carrying value includes realized proceeds and unrealized fair value.
(e) Net Internal Rate of Return ("IRR") represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized value after management fees, expenses and Carried Interest.
(f) Multiple of Invested Capital ("MOIC") represents carrying value, before management fees, expenses and Carried Interest, divided by total invested capital.

The Private Equity segment has three contributed funds with closed investment periods: BCP IV, BCP V and BCOM. As of June 30, 2011, 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. BCP V is currently below its Carried Interest threshold. BCOM is currently below its Carried Interest threshold but has generated inception-to-date positive returns. We are entitled to retain previously realized Carried Interest up to 20% of BCOM's net gains. As a result, Performance Fees are recognized from BCOM on current period gains and losses.

The following table presents the Carried Interest status of our private equity funds out of their investment period which are currently not generating performance fees as of June 30, 2011:

| | | Gain to Cross Carried Interest Threshold (a) | |
|---|---|---|---|
| Funds out of the Investment Period | Available Capital (b) | Amount | % Change in Total Enterprise Value (c) |
| | (Dollars in Millions) | | |
| BCP V (Dec 2005 / Dec 2011) | $ 1,987 | $ 4,145 | 8% |

(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, including side-by-side, adjusted for certain expenses and expired or recallable capital, less invested capital.

(c) Total Enterprise Value is the respective fund's pro rata ownership of the portfolio companies' Enterprise Value at the reporting date.

***Real Estate***

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

| | Three Months Ended June 30, | | 2011 vs. 2010 | | Six Months Ended June 30, | | 2011 vs. 2010 | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | $ | % | 2011 | 2010 | $ | % |
| | (Dollars in Thousands) | | | | | | | |
| Segment Revenues | | | | | | | | |
| Management Fees | | | | | | | | |
| Base Management Fees | $ 97,467 | $ 82,916 | $ 14,551 | 18% | $ 192,906 | $165,976 | $ 26,930 | 16% |
| Transaction and Other Fees, Net | 49,288 | 2,979 | 46,309 | N/M | 70,831 | 4,921 | 65,910 | N/M |
| Management Fee Offsets | (745) | (110) | (635) | N/M | (1,250) | (599) | (651) | -109% |
| Total Management Fees | 146,010 | 85,785 | 60,225 | 70% | 262,487 | 170,298 | 92,189 | 54% |
| Performance Fees | | | | | | | | |
| Realized | 20,832 | 16,319 | 4,513 | 28% | 23,425 | 22,267 | 1,158 | 5% |
| Unrealized | 429,458 | 21,117 | 408,341 | N/M | 797,562 | 32,508 | 765,054 | N/M |
| Total Performance Fees | 450,290 | 37,436 | 412,854 | N/M | 820,987 | 54,775 | 766,212 | N/M |
| Investment Income | | | | | | | | |
| Realized | 11,394 | 3,900 | 7,494 | 192% | 14,313 | 6,532 | 7,781 | 119% |
| Unrealized | 37,332 | 79,543 | (42,211) | -53% | 98,738 | 126,435 | (27,697) | -22% |
| Total Investment Income | 48,726 | 83,443 | (34,717) | -42% | 113,051 | 132,967 | (19,916) | -15% |
| Interest and Dividend Revenue | 2,989 | 2,178 | 811 | 37% | 6,277 | 4,896 | 1,381 | 28% |
| Other | 515 | (390) | 905 | N/M | 1,375 | (2,266) | 3,641 | N/M |
| Total Revenues | 648,530 | 208,452 | 440,078 | N/M | 1,204,177 | 360,670 | 843,507 | N/M |
| Expenses | | | | | | | | |
| Compensation and Benefits | | | | | | | | |
| Compensation | 71,618 | 44,528 | 27,090 | 61% | 130,119 | 84,678 | 45,441 | 54% |
| Performance Fee Compensation | | | | | | | | |
| Realized | 9,382 | 8,895 | 487 | 5% | 10,612 | 10,419 | 193 | 2% |
| Unrealized | 91,021 | 15,999 | 75,022 | N/M | 197,522 | 22,936 | 174,586 | N/M |
| Total Compensation and Benefits | 172,021 | 69,422 | 102,599 | 148% | 338,253 | 118,033 | 220,220 | 187% |
| Other Operating Expenses | 22,971 | 17,647 | 5,324 | 30% | 51,337 | 31,937 | 19,400 | 61% |
| Total Expenses | 194,992 | 87,069 | 107,923 | 124% | 389,590 | 149,970 | 239,620 | 160% |
| Economic Net Income | $453,538 | $121,383 | $332,155 | N/M | $ 814,587 | $210,700 | $603,887 | N/M |

*Revenues*

Revenues were $648.5 million for the three months ended June 30, 2011, an improvement of $440.1 million compared to $208.5 million for the three months ended June 30, 2010. The increase in revenues was primarily attributed to an increase of $412.9 million in Performance Fees and an increase of $60.2 million in Total Management Fees, offset by a $34.7 million decrease in Investment Income.

Performance Fees, which are determined on a fund by fund basis, were $450.3 million for the three months ended June 30, 2011, an improvement of $412.9 million compared to $37.4 million for the three months ended June 30, 2010. The appreciation in fair value of the investments in BREP V and BREP VI primarily contributed to the improvement in Performance Fees for the three months ended June 30, 2011. Investment Income was $48.7 million for the three months ended June 30, 2011, a decrease of $34.7 million compared to $83.4 million for the three months ended June 30, 2010. While the overall appreciation for the three months ended June 30, 2011 was less than the appreciation for the three months ended June 30, 2010, the decrease in Investment Income was primarily driven by a decrease in the appreciation of investments related to the BREP VI fund in which Blackstone owns a greater share of such investments. Performance Fees benefited from the strong performance of our carry funds with a material portion of the increase due to the impact of the “catch-up” provisions of the Real Estate funds’ profit allocations, which specify that once a fund’s preferred return hurdle has been reached, Blackstone is entitled to a disproportionately greater share (80% of the profits) until it effectively reaches its full share of performance fees (20% of the total profits). The appreciation in fair value of the underlying assets for Blackstone’s contributed Real Estate carry funds was 6.7% for the second quarter of 2011. The performance for the second quarter of 2011 was driven primarily by improved operating performance, projected cash flows and exit multiples across our Real Estate carry funds’ investments and was primarily a result of the appreciation in fair value of our holdings in Equity Office Properties Trust, CarrAmerica, Trizec Properties Inc., and Hilton Hotels Corporation. As of June 30, 2011, the unrealized value and cumulative proceeds, before carried interest, fees and expenses, of our contributed Real Estate carry funds represented 1.4 times investors’ original investments.

Total Management Fees were $146.0 million for the three months ended June 30, 2011, an increase of $60.2 million compared to $85.8 million for the three months ended June 30, 2010. Transaction and Other Fees were $49.3 million for the three months ended June 30, 2011, an increase of $46.3 million compared to $3.0 million for the three months ended June 30, 2010, reflecting the continued increase in investment activity in our BREP funds, primarily as a result of BREP VI’s acquisition of the U.S. assets of Centro in the second quarter of 2011. Base Management Fees were $97.5 million for the three months ended June 30, 2011, an increase of $14.6 million compared to $82.9 million for the three months ended June 30, 2010, primarily due to fees earned from our management of the Bank of America Merrill Lynch Asia real estate platform.

Revenues were $1.2 billion for the six months ended June 30, 2011, an improvement of $843.5 million compared to $360.7 million for the six months ended June 30, 2010. The increase in revenues was primarily attributed to an increase of $766.2 million in Total Performance Fees and an increase of $92.2 million in Total Management Fees.

Performance Fees, which are determined on a fund by fund basis, were $821.0 million for the six months ended June 30, 2011, an improvement of $766.2 million compared to $54.8 million for the six months ended June 30, 2010. The appreciation in fair value of the investments in our BREP V and BREP VI carry funds primarily contributed to the improvement in Performance Fees for the six months ended June 30, 2011. Investment Income was $113.1 million for the six months ended June 30, 2011, a decrease of $19.9 million compared to $133.0 million for the six months ended June 30, 2010. While the overall appreciation for the six months ended June 30, 2011 was less than the appreciation for the six months ended June 30, 2010, the decrease in Investment Income was primarily driven by a decrease in the appreciation of investments related to the BREP VI fund in which Blackstone owns a greater share of such investments. Performance Fees benefited from the strong performance of our carry funds with a material portion of the increase due to the impact of the “catch-up” provisions of the Real Estate funds’ profit allocations, which specify that once a fund’s preferred return hurdle has been reached, Blackstone is entitled to a disproportionately greater share (80% of the profits) until it effectively reaches its full share of performance fees (20% of the total profits). The appreciation in fair value of the underlying assets for Blackstone's contributed Real Estate carry funds was 16.0% for the first half of 2011. The performance for the first half of 2011 was driven primarily by improved operating performance and projected cash flows resulting in the appreciation in fair value of our holdings across our Real Estate carry funds' investments, principally from Equity Office Properties Trust and Hilton Hotels Corporation.

Total Management Fees were $262.5 million for the six months ended June 30, 2011, an increase of $92.2 million compared to $170.3 million for the six months ended June 30, 2010. Transaction and Other Fees were $70.8 million for the six months ended June 30, 2011, an increase of $65.9 million compared to $4.9 million for the six months ended June 30, 2010, reflecting the continued increase in investment activity in our BREP funds, primarily as a result of BREP VI's acquisition of the U.S. assets of Centro in the second quarter of 2011. Base Management Fees were $192.9 million for the six months ended June 30, 2011, an increase of $26.9 million compared to $166.0 million for the six months ended June 30, 2010, primarily due to fees earned from the management of the Bank of America Merrill Lynch Asia real estate platform.

*Expenses*

Expenses were $195.0 million for the three months ended June 30, 2011, an increase of $107.9 million, compared to $87.1 million for the three months ended June 30, 2010. The increase was primarily attributed to a $75.5 million increase in Performance Fee Compensation, a result of improved Performance Fees revenue, and an increase in Compensation of $27.1 million to $71.6 million, primarily due to headcount increases related to the management of the Bank of America Merrill Lynch Asia real estate platform and corresponding significant increases in Management Fees revenue. Other Operating Expenses increased $5.3 million to $23.0 million for the three months ended June 30, 2011, principally due to interest expense allocated to the segment and expenses related to the management of the Bank of America Merrill Lynch Asia real estate platform.

Expenses were $389.6 million for the six months ended June 30, 2011, an increase of $239.6 million, compared to $150.0 million for the six months ended June 30, 2010. The increase was primarily attributed to a $174.8 million increase in Performance Fee Compensation, a result of improved Performance Fees revenue, and an increase in Compensation of $45.4 million to $130.1 million, primarily due to headcount increases related to the management of the Bank of America Merrill Lynch Asia real estate platform and corresponding significant increases in Management Fees revenue. Other Operating Expenses increased $19.4 million to $51.3 million for the six months ended June 30, 2011, principally due to placement fees related to our debt investment funds, interest expense allocated to the segment, and expenses related to the management of the Bank of America Merrill Lynch Asia real estate platform.

*Operating Metrics*

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (Dollars in Thousands) | | | |
| Fee-Earning Assets Under Management | | | | |
| Balance, Beginning of Period | $26,454,012 | $23,820,697 | $26,814,714 | $23,708,057 |
| Inflows, including Commitments | 1,477,485 | 333,072 | 1,765,481 | 608,910 |
| Outflows, including Distributions | (151,175) | (50,667) | (1,078,153) | (59,929) |
| Market Appreciation (Depreciation) | 138,678 | (261,742) | 416,958 | (415,678) |
| Balance, End of Period | $27,919,000 | $23,841,360 | $27,919,000 | $23,841,360 |
| Increase | $ 1,464,988 | $ 20,663 | $ 1,104,286 | $ 133,303 |
| Increase | 6% | 0% | 4% | 1% |

| | Three Months Ended June 30, 2011 | Three Months Ended June 30, 2010 | Six Months Ended June 30, 2011 | Six Months Ended June 30, 2010 |
|---|---|---|---|---|
| | (Dollars in Thousands) | | | |
| Assets Under Management | | | | |
| Balance, Beginning of Period | $34,990,590 | $21,880,655 | $33,165,124 | $20,391,334 |
| Inflows, including Commitments | 1,523,362 | 382,684 | 2,332,893 | 968,713 |
| Outflows, including Distributions | (599,725) | (119,429) | (1,630,976) | (142,078) |
| Market Appreciation (Depreciation) | 1,691,333 | 1,778,679 | 3,738,519 | 2,704,620 |
| Balance, End of Period | $37,605,560 | $23,922,589 | $37,605,560 | $23,922,589 |
| Increase | $ 2,614,970 | $ 2,041,934 | $ 4,440,436 | $ 3,531,255 |
| Increase | 7% | 9% | 13% | 17% |

| | Three Months Ended June 30, 2011 | Three Months Ended June 30, 2010 | 2011 vs. 2010 $ | 2011 vs. 2010 % | Six Months Ended June 30, 2011 | Six Months Ended June 30, 2010 | 2011 vs. 2010 $ | 2011 vs. 2010 % |
|---|---|---|---|---|---|---|---|---|
| | (Dollars in Thousands) | | | | (Dollars in Thousands) | | | |
| Capital Deployed | | | | | | | | |
| Limited Partner Capital Invested | $2,785,188 | $643,817 | $2,141,371 | N/M | $3,439,616 | $1,068,685 | $2,370,931 | N/M |

*Fee-Earning Assets Under Management*

Fee-Earning Assets Under Management were $27.9 billion at June 30, 2011, an increase of $1.5 billion, or 6%, compared with $26.5 billion at March 31, 2011. Inflows of $1.5 billion were primarily related to the deployment of additional co-investment capital, which included $1.1 billion of fee-earning co-investment capital related to the acquisition of the U.S. assets of Centro in the second quarter of 2011. Outflows were $151.2 million, primarily due to realizations from our real estate carry and debt investment funds. Market appreciation of $138.7 million was primarily due to the favorable foreign exchange impact on commitments from our European focused real estate funds and appreciation in the Bank of America Merrill Lynch Asia assets we manage. Fee-Earning Assets Under Management increased $4.1 billion, or 17%, from June 30, 2010 to $27.9 billion at June 30, 2011. The increase was primarily related to the November 2010 commencement of our management of the Bank of America Merrill Lynch Asia real estate platform and the deployment of additional co-investment capital, which included $1.1 billion of fee-earning co-investment capital related to the acquisition of the U.S. assets of Centro in the second quarter of 2011.

Fee-Earning Assets Under Management were $27.9 billion at June 30, 2011, an increase of $1.1 billion, or 4%, compared with $26.8 billion at December 31, 2010. Inflows of $1.8 billion were primarily related to the deployment of additional co-investment capital, which included $1.1 billion of fee-earning co-investment capital related to the acquisition of the U.S. assets of Centro in the second quarter of 2011. Outflows were $1.1 billion, primarily due to realizations from a co-investment entity and the Bank of America Merrill Lynch Asia real estate platform. Market appreciation of $417.0 million was primarily due to the favorable foreign exchange impact on commitments from our European focused real estate funds.

*Assets Under Management*

At June 30, 2011, Assets Under Management were $37.6 billion, an increase of $2.6 billion, or 7%, compared with $35.0 billion at March 31, 2011. The change was primarily due to inflows of $1.5 billion attributable to the deployment of additional co-investment capital primarily related to the acquisition of the U.S. assets of Centro in the second quarter of 2011 and market appreciation of $1.7 billion from our real estate carry funds resulting from increases in the carrying values of our real estate portfolio primarily within the office and hospitality sectors. These increases were partially offset by outflows of $599.7 million related to realizations generated by our real estate carry funds. Assets Under Management increased $13.7 billion, or 57%, from June 30, 2010 to $37.6 billion at June 30, 2011 and was primarily related to market appreciation of $9.9 billion, the commencement of our management of the Bank of America Merrill Lynch Asia real estate platform, the deployment of additional co-investment capital, and capital raised by our debt investment funds.

At June 30, 2011, Assets Under Management were $37.6 billion, an increase of $4.4 billion, or 13%, compared with $33.2 billion at December 31, 2010. The change was primarily due to (a) inflows of $2.3 billion attributable to the deployment of additional co-investment capital, and (b) market appreciation of $3.7 billion from our real estate carry funds resulting from increases in the carrying values within the office and hospitality sectors of our real estate portfolio. These increases were partially offset by outflows of $1.6 billion related to realizations generated by our real estate carry funds and Bank of America Merrill Lynch Asia real estate platform.

*Limited Partner Capital Invested*

For the three months ended June 30, 2011, Limited Partner Capital Invested was $2.8 billion, an increase of $2.1 billion from $643.8 million for the three months ended June 30, 2010, which was primarily related to the acquisition of the U.S. assets of Centro by BREP VI and co-investors. For the six months ended June 30, 2011, Limited Partner Capital Invested was $3.4 billion, an increase of $2.4 billion from $1.1 billion for the six months ended June 30, 2010. This increase was primarily related to increased investment activity by our BREP VI and debt investment funds and the acquisition of the U.S. assets of Centro mentioned above.

*Fund Returns*

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

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

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | | June 30, 2011 Inception to Date | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2011 | | 2010 | | Total | | Realized (b) | |
| Fund (a) | Gross | Net | Gross | Net | Gross | Net | Gross | Net | Gross | Net | Gross | Net |
| BREP IV | 8% | 6% | 9% | 6% | 15% | 11% | 11% | 6% | 27% | 16% | 97% | 68% |
| BREP V | 10% | 7% | 14% | 13% | 21% | 14% | 17% | 16% | 14% | 10% | 94% | 71% |
| BREP International II (c) | 1% | — | 17% | 16% | 3% | 2% | 32% | 30% | -1% | -3% | 8% | 5% |
| BREP International (c) | 28% | 21% | 7% | 5% | 28% | 21% | 13% | 9% | 33% | 23% | 33% | 24% |
| BREP VI | 7% | 4% | 32% | 31% | 17% | 10% | 66% | 62% | 14% | 9% | 170% | 127% |
| BREP Europe III (c) | 5% | 1% | 59% | 44% | 7% | — | 212% | 162% | 117% | 16% | N/A | N/A |
| BSSF II | 2% | 2% | 6% | 4% | 5% | 4% | 17% | 10% | 23% | 18% | 56% | 40% |
| BSSF I | -2% | -2% | 4% | 3% | 7% | 4% | 12% | 11% | 14% | 11% | N/A | N/A |
| CMBS | -2% | -2% | 3% | 2% | 7% | 4% | 14% | 12% | 22% | 16% | N/A | N/A |

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

(a) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and performance fee allocations.
(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.

Although there was steady improvement in the operating fundamentals across the Real Estate carry funds' investments, the appreciation in fair values was less for the three and six months ended June 30, 2011 compared to the prior year periods, resulting in lower, but still positive, net internal rates of return for most of the funds.

The following table presents the investment record of the significant real estate carry funds from inception through June 30, 2011 for funds with closed investment periods:

| | Fully Invested Funds | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total Investments | | | | | Realized / Partially Realized Investments (a) | | | | |
| | Total | | | | | Total | | | | |
| Fund (Investment Period) | Invested Capital (b) | Carrying Value (c) | Gross IRR | Net IRR (d) | MOIC (e) | Invested Capital (b) | Carrying Value (c) (f) | Gross IRR | Net IRR (d) | MOIC (e) |
| | (Amounts in Millions) | | | | | (Amounts in Millions) | | | | |
| Pre-BREP | $ 141 | $ 345 | 43% | 33% | 2.5 | $ 141 | $ 345 | 43% | 33% | 2.5 |
| BREP I (Sep 1994 / Oct 1996) | $ 467 | $ 1,328 | 51% | 40% | 2.8 | $ 467 | $ 1,328 | 51% | 40% | 2.8 |
| BREP II (Oct 1996 / Mar 1999) | $ 1,219 | $ 2,525 | 26% | 19% | 2.1 | $ 1,219 | $ 2,525 | 26% | 19% | 2.1 |
| BREP III (Apr 1999 / Apr 2003) | $ 1,415 | $ 3,326 | 27% | 21% | 2.3 | $ 1,399 | $ 3,323 | 28% | 22% | 2.4 |
| BREP Int'l (Jan 2001 / Sep 2005) | € 658 | € 1,310 | 33% | 23% | 2.0 | € 623 | € 1,246 | 33% | 24% | 2.0 |
| BREP IV (Apr 2003 / Dec 2005) | $ 2,737 | $ 4,170 | 27% | 16% | 1.5 | $ 1,074 | $ 2,529 | 97% | 68% | 2.4 |
| BREP Int'l II (Sep 2005 / Jun 2008) | € 1,336 | € 1,307 | -1% | -3% | 1.0 | € 162 | € 208 | 8% | 5% | 1.3 |
| BREP V (Dec 2005 / Feb 2007) | $ 5,518 | $ 8,142 | 13% | 10% | 1.5 | $ 983 | $ 2,243 | 94% | 71% | 2.3 |

**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) Invested Capital includes recalled capital and side-by-side investments made by our employees.
(c) Carrying value includes realized proceeds and unrealized fair value.
(d) Net Internal Rate of Return ("IRR") represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized value after management fees, expenses and Carried Interest.
(e) Multiple of Invested Capital ("MOIC") represents carrying value, before management fees, expenses and Carried Interest, divided by total invested capital.
(f) The Total Realized / Partially Realized Carrying Value includes remaining unrealized value of $910.3 million and €160.4 million.

The following table presents the investment record of the significant real estate carry funds, excluding separately managed accounts, from inception through June 30, 2011 for funds with open investment periods:

| | Funds in the Investment Period | | | | | |
|---|---|---|---|---|---|---|
| | | Total Investments | | | | |
| | | Total | | Gross | | |
| Fund (Investment Period) | Available Capital (a) | Invested Capital (b) | Carrying Value (c) | IRR | Net IRR (d) | MOIC (e) |
| | (Amounts in Millions) | | | | | |
| BREP VI (Feb 2007 / Aug 2012) | $ 1,835 | $ 9,315 | $12,673 | 14% | 9% | 1.4 |
| BREP Europe III (Jun 2008 / Dec 2013) | € 2,908 | € 271 | € 500 | 117% | 16% | 1.8 |
| BSSF II (Jul 2009 / Aug 2017) | $ 897 | $ 957 | $ 1,138 | 23% | 18% | 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, including side-by-side, adjusted for certain expenses and expired or recallable capital, less invested capital, and includes $529.1 million committed to deals but not yet invested. Additionally, the segment has $641.7 million of Available Capital that has been reserved for add-on investments in funds that are fully invested.
(b) Invested Capital includes recalled capital and side-by-side investments made by our employees.
(c) Carrying value includes realized proceeds and unrealized fair value.
(d) Net Internal Rate of Return (“IRR”) represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized fair value after management fees, expenses and Carried Interest.
(e) Multiple of Invested Capital (“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 carry funds with expired investment periods which are currently not generating performance fees as of June 30, 2011:

| | Gain to Cross Carried Interest Threshold (a) | |
|---|---|---|
| Fully Invested Funds | Amount | % Change in Total Enterprise Value (b) |
| | (Amounts in Millions) | |
| BREP Int’l II (Sep 2005 / Jun 2008) | € 674 | 15% |

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

The Real Estate segment has three funds in their investment period all of which were above their respective Carried Interest thresholds as of June 30, 2011: BREP Europe III, BSSF II and BREP VI.

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### *Hedge Fund Solutions*

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

| | Three Months Ended June 30, 2011 | Three Months Ended June 30, 2010 | 2011 vs. 2010 $ | 2011 vs. 2010 % | Six Months Ended June 30, 2011 | Six Months Ended June 30, 2010 | 2011 vs. 2010 $ | 2011 vs. 2010 % |
|---|---|---|---|---|---|---|---|---|
| | (Dollars in Thousands) | | | | | | | |
| Segment Revenues | | | | | | | | |
| Management Fees | | | | | | | | |
| Base Management Fees | $ 79,290 | $65,533 | $13,757 | 21% | $154,902 | $129,399 | $ 25,503 | 20% |
| Transaction and Other Fees, Net | 861 | 870 | (9) | -1% | 1,588 | 1,679 | (91) | -5% |
| Management Fee Offsets | (196) | (72) | (124) | -172% | (320) | (72) | (248) | N/M |
| Total Management Fees | 79,955 | 66,331 | 13,624 | 21% | 156,170 | 131,006 | 25,164 | 19% |
| Performance Fees | | | | | | | | |
| Realized | 667 | 1,021 | (354) | -35% | 1,560 | 3,138 | (1,578) | -50% |
| Unrealized | 3,441 | (2,596) | 6,037 | N/M | 22,694 | 7,817 | 14,877 | 190% |
| Total Performance Fees | 4,108 | (1,575) | 5,683 | N/M | 24,254 | 10,955 | 13,299 | 121% |
| Investment Income (Loss) | | | | | | | | |
| Realized | 12,855 | 5,438 | 7,417 | 136% | 14,196 | 5,188 | 9,008 | 174% |
| Unrealized | (12,864) | (6,749) | (6,115) | -91% | (5,744) | 5,131 | (10,875) | N/M |
| Total Investment Income (Loss) | (9) | (1,311) | 1,302 | 99% | 8,452 | 10,319 | (1,867) | -18% |
| Interest and Dividend Revenue | 472 | 353 | 119 | 34% | 988 | 828 | 160 | 19% |
| Other | (38) | (40) | 2 | 5% | 66 | (123) | 189 | N/M |
| Total Revenues | 84,488 | 63,758 | 20,730 | 33% | 189,930 | 152,985 | 36,945 | 24% |
| Expenses | | | | | | | | |
| Compensation and Benefits | | | | | | | | |
| Compensation | 32,288 | 26,388 | 5,900 | 22% | 60,945 | 47,130 | 13,815 | 29% |
| Performance Fee Compensation | | | | | | | | |
| Realized | 253 | 356 | (103) | -29% | 553 | 1,127 | (574) | -51% |
| Unrealized | 2,955 | (977) | 3,932 | N/M | 8,313 | 2,806 | 5,507 | 196% |
| Total Compensation and Benefits | 35,496 | 25,767 | 9,729 | 38% | 69,811 | 51,063 | 18,748 | 37% |
| Other Operating Expenses | 16,075 | 12,353 | 3,722 | 30% | 29,083 | 23,638 | 5,445 | 23% |
| Total Expenses | 51,571 | 38,120 | 13,451 | 35% | 98,894 | 74,701 | 24,193 | 32% |
| Economic Net Income | $ 32,917 | $25,638 | $ 7,279 | 28% | $ 91,036 | $ 78,284 | $ 12,752 | 16% |

*Revenues*

Revenues were $84.5 million for the three months ended June 30, 2011, an increase of $20.7 million compared to the three months ended June 30, 2010. The increase in revenues was primarily attributed to an increase of $13.6 million in Total Management Fees to $80.0 million and an increase of $5.7 million in Performance Fees to $4.1 million.

Total Management Fees were $80.0 million for the three months ended June 30, 2011, an increase of $13.6 million compared to $66.3 million for the three months ended June 30, 2010. Base Management Fees were $79.3 million for the three months ended June 30, 2011, an increase of $13.8 million compared to the prior year period, driven by an increase in Fee-Earning Assets Under Management of 29% from the prior year period, which was primarily from net inflows.

Performance Fees were $4.1 million for the three months ended June 30, 2011, an increase of $5.7 million compared to $(1.6) million for the three months ended June 30, 2010. The performance of the underlying assets for Blackstone's Hedge Fund Solutions' funds was slightly positive for the second quarter of 2011. Fee-Earning Assets Under Management related to funds of funds above their respective high-water marks and/or hurdle, and therefore eligible for Performance Fees, increased during the three months ended June 30, 2011 compared to the three months ended June 30, 2010.

Revenues were $189.9 million for the six months ended June 30, 2011, an increase of $36.9 million compared to the six months ended June 30, 2010. The increase in revenues was primarily attributed to an increase of $25.2 million in Total Management Fees to $156.2 million and an increase of $13.3 million in Performance Fees to $24.3 million.

Total Management Fees were $156.2 million for the six months ended June 30, 2011, an increase of $25.2 million compared to $131.0 million for the six months ended June 30, 2010. Base Management Fees were $154.9 million for the six months ended June 30, 2011, an increase of $25.5 million compared to the prior year period, driven by an increase in Fee-Earning Assets Under Management of 29% from the prior year period, which was primarily from net inflows and market appreciation.

Performance Fees were $24.3 million for the six months ended June 30, 2011, an increase of $13.3 million compared to $11.0 million for the six months ended June 30, 2010. Investment Income was $8.5 million for the six months ended June 30, 2011, down slightly from the prior year period. The appreciation of the underlying assets for Blackstone's Hedge Fund Solutions' funds was 1.5% for the first half of 2011. Fee-Earning Assets Under Management related to funds of funds above their respective high-water marks and/or hurdle, and therefore eligible for Performance Fees, increased during the six months ended June 30, 2011 compared to the six months ended June 30, 2010.

*Expenses*

Expenses were $51.6 million for the three months ended June 30, 2011, an increase of $13.5 million compared to the three months ended June 30, 2010. The $13.5 million increase was primarily attributed to a $9.7 million increase in Total Compensation and Benefits and a $3.7 million increase in Other Operating Expenses. Compensation was $32.3 million for the three months ended June 30, 2011, an increase of $5.9 million, compared to $26.4 million for the prior year period, primarily due to an increase in headcount to support the growth of the business. Other Operating Expenses increased $3.7 million to $16.1 million for the three months ended June 30, 2011, compared to $12.4 million for the three months ended June 30, 2010 primarily due to an increase in professional fees related to the growth of the business and other expenses.

Expenses were $98.9 million for the six months ended June 30, 2011, an increase of $24.2 million compared to the six months ended June 30, 2010. The $24.2 million increase was primarily attributed to a $18.7 million increase in Total Compensation and Benefits and a $5.4 million increase in Other Operating Expenses. Compensation was $60.9 million for the six months ended June 30, 2011, an increase of $13.8 million, compared to $47.1 million for the prior year period, primarily due to an increase in headcount to support the growth of the business. Other Operating Expenses increased $5.4 million to $29.1 million for the six months ended June 30, 2011, compared to $23.6 million for the six months ended June 30, 2010, primarily due to an increase in professional fees related to the growth of the business and other expenses.

*Operating Metrics*

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

| | Three Months Ended June 30, 2011 | Three Months Ended June 30, 2010 | Six Months Ended June 30, 2011 | Six Months Ended June 30, 2010 |
|---|---|---|---|---|
| | (Dollars in Thousands) | | | |
| Fee-Earning Assets Under Management | | | | |
| Balance, Beginning of Period | $35,847,002 | $28,902,220 | $33,159,795 | $27,451,309 |
| Inflows, including Commitments | 2,201,583 | 1,431,199 | 4,654,003 | 2,598,880 |
| Outflows, including Distributions | (585,403) | (1,096,626) | (973,429) | (1,387,989) |
| Market Appreciation (Depreciation) | (218,673) | (404,476) | 404,140 | 170,117 |
| Balance, End of Period | $37,244,509 | $28,832,317 | $37,244,509 | $28,832,317 |
| Increase (Decrease) | $ 1,397,507 | $ (69,903) | $ 4,084,714 | $ 1,381,008 |
| Increase (Decrease) | 4% | 0% | 12% | 5% |

| | Three Months Ended June 30, 2011 | Three Months Ended June 30, 2010 | Six Months Ended June 30, 2011 | Six Months Ended June 30, 2010 |
|---|---|---|---|---|
| | (Dollars in Thousands) | | | |
| Assets Under Management | | | | |
| Balance, Beginning of Period | $39,542,086 | $30,322,510 | $34,587,292 | $28,799,326 |
| Inflows, including Commitments | 1,919,856 | 1,451,543 | 6,641,032 | 2,657,024 |
| Outflows, including Distributions | (695,179) | (1,171,103) | (1,103,213) | (1,476,848) |
| Market Appreciation (Depreciation) | (188,544) | (426,019) | 453,108 | 197,429 |
| Balance, End of Period | $40,578,219 | $30,176,931 | $40,578,219 | $30,176,931 |
| Increase (Decrease) | $ 1,036,133 | $ (145,579) | $ 5,990,927 | $ 1,377,605 |
| Increase (Decrease) | 3% | 0% | 17% | 5% |

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

| | Fee-Earning Assets Under Management Eligible for Incentive Fees As of June 30, 2011 | Fee-Earning Assets Under Management Eligible for Incentive Fees As of June 30, 2010 | Estimated % Above High Water Mark and/or Hurdle (a) As of June 30, 2011 | Estimated % Above High Water Mark and/or Hurdle (a) As of June 30, 2010 |
|---|---|---|---|---|
| | (Dollars in Thousands) | | | |
| BAAM Managed Funds (b) | $19,240,439 | $13,686,770 | 69% | 25% |

(a) Estimated % Above High Water Mark and / or Hurdle represents the percentage of Fee-Earning Assets Under Management Eligible for Incentive Fees that as of the dates presented would earn incentive fees when the applicable BAAM managed fund has positive investment performance (relative to a hurdle, where applicable). Incremental positive performance in the applicable Blackstone Funds may cause additional assets to reach their respective High Water Mark and / or Hurdle, thereby resulting in an increase in Estimated % Above High Water Mark and/or Hurdle.

(b) For the BAAM managed funds, at June 30, 2011 the incremental appreciation needed for the 31% of Fee-Earning Assets Under Management below their respective High Water Marks and / or Hurdle to reach their respective High Water Marks and / or Hurdle was $331.6 million, a decrease of $356.0 million, or 51.8%, compared to $687.6 million at June 30, 2010. Of the Fee-Earning Assets Under Management below their respective High Water Marks and / or Hurdle as of June 30, 2011, 57% were within 5% of reaching their respective High Water Mark and / or Hurdle.

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*Fee-Earning Assets Under Management*

Fee-Earning Assets Under Management were $37.2 billion at June 30, 2011, an increase of $1.4 billion, or 4%, compared to $35.8 billion at March 31, 2011. The change was primarily due to inflows of $2.2 billion primarily from BAAM's commingled and customized investment products and long only solutions business, partially offset by outflows of $585.4 million. Outflows within the Hedge Funds Solutions segment are generally the result of the liquidity needs of our limited partners. BAAM had net inflows of $1.8 billion from July 1 through August 1, 2011.

Fee-Earning Assets Under Management were $37.2 billion at June 30, 2011, an increase of $4.1 billion, or 12%, compared to $33.2 billion at December 31, 2010. The change was primarily due to inflows of $4.7 billion primarily from BAAM's commingled and customized investment products and long only solutions business.

*Assets Under Management*

Assets Under Management were $40.6 billion at June 30, 2011, an increase of $1.0 billion, or 3%, compared to $39.5 billion at March 31, 2011. The change was primarily due to inflows of $1.9 billion primarily from BAAM's hedge fund manager seeding platform, commingled and customized investment products and long only solutions business.

Assets Under Management were $40.6 billion at June 30, 2011, an increase of $6.0 billion, or 17%, compared to $34.6 billion at December 31, 2010. The change was primarily due to inflows of $6.6 billion primarily from BAAM's hedge fund manager seeding platform, commingled and customized investment products and long only solutions business.

*Composite Returns*

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

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

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | | Average Annual Net Returns (a) Periods Ended June 30, 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2011 | | 2010 | | One Year | | Three Year | | Five Year | | Historical | |
| **Composite** | **Gross** | **Net** | **Gross** | **Net** | **Gross** | **Net** | **Gross** | **Net** | **Gross** | **Net** | **Gross** | **Net** | **Gross** | **Net** | **Gross** | **Net** |
| BAAM Managed Funds, Core Funds Composite (b) | — | — | -1% | -1% | 2% | 1% | 2% | 1% | 10% | 9% | 2% | 1% | 5% | 4% | 8% | 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 BAAM managed funds that employ a long - biased commodity strategy, funds whose primary objective is to provide capital to hedge fund start-up firms and funds managed under non-discretionary advisory arrangements. The historical return is from January 1, 2000 and excludes fluctuations due to foreign currency exchange rates.

***Credit Businesses***

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

| | Three Months Ended June 30, 2011 | Three Months Ended June 30, 2010 | 2011 vs. 2010 $ | 2011 vs. 2010 % | Six Months Ended June 30, 2011 | Six Months Ended June 30, 2010 | 2011 vs. 2010 $ | 2011 vs. 2010 % |
|---|---|---|---|---|---|---|---|---|
| | (Dollars in Thousands) | | | | | | | |
| Segment Revenues | | | | | | | | |
| Management Fees | | | | | | | | |
| Base Management Fees | $57,420 | $ 47,670 | $ 9,750 | 20% | $112,021 | $ 87,283 | $24,738 | 28% |
| Transaction and Other Fees, Net | 849 | 299 | 550 | 184% | 1,594 | 835 | 759 | 91% |
| Management Fee Offsets | (105) | 3 | (108) | N/M | (123) | (686) | 563 | 82% |
| Total Management Fees | 58,164 | 47,972 | 10,192 | 21% | 113,492 | 87,432 | 26,060 | 30% |
| Performance Fees | | | | | | | | |
| Realized | 37,354 | 27,928 | 9,426 | 34% | 47,079 | 27,569 | 19,510 | 71% |
| Unrealized | (7,246) | (15,239) | 7,993 | 52% | 78,057 | 49,741 | 28,316 | 57% |
| Total Performance Fees | 30,108 | 12,689 | 17,419 | 137% | 125,136 | 77,310 | 47,826 | 62% |
| Investment Income (Loss) | | | | | | | | |
| Realized | 3,236 | 3,291 | (55) | -2% | 4,471 | 6,524 | (2,053) | -31% |
| Unrealized | 5,437 | (3,444) | 8,881 | N/M | 9,969 | 4,391 | 5,578 | 127% |
| Total Investment Income (Loss) | 8,673 | (153) | 8,826 | N/M | 14,440 | 10,915 | 3,525 | 32% |
| Interest and Dividend Revenue | 902 | 403 | 499 | 124% | 1,355 | 1,076 | 279 | 26% |
| Other | (47) | (332) | 285 | 86% | 51 | (791) | 842 | N/M |
| Total Revenues | 97,800 | 60,579 | 37,221 | 61% | 254,474 | 175,942 | 78,532 | 45% |
| Expenses | | | | | | | | |
| Compensation and Benefits | | | | | | | | |
| Compensation | 34,170 | 26,982 | 7,188 | 27% | 64,495 | 55,325 | 9,170 | 17% |
| Performance Fee Compensation | | | | | | | | |
| Realized | 18,027 | 13,500 | 4,527 | 34% | 23,322 | 12,941 | 10,381 | 80% |
| Unrealized | (5,188) | (5,618) | 430 | 8% | 40,014 | 31,918 | 8,096 | 25% |
| Total Compensation and Benefits | 47,009 | 34,864 | 12,145 | 35% | 127,831 | 100,184 | 27,647 | 28% |
| Other Operating Expenses | 10,226 | 12,167 | (1,941) | -16% | 25,583 | 20,457 | 5,126 | 25% |
| Total Expenses | 57,235 | 47,031 | 10,204 | 22% | 153,414 | 120,641 | 32,773 | 27% |
| Economic Net Income | $40,565 | $ 13,548 | $27,017 | 199% | $101,060 | $ 55,301 | $45,759 | 83% |

*Revenues*

Revenues were $97.8 million for the three months ended June 30, 2011, an increase of $37.2 million compared to the three months ended June 30, 2010. The increase in revenues was primarily attributed to increases of $17.4 million in Performance Fees, $10.2 million in Total Management Fees and $8.8 million in Investment Income.

Total Management Fees were $58.2 million for the three months ended June 30, 2011, an increase of $10.2 million from the prior year period. Base Management Fees were $57.4 million for the three months ended June 30, 2011, an increase of $9.8 million compared to the prior year period, primarily due to higher Fee-Earning Assets Under Management resulting from drawdowns from certain funds when management fees are only charged on invested capital and new capital raised for new and existing strategies.

Performance Fees were $30.1 million for the three months ended June 30, 2011, an increase of $17.4 million from the prior year period. The increase in Performance Fees was primarily attributable to steady performance across the Credit Businesses' strategies. The appreciation of the underlying assets for Blackstone's credit-oriented business was 1.8% for the flagship hedge funds, 4.3% for the mezzanine funds and 2.0% for the rescue lending funds for the second quarter of 2011. Investment Income also increased for the three months ended June 30, 2011 to $8.7 million, up $8.8 million from the prior year period.

The Realized Performance Fees for the three months ended June 30, 2011 of $37.4 million were driven primarily by realizations in the Credit Businesses' mezzanine funds.

Revenues were $254.5 million for the six months ended June 30, 2011, an increase of $78.5 million compared to the six months ended June 30, 2010. The increase in revenues was primarily attributed to increases of $47.8 million in Performance Fees, $26.1 million in Total Management Fees, and $3.5 million in Investment Income.

Performance Fees were $125.1 million for the six months ended June 30, 2011, an increase of $47.8 million from the prior year period. The increase in Performance Fees was primarily attributable to strong performance across the Credit Businesses' strategies. The appreciation of the underlying assets for Blackstone's credit-oriented business was 9.9% for the flagship hedge funds, 14.2% for the mezzanine funds and 11.1% for the rescue lending funds for the first half of 2011.

The Realized Performance Fees for the six months ended June 30, 2011 of $47.1 million were driven primarily by realizations in the Credit Businesses' mezzanine funds.

Total Management Fees were $113.5 million for the six months ended June 30, 2011, an increase of $26.1 million from the prior year period. Base Management Fees were $112.0 million for the six months ended June 30, 2011, an increase of $24.7 million compared to the prior year period, primarily due to higher Fee-Earning Assets Under Management.

*Expenses*

Expenses were $57.2 million for the three months ended June 30, 2011, an increase of $10.2 million, or 22%, compared to the three months ended June 30, 2010. The $10.2 million increase in expenses was primarily attributed to increases of $7.2 million in Compensation and $5.0 million in Performance Fee Compensation. Performance Fee Compensation was $12.8 million for the three months ended June 30, 2011, compared to $7.9 million for the prior year period. Compensation increased $7.2 million to $34.2 million for the three months ended June 30, 2011, compared to $27.0 million for the prior year period, primarily due to higher compensation accruals resulting from stronger base management fees and lower other operating expenses. Other Operating Expenses decreased $1.9 million to $10.2 million for the three months ended June 30, 2011, compared to $12.2 million for the prior year period. The decrease was primarily due to lower professional fees, partially offset by an increase in other operating expenses.

Expenses were $153.4 million for the six months ended June 30, 2011, an increase of $32.8 million, or 27%, compared to the six months ended June 30, 2010. The $32.8 million increase in expenses was primarily attributed to increases of $18.5 million in Performance Fee Compensation, $9.2 million in Compensation and $5.1 million in Other Operating Expenses. Performance Fee Compensation was $63.3 million for the six months ended June 30, 2011, compared to $44.9 million for the prior year period. The increase was primarily due to higher Performance Fees in the current quarter compared to the prior year period. Compensation increased $9.2 million to $64.5 million for the six months ended June 30, 2011, compared to $55.3 million for the prior year period, primarily due to higher compensation accruals resulting from stronger base management fees. Other Operating Expenses increased $5.1 million to $25.6 million for the six months ended June 30, 2011, compared to $20.5 million for the prior year period. The increase was primarily due to increases in U.K. occupancy related costs, higher professional fees, underwriting fees related to the launch of a new closed-end mutual fund, and technology consulting fees.

*Operating Metrics*

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (Dollars in Thousands) | | (Dollars in Thousands) | |
| Fee-Earning Assets Under Management | | | | |
| Balance, Beginning of Period | $25,838,878 | $20,173,319 | $25,337,158 | $20,416,237 |
| Inflows, including Commitments | 3,468,704 | 4,468,809 | 4,502,501 | 4,709,010 |
| Outflows, including Distributions | (1,320,664) | (810,776) | (2,257,380) | (1,302,859) |
| Market Appreciation (Depreciation) | 72,539 | (275,243) | 477,178 | (266,279) |
| Balance, End of Period | $28,059,457 | $23,556,109 | $28,059,457 | $23,556,109 |
| Increase | $ 2,220,579 | $ 3,382,790 | $ 2,722,299 | $ 3,139,872 |
| Increase | 9% | 17% | 11% | 15% |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (Dollars in Thousands) | | | |
| Assets Under Management | | | | |
| Balance, Beginning of Period | $31,475,397 | $24,290,357 | $31,052,368 | $24,233,476 |
| Inflows, including Commitments | 3,686,847 | 5,807,129 | 4,501,066 | 6,222,973 |
| Outflows, including Distributions | (1,558,987) | (1,112,205) | (2,650,702) | (1,683,606) |
| Market Appreciation (Depreciation) | 187,836 | (296,673) | 888,361 | (84,235) |
| Balance, End of Period | $33,791,093 | $28,688,608 | $33,791,093 | $28,688,608 |
| Increase | $ 2,315,696 | $ 4,398,251 | $ 2,738,725 | $ 4,455,132 |
| Increase | 7% | 18% | 9% | 18% |

| | Three Months Ended June 30, | | 2011 vs. 2010 | | Six Months Ended June 30, | | 2011 vs. 2010 | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | $ | % | 2011 | 2010 | $ | % |
| | (Dollars in Thousands) | | | | (Dollars in Thousands) | | | |
| Capital Deployed | | | | | | | | |
| Limited Partner Capital Invested | $152,882 | $264,092 | $(111,210) | -42% | $307,180 | $421,144 | $(113,964) | -27% |

As of June 30, 2011, 98% of the Fee-Earning Assets Under Management of $2.7 billion in the credit-oriented flagship hedge funds were above their respective high water marks compared to 89% of the Fee-Earning Assets Under Management of $2.5 billion as of June 30, 2010.

*Fee-Earning Assets Under Management*

Fee-Earning Assets Under Management were $28.1 billion at June 30, 2011, an increase of $2.2 billion, or 9%, compared to $25.8 billion at March 31, 2011. The increase was primarily due to inflows of $3.5 billion due principally to the acquisition of $2.2 billion of CLO vehicles during the quarter. Outflows of $1.3 billion during the quarter were principally due to deleveraging of certain CLO vehicles post their reinvestment periods and realizations in the drawdown funds.

Fee-Earning Assets Under Management were $28.1 billion at June 30, 2011, an increase of $2.7 billion, or 11%, compared to $25.3 billion at December 31, 2010. The increase was primarily due to inflows of $4.5 billion principally due to the acquisition of $2.2 billion of CLO vehicles in the second quarter of 2011, partially offset by outflows of $2.3 billion since December 31, 2010 principally due to deleveraging of certain CLO vehicles post their reinvestment periods and realizations in the drawdown funds.

*Assets Under Management*

Assets Under Management were $33.8 billion at June 30, 2011, an increase of $2.3 billion, or 7%, compared to $31.5 billion at March 31, 2011. The increase was primarily due to inflows of $3.7 billion principally due to the acquisition of $2.3 billion of CLO vehicles, partially offset by outflows of $1.6 billion. Outflows of $1.6 billion during the quarter were principally due to deleveraging of certain CLO vehicles post their reinvestment periods and realizations in the drawdown funds.

Assets Under Management were $33.8 billion at June 30, 2011, an increase of $2.7 billion, or 9%, compared to $31.1 billion at December 31, 2010. The increase was primarily due to inflows of $4.5 billion principally due to the acquisition of $2.3 billion of CLO vehicles, partially offset by outflows of $2.7 billion due to deleveraging of certain CLO vehicles post their reinvestment periods and realizations in the drawdown funds.

*Limited Partner Capital Invested*

For the three months ended June 30, 2011, Limited Partner Capital Invested was $152.9 million, a decrease of $111.2 million from $264.1 million for the three months ended June 30, 2010. For the six months ended June 30, 2011, Limited Partner Capital Invested was $307.2 million, a decrease of $114.0 million from $421.1 million for the six months ended June 30, 2010.

*Fund Returns*

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

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

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | | Average Annual Returns (a) Periods Ended June 30, 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2011 | | 2010 | | One Year | | Three Year | | Five Year | | Historical | |
| **Fund** | **Gross** | **Net** | **Gross** | **Net** | **Gross** | **Net** | **Gross** | **Net** | **Gross** | **Net** | **Gross** | **Net** | **Gross** | **Net** | **Gross** | **Net** |
| Flagship Hedge Funds (b) | 2% | 1% | 0% | -0% | 10% | 8% | 6% | 4% | 26% | 20% | 11% | 7% | 12% | 8% | 12% | 8% |

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

(a) Average annual returns present a summarized asset weighted return measure to evaluate the overall performance of the applicable class of Blackstone Funds.

(b) The Flagship Hedge Funds' returns represent the weighted-average return for the U.S. domestic and offshore funds included in this return. The historical return is from August 1, 2005, which is before Blackstone's acquisition of GSO in March 2008.

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

| | Three Months Ended June 30, 2011 | | Three Months Ended June 30, 2010 | | Six Months Ended June 30, 2011 | | Six Months Ended June 30, 2010 | | Inception to Date | |
|---|---|---|---|---|---|---|---|---|---|---|
| Fund (a) | Gross | Net | Gross | Net | Gross | Net | Gross | Net | Gross | Net |
| Mezzanine Funds (b) | 4% | 4% | 5% | 4% | 14% | 11% | 11% | 8% | 22% | 16% |
| Rescue Lending Funds (c) | 2% | — | 16% | 8% | 11% | 6% | 52% | 24% | 45% | 25% |

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

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

The following table presents the investment record of the significant Credit Businesses drawdown funds from inception through June 30, 2011 for funds with open investment periods:

| | Funds in the Investment Period | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Total Investments | | | | | Realized / Partially Realized Investments (a) | | |
| | | Total | | | | | Total | | |
| Fund (Investment Period) | Available Capital (b) | Invested Capital (c) | Carrying Value (d) | Gross IRR | Net IRR (e) | MOIC (f) | Invested Capital (c) | Carrying Value (d) (g) | MOIC (f) |
| | (Dollars in Millions) | | | | | | (Dollars in Millions) | | |
| Mezzanine Funds (Jul 2007/Jul 2012) | $ 793 | $ 2,213 | $ 2,926 | 22% | 16% | 1.3 | $ 1,074 | $ 1,564 | 1.5 |
| Rescue Lending Funds (May 2009 / May 2013) | 2,397 | 1,144 | 1,506 | 45% | 25% | 1.3 | 301 | 351 | 1.2 |

**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 recallable capital, less invested capital.
(c) Invested Capital includes recalled capital.
(d) Carrying value includes realized proceeds and unrealized fair value.
(e) Net Internal Rate of Return ("IRR") represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized value after management fees, expenses and Carried Interest.
(f) Multiple of Invested Capital ("MOIC") represents carrying value, before management fees, expenses and Carried Interest, divided by total invested capital.
(g) The Realized / Partially Realized Carrying Value includes remaining unrealized value of $494.2 million.

As of June 30, 2011, the significant Credit Businesses drawdown funds that are in their investment period were above their respective Carried Interest thresholds (i.e., the preferred return payable to its limited partners before the general partner is eligible to receive Carried Interest).

***Financial Advisory***

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

| | Three Months Ended June 30, 2011 | Three Months Ended June 30, 2010 | 2011 vs. 2010 $ | 2011 vs. 2010 % | Six Months Ended June 30, 2011 | Six Months Ended June 30, 2010 | 2011 vs. 2010 $ | 2011 vs. 2010 % |
|---|---|---|---|---|---|---|---|---|
| | (Dollars in Thousands) | | | | | | | |
| Segment Revenues | | | | | | | | |
| Advisory Fees | $102,243 | $134,099 | $(31,856) | -24% | $172,495 | $210,667 | $(38,172) | -18% |
| Transaction and Other Fees, Net | 210 | 102 | 108 | 106% | 216 | 103 | 113 | 110% |
| Total Advisory and Transaction Fees | 102,453 | 134,201 | (31,748) | -24% | 172,711 | 210,770 | (38,059) | -18% |
| Investment Income | | | | | | | | |
| Realized | 226 | (49) | 275 | N/M | 323 | 138 | 185 | 134% |
| Unrealized | (15) | 561 | (576) | N/M | 378 | 791 | (413) | -52% |
| Total Investment Income | 211 | 512 | (301) | -59% | 701 | 929 | (228) | -25% |
| Interest and Dividend Revenue | 1,723 | 1,268 | 455 | 36% | 3,409 | 2,664 | 745 | 28% |
| Other | 33 | (342) | 375 | N/M | 419 | (1,274) | 1,693 | N/M |
| Total Revenues | 104,420 | 135,639 | (31,219) | -23% | 177,240 | 213,089 | (35,849) | -17% |
| Expenses | | | | | | | | |
| Compensation and Benefits | | | | | | | | |
| Compensation | 73,968 | 76,152 | (2,184) | -3% | 130,129 | 130,644 | (515) | -0% |
| Other Operating Expenses | 19,967 | 17,316 | 2,651 | 15% | 37,498 | 32,043 | 5,455 | 17% |
| Total Expenses | 93,935 | 93,468 | 467 | 0% | 167,627 | 162,687 | 4,940 | 3% |
| Economic Net Income | $ 10,485 | $ 42,171 | $(31,686) | -75% | $ 9,613 | $ 50,402 | $(40,789) | -81% |

*Revenues*

Revenues were $104.4 million for the three months ended June 30, 2011, a decrease of $31.2 million, or 23%, compared to $135.6 million for the three months ended June 30, 2010. The decrease in revenues was driven primarily by decreases in Blackstone's restructuring and reorganization business and Blackstone's fund placement business, offset by an increase in Blackstone Advisory Partners' business. The decrease in Blackstone's restructuring and reorganization business was due to a decline from near-peak revenue levels in the second quarter of 2010, due to an improving economy and continued strength in the credit markets. The decrease in fees earned by Blackstone's fund placement business was primarily due to the timing of closings. The increase in Blackstone Advisory Partners' business was due to an increase in the size of transactions completed compared to the prior year period.

Revenues were $177.2 million for the six months ended June 30, 2011, a decrease of $35.8 million, or 17%, compared to $213.1 million for the six months ended June 30, 2010. The decrease in revenues was driven primarily by decreases in Blackstone's restructuring and reorganization business and Blackstone Advisory Partners' business, offset by an increase in Blackstone's fund placement business. The decrease in Blackstone's restructuring and reorganization business was due to the same reasons described above. The decrease in Blackstone Advisory Partners' business was principally driven by a decrease in the number of transactions completed compared to the prior year period. The increase in fees earned by Blackstone's fund placement business was because fund-raising of capital from institutional investors for alternative investment products improved compared to the prior year period.

*Expenses*

Expenses were $93.9 million for the three months ended June 30, 2011, relatively flat compared to $93.5 million for the three months ended June 30, 2010. Compensation and Benefits decreased $2.2 million over the three months ended June 30, 2010, principally due to decreases in compensation expense in our restructuring and reorganization business, partially offset by an increase in such costs in our fund placement business and Blackstone Advisory Partners’ business. Compensation expense for these businesses is related to their financial performance. Other Operating Expenses increased $2.7 million over the three months ended June 30, 2010, principally due to increases in all non-compensation expenses.

Expenses were $167.6 million for the six months ended June 30, 2011, an increase of $4.9 million, or 3%, compared to $162.7 million for the six months ended June 30, 2010. Compensation and Benefits remained relatively flat compared to the six months ended June 30, 2010, principally due to decreases in compensation expense in our restructuring and reorganization business and Blackstone Advisory Partners’ business, partially offset by an increase in such costs in our fund placement business. Compensation expense for these businesses is related to their financial performance. Other Operating Expenses increased $5.5 million over the six months ended June 30, 2010, principally due to increases in all non-compensation 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 $22.3 billion as of June 30, 2011, an increase of $3.5 billion from December 31, 2010. The increase in total assets was primarily attributable to a $3.3 billion increase in Investments. Total liabilities were $13.0 billion as of June 30, 2011, an increase of $2.5 billion from December 31, 2010. The increase in total liabilities was primarily due to an increase in Loans Payable of $2.1 billion.

For the three months ended June 30, 2011, we had Total Fee Related Revenues of $528.1 million and related expenses of $390.8 million, generating Net Fee Related Earnings from Operations of $137.2 million and Distributable Earnings of $184.5 million. For the six months ended June 30, 2011, we had Total Fee Related Revenues of $966.7 million and related expenses of $736.3 million, generating Net Fee Related Earnings from Operations of $230.4 million and Distributable Earnings of $381.1 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 $1.02 billion committed revolving credit facility and the proceeds from our 2009 and 2010 issuances of senior notes. As of June 30, 2011, Blackstone had $434.8 billion in cash, $1.1 billion invested in Blackstone's Treasury cash management strategies, $202.7 million invested in liquid Blackstone Funds, $1.9 billion invested in illiquid Blackstone Funds and $149.3 million in other investments, against $1.0 billion in borrowings from our 2009 and 2010 bond issuances.

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

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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (Dollars in Thousands) | | | |
| Fee Related Earnings | | | | |
| Revenues | | | | |
| Total Management and Advisory Fees (a) | $513,603 | $417,451 | $939,269 | $780,072 |
| Interest and Dividend Revenue (a) | 9,283 | 6,930 | 18,731 | 15,620 |
| Other (a) | 1,128 | (644) | 3,387 | (3,894) |
| Investment Income — Blackstone's Treasury Cash Management Strategies (b) | 4,038 | 5,062 | 5,340 | 8,727 |
| Total Revenues | 528,052 | 428,799 | 966,727 | 800,525 |
| Expenses | | | | |
| Compensation and Benefits — Compensation (a) | 278,738 | 220,662 | 508,636 | 411,299 |
| Other Operating Expenses (a) | 99,363 | 88,160 | 202,338 | 161,183 |
| Cash Taxes (c) | 12,734 | 12,062 | 25,356 | 21,383 |
| Total Expenses | 390,835 | 320,884 | 736,330 | 593,865 |
| Net Fee Related Earnings from Operations | 137,217 | 107,915 | 230,397 | 206,660 |
| Performance Fees, Net of Related Compensation | | | | |
| Performance Fees — Realized (a) | 60,215 | 46,374 | 155,815 | 100,255 |
| Compensation and Benefits — Performance Fee Compensation — Realized (a) | (27,711) | (22,879) | (42,254) | (30,620) |
| Total Performance Fees, Net of Compensation | 32,504 | 23,495 | 113,561 | 69,635 |
| Investment Income and Other | | | | |
| Investment Income (Loss) — Realized (a) | 30,732 | 15,721 | 54,231 | 21,028 |
| Adjustment Related to Realized Investment Income — Blackstone's Treasury Cash Management Strategies (d) | (2,343) | 512 | (3,353) | (752) |
| Other Payables Including Payable Under Tax Receivable Agreement | (13,578) | (68) | (13,755) | (300) |
| Total Investment Income and Other | 14,811 | 16,165 | 37,123 | 19,976 |
| Distributable Earnings | $184,532 | $147,575 | $381,081 | $296,271 |

(a) Represents the total segment amounts of the respective captions.
(b) Represents the inclusion of Investment Income from Blackstone's Treasury cash management strategies.
(c) Represents the 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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (Dollars in Thousands) | | | |
| **Income (Loss) Before Provision for Taxes** | $ 248,796 | $(636,928) | $ 366,010 | $ (864,599) |
| IPO and Acquisition-Related Charges (a) | 424,483 | 749,930 | 846,344 | 1,476,652 |
| Amortization of Intangibles (b) | 44,905 | 40,822 | 89,079 | 80,334 |
| (Income) Loss Associated with Non-Controlling Interests in (Income) Loss of Consolidated Entities (c) | 92,548 | 67,647 | 163,604 | (85,814) |
| **Total Segments, Economic Net Income** | 810,732 | 221,471 | 1,465,037 | 606,573 |
| Performance Fees Adjustment (d) | (673,058) | (25,636) | (1,273,855) | (211,850) |
| Investment Income (Loss) Adjustment (e) | (137,569) | (102,907) | (263,645) | (259,735) |
| Investment Income (Loss) — Blackstone's Treasury Cash Management Strategies (f) | 4,038 | 5,062 | 5,340 | 8,727 |
| Performance Fee Compensation and Benefits Adjustment (g) | 145,808 | 21,987 | 322,876 | 84,328 |
| Taxes Payable (h) | (12,734) | (12,062) | (25,356) | (21,383) |
| **Net Fee Related Earnings from Operations** | 137,217 | 107,915 | 230,397 | 206,660 |
| Realized Performance Fees (i) | 32,504 | 23,495 | 113,561 | 69,635 |
| Realized Investment Income (Loss) (j) | 30,732 | 15,721 | 54,231 | 21,028 |
| Adjustment Related to Realized Investment Income — Blackstone's Treasury Cash Management Strategies (k) | (2,343) | 512 | (3,353) | (752) |
| Other Payables Including Payable Under Tax Receivable Agreement | (13,578) | (68) | (13,755) | (300) |
| **Distributable Earnings** | $ 184,532 | $ 147,575 | $ 381,081 | $ 296,271 |
| **Earnings Before Interest, Taxes and Depreciation and Amortization from Net Fee Related Earnings from Operations (l)** | $ 170,856 | $ 132,866 | $ 297,522 | $ 253,671 |

(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 and includes the amount of Management Fee Revenues associated with Consolidated CLO Vehicles.

(d) This adjustment removes from ENI the total segment amount of Performance Fees.

(e) This adjustment removes from ENI the total segment amount of Investment Income (Loss).

(f) 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.

(g) This adjustment removes from expenses the compensation and benefit amounts related to Blackstone's profit sharing plans related to Performance Fees.

(h) Represents an implied payable for income taxes calculated using a similar methodology applied in calculating the current provision for The Blackstone Group L.P.

(i) Represents the adjustment for realized Performance Fees net of corresponding actual amounts due under Blackstone's profit sharing plans related thereto.

(j) Represents the adjustment for Blackstone's Investment Income — Realized.

(k) 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).

(l) 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 (h), and segment interest and segment depreciation and amortization. The cash taxes payable component of (h) was $12.7 million and $12.1 million for the three months ended June 30, 2011 and 2010, respectively. The cash taxes payable component of (h) was $25.4 million and $21.4 million for the six months ended June 30, 2011 and 2010, respectively. Interest was $13.1 million and $6.8 million for the three months ended June 30, 2011 and 2010, respectively. Interest was $25.8 million and $13.1 million for the six months ended June 30, 2011 and 2010, respectively. Depreciation and amortization was $7.8 million and $6.1 million for the three months ended June 30, 2011 and 2010, respectively. Depreciation and amortization was $16.0 million and $12.5 million for the six months ended June 30, 2011 and 2010, respectively.

***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 June 30, 2011 consisted of the following:

| Fund | Original Commitment | Remaining Commitment |
|---|---|---|
| | (Dollars in Thousands) | |
| **Private Equity** | | |
| BCP VI | $ 688,727 | $ 688,727 |
| BCP V | 629,356 | 92,712 |
| BCP IV | 150,000 | 9,267 |
| BCOM | 50,000 | 5,074 |
| BCTP | 4,575 | 815 |
| RMB | 6,860 | 6,603 |
| Woori Blackstone Korea I | 5,664 | 4,636 |
| **Real Estate Funds** | | |
| BREP VI | 750,000 | 124,618 |
| BREP V | 52,545 | 4,561 |
| BREP International II | 28,626 | 2,399 |
| BREP IV | 50,000 | — |
| BREP International | 20,000 | — |
| BREP Europe III | 100,000 | 91,002 |
| BSSF II | 43,033 | 11,691 |
| BSSF I | 6,992 | — |
| CMBS Fund | 4,010 | — |
| BSSF G | 2,500 | 1,075 |
| BCRED | 10,000 | 6,932 |
| **Hedge Fund Solutions** | | |
| Strategic Alliance II | 50,000 | 37,225 |
| Strategic Alliance | 50,000 | 2,291 |
| **Credit Businesses** | | |
| BMezz II | 17,692 | 3,165 |
| BMezz | 41,000 | 2,590 |
| Blackstone Credit Liquidity Partners | 32,244 | 6,745 |
| Blackstone / GSO Capital Solutions | 50,000 | 37,002 |
| Other (a) | 16,270 | 1,277 |
| **Other** | 134,000 | 17,000 |
| Total | $2,994,094 | $1,157,407 |

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

On March 23, 2010, indirect subsidiaries of Blackstone entered into an unsecured revolving credit facility (the "Credit Facility") with Citibank, N.A., as Administrative Agent. On November 23, 2010, the Credit Facility was amended to set the facility aggregate borrowing limit at $1.02 billion. On April 8, 2011, the Credit Facility was further amended to extend the maturity date from March 23, 2013 to April 8, 2016. 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.

Blackstone's general partner maintains the right to determine the amount to be distributed from The Blackstone Group L.P.'s net after-tax share of its annual Distributable Earnings. Distributable Earnings will only be a starting point for the determination of the amount to be distributed to unitholders because 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 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 aggregate amounts of Blackstone's distributions to unitholders will typically be less than its Distributable Earnings for that year.

Although for calendar 2010 Blackstone distributed substantially all of its net after-tax annual Distributable Earnings, 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 less the amount of its realized investment gains. This determination was made based on the continued pace of organic and inorganic growth and the potential for further strategic initiatives and the retained amount will be used for those purposes. The retained cash will be deducted from the fourth quarter distribution which is made in the first quarter of the ensuing calendar year. Distributions for the first three quarters will remain unchanged at $0.10 per unit. All distributions are subject to Blackstone's discretion to retain additional amounts from the amount of annual Distributable Earnings to be distributed as described above.

Because Blackstone will not know what its Distributable Earnings will be for any fiscal year until the end of such year, Blackstone expects that its first three quarterly distributions in respect of any given year will be based on its anticipated annualized Net Fee Related Earnings. As such, the distributions for the first three quarters are expected to be smaller than the final quarterly distribution in respect of such year. For the fourth quarter of 2011 Blackstone expects to pay the remaining amount of the year's Distributable Earnings less realized investment gains.

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

Because the wholly-owned subsidiaries of The Blackstone Group L.P. must pay taxes and make payments under the tax receivable agreements described in Blackstone's 2010 Annual Report on Form 10-K, the amounts ultimately distributed by The Blackstone Group L.P. to its common unitholders in respect of fiscal 2011 and subsequent years are expected to be different, 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 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 six months ended June 30, 2011, we repurchased 116,270 vested Blackstone Holdings Partnership Units as part of the unit repurchase program for a total cost of $2.1 million. As of June 30, 2011, the amount remaining available for repurchases was $335.8 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 June 30, 2011, we had total partners' capital of $8.5 billion, including $434.8 million in cash, $1.1 billion invested in Blackstone's Treasury cash management strategies, $202.7 million invested in liquid Blackstone Funds, $1.9 billion invested in illiquid Blackstone Funds and $149.3 million in other investments, against $1.0 billion in borrowings from our 2009 and 2010 bond issuances.

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

| | Reverse Repurchase Agreements | Repurchase Agreements | Securities Sold, Not Yet Purchased |
|---|---|---|---|
| | | (Dollars in Millions) | |
| Balance, June 30, 2011 | $ 94.0 | $ 77.2 | $ 74.9 |
| Balance, December 31, 2010 | 181.4 | 62.7 | 116.7 |
| Six Months Ended June 30, 2011 | | | |
| Average Daily Balance | 200.6 | 126.4 | 169.0 |
| Maximum Daily Balance | 369.4 | 250.7 | 346.2 |

Our private equity funds, real estate funds and funds of hedge funds have not historically utilized substantial leverage at the fund level other than (a) for short-term borrowings between the date of an investment and the receipt of capital from the investing fund's investors, and (b) long-term borrowings for certain investments in aggregate amounts which are generally 2% to 5% of the capital commitments of the respective fund. Our carry funds make direct or indirect investments in companies that utilize leverage in their capital structure. The degree of leverage employed varies among portfolio companies.

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

### *Principles of Consolidation*

The Partnership consolidates all entities that it controls through a majority voting interest or otherwise, including those Blackstone Funds in which the general partner is presumed to have control. Although the Partnership has a non-controlling interest in the Blackstone Holdings partnerships, the limited partners do not have the right to dissolve the partnerships or have substantive kick out rights or participating rights that would overcome the presumption of control by the Partnership. Accordingly, the Partnership consolidates Blackstone Holdings and records non-controlling interests to reflect the economic interests of the limited partners of Blackstone Holdings.

In addition, the Partnership consolidates all variable interest entities ("VIE") in which it is the primary beneficiary. An enterprise is determined to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. The consolidation guidance requires an analysis to (a) determine whether an entity in which the Partnership holds a variable interest is a variable interest entity and (b) whether the Partnership's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., management and performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment. Where the variable interest entities have qualified for the deferral of the consolidation guidance, the analysis is based on previous consolidation guidance. Variable interest entities qualify for the deferral of the consolidation guidance if all of the following conditions have been met:

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

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

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

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

***Revenue Recognition***

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

Please refer to "Part I. Item 1. Business — Incentive Arrangements / Fee Structure" in our 2010 Annual Report on Form 10-K for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

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

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

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

- 1.00% to 1.75% of committed capital during the commitment period,
- 0.75% to 1.50% of invested capital subsequent to the investment period for private equity and real estate funds, and
- 1.00% to 1.50% of invested capital for certain credit-oriented funds.

On credit-oriented funds structured like hedge funds:

- 0.75% to 2.00% of net asset value.

On credit-oriented funds separately managed accounts:

- 0.35% to 1.00% of net asset value.

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

- 0.65% to 1.50% of assets under management.

On CLO vehicles:

- 0.40% to 1.25% of total assets.

On closed-end mutual funds and registered investment companies:

- 0.50% to 1.50% of fund assets.

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

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

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

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

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

In certain fund structures, specifically in private equity, real estate and certain credit-oriented funds ("Carry Funds"), performance fees ("Carried Interest") are allocated to the general partner based on cumulative fund performance to date, subject to a preferred return to limited partners. 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, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Blackstone Carry Funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. Generally, the actual clawback liability does not become realized until the end of a fund's life or one year after a realized loss is incurred, depending on the fund.

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

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

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

***Expenses***

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

*Compensation and Benefits — Compensation* — Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees, 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* — Performance Fee Compensation and Benefits consists of Carried Interest and performance fee allocations to employees, including senior managing directors, participating in certain profit sharing initiatives. 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, listed derivatives and mutual funds with quoted prices. The Partnership does not adjust the quoted price for these investments, even in situations where Blackstone holds a large position and a sale could reasonably impact the quoted price.
- Level II — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and loans, government and agency securities, less liquid and restricted equity securities, certain over-the-counter derivatives where the fair value is based on observable inputs, and certain fund of hedge funds investments in which Blackstone has the ability to redeem its investment at net asset value at, or within three months of, the reporting date.
- Level III — Pricing inputs are unobservable for the financial instruments and includes situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category generally include general and limited partnership interests in private equity

and real estate funds, credit-oriented funds, distressed debt and non-investment grade residual interests in securitizations, collateralized loan obligations, certain over the counter derivatives where the fair value is based on unobservable inputs and certain funds of hedge funds which use net asset value per share to determine fair value in which Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date. Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date if an investee fund manager has the ability to limit the amount of redemptions, and/or the ability to side-pocket investments, irrespective of whether such ability has been exercised.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value 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 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 Investment Company Guide, and reflect their investments, including majority-owned and controlled investments (the "Portfolio Companies"), at fair value. Blackstone has retained the specialized accounting for the consolidated Blackstone Funds. Thus, such consolidated funds' investments are reflected in Investments on the Condensed Consolidated Statements of Financial Condition at fair value, with unrealized gains and losses resulting from changes in fair value reflected as a component of Net Gains from Fund Investment Activities in the Condensed Consolidated Statements of Operations. Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price).

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

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

In addition, the Partnership has elected the fair value option for the assets and liabilities of certain CLO vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of variable interest entity consolidation guidance. The Partnership has also elected the fair value option for CLO vehicles consolidated as of April 1, 2010, July 20, 2010 and May 16, 2011, as a result of the acquisitions of CLO management contracts. The adjustment resulting from the difference between the fair value of assets and liabilities for each of these events is presented within the Condensed Consolidated Statement of Financial Condition as a transition and acquisition adjustment to Appropriated Partners' Capital. Assets of the consolidated CLOs are presented within Investments within the Consolidated Statements of Financial Condition and Liabilities within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by non-consolidated affiliates. The methodology for measuring the fair value of such assets and liabilities is consistent with the methodology applied to private equity, real estate, and credit-oriented investments. Changes in the fair value of consolidated CLO assets and liabilities and related interest, dividend and other income subsequent to adoption and acquisition are presented within Net Gains from Fund Investment Activities. Amounts attributable to Non-Controlling Interests in Consolidated Entities in the Condensed Consolidated Statements of Operations have a corresponding adjustment to Appropriated Partners' Capital.

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

### *Intangibles and Goodwill*

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

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

The carrying value of goodwill was $1.7 billion as of June 30, 2011 and December 31, 2010. Intangibles and goodwill are reviewed for impairment at least annually, or more frequently if circumstances indicate impairment may have occurred. As of June 30, 2011 and December 31, 2010, the fair value of the Partnership's operating segments substantially exceeded their respective carrying values.

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

## Off-Balance Sheet Arrangements

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

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

- Note 6. "Derivative Financial Instruments",

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- Note 9. "Variable Interest Entities", and
- Note 16. "Commitments and Contingencies — Commitments — Investment Commitments" and "— Contingencies — Guarantees".

## Recent Accounting Developments

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

## Contractual Obligations, Commitments and Contingencies

The following table sets forth information relating to our contractual obligations as of June 30, 2011 on a consolidated basis and on a basis deconsolidating the Blackstone funds:

| Contractual Obligations | July 1, 2011 to December 31, 2011 | 2012–2013 | 2014–2015 | Thereafter | Total |
|---|---|---|---|---|---|
| | | | (Dollars in Thousands) | | |
| Operating Lease Obligations (a) | $ 30,599 | $ 111,456 | $ 93,787 | $ 254,420 | $ 490,262 |
| Purchase Obligations | 9,474 | 10,094 | 2,181 | — | 21,749 |
| Blackstone Issued Notes and Revolving Credit Facility (b) | — | — | — | 1,000,000 | 1,000,000 |
| Interest on Blackstone Issued Notes and Revolving Credit Facility (c) | 31,625 | 126,500 | 126,500 | 266,490 | 551,115 |
| Blackstone Operating Entities Loan and Credit Facilities Payable (d) | 594 | 9,835 | 5,040 | — | 15,469 |
| Interest on Blackstone Operating Entities Loan and Credit Facilities Payable (e) | 137 | 170 | 11 | — | 318 |
| Blackstone Funds and CLO Vehicles Debt Obligations Payable (f) | — | 86,844 | 1,168,592 | 8,162,152 | 9,417,588 |
| Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (g) | 73,557 | 293,578 | 250,493 | 576,305 | 1,193,933 |
| Blackstone Funds Capital Commitments to Investee Funds (h) | 23,332 | — | — | — | 23,332 |
| Due to Certain Non-Controlling Interest Holders in Connection with Tax Receivable Agreements (i) | — | 52,448 | 156,485 | 1,132,278 | 1,341,211 |
| Blackstone Operating Entities Capital Commitments to Blackstone Funds and Other (j) | 1,157,407 | — | — | — | 1,157,407 |
| Consolidated Contractual Obligations | 1,326,725 | 690,925 | 1,803,089 | 11,391,645 | 15,212,384 |
| Blackstone Funds and CLO Vehicles Debt Obligations Payable (f) | — | (86,844) | (1,168,592) | (8,162,152) | (9,417,588) |
| Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (g) | (73,557) | (293,578) | (250,493) | (576,305) | (1,193,933) |
| Blackstone Funds Capital Commitments to Investee Funds (h) | (23,332) | — | — | — | (23,332) |
| Blackstone Operating Entities Contractual Obligations | $ 1,229,836 | $ 310,503 | $ 384,004 | $ 2,653,188 | $ 4,577,531 |

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

(b) Represents the principal amount due on the 6.625% and 5.875% senior notes we issued. As of June 30, 2011, 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 June 30, 2011, at spreads to market rates pursuant to the financing agreements, and range from 1.05% to 1.50%.

(f) These obligations are those of the Blackstone Funds including the consolidated CLO vehicles.

(g) Represents interest to be paid over the maturity of the related Blackstone Funds' and CLO vehicles' debt obligations which has been calculated assuming no prepayments will be made and debt will be held until its final maturity date. The future interest payments are calculated using variable rates in effect as of June 30, 2011, at spreads to market rates pursuant to the financing agreements, and range from 0.52% 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 $5.2 million as of June 30, 2011.

### *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 June 30, 2011.

### *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.

## 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 investment income.

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

- The investment process of our carry funds involves a detailed analysis of potential investments, and asset management teams are assigned to oversee the operations, strategic development, financing and capital deployment decisions of each portfolio investment. Key investment decisions are subject to approval by the applicable investment committee, which is comprised of Blackstone senior managing directors and senior management.
- In our capacity as advisor to certain of our hedge fund solutions and credit businesses 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 six months ended June 30, 2011 and June 30, 2010, the approximate percentage of our fund management fees based on the NAV of the applicable funds or separately managed accounts, are as follows:

| | As of June 30, | |
|---|---|---|
| | 2011 | 2010 |
| Fund Management Fees Based on the NAV of the Applicable Funds or Separately Managed Accounts | 32% | 32% |

### Market Risk

The Blackstone Funds hold investments which are reported at fair value. Based on the fair value as of June 30, 2011 and June 30, 2010, we estimate that a 10% decline in fair value of the investments would have the following effects:

| | June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | |
| | Management Fees | Performance Fees, Net of the Related Compensation Expense | Investment Income | Management Fees | Performance Fees, Net of the Related Compensation Expense | Investment Income |
| | (Dollars in Thousands) | | | | | |
| 10% Decline in Fair Value of the Investments | $ 44,862 | $ 519,217 | $229,113 | $ 38,863 | $ 169,788 | $171,179 |

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

| | Total Assets Under Management, Excluding Undrawn Capital Commitments and the Amount of Capital Raised for CLOs | Percentage Amount Classified as Level III Investments |
|---|---|---|
| | (Dollars in Thousands) | |
| Private Equity | $ 28,252,938 | 67% |
| Real Estate | 29,098,238 | 93% |
| Hedge Fund Solutions | 38,680,538 | 77% |
| Credit Businesses | 11,793,404 | 49% |

The fair value of our investments and securities can vary significantly based on a number of factors that take into consideration the diversity of the Blackstone Funds' investment portfolio and on a number of factors and inputs such as similar transactions, financial metrics, and industry comparatives, among others. (See "Part I, Item 1A. Risk Factors" in our 2010 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 and funds of hedge funds) make capital commitments to those funds that we are entitled to call from those investors at any time during prescribed periods. We depend on investors fulfilling their commitments when we call capital from them in order for those funds to consummate investments and otherwise pay 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 June 30, 2011 and June 30, 2010, a 10% decline in the rate of exchange of all foreign currencies against the U.S. dollar would have the following effects:

| | June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | |
| | Management Fees | Performance Fees, Net of the Related Compensation Expense | Investment Income | Management Fees | Performance Fees, Net of the Related Compensation Expense | Investment Income |
| | (Dollars in Thousands) | | | | | |
| 10% Decline in the Rate of Exchange of All Foreign Currencies Against the U.S. Dollar | $ 9,381 | $ 58,318 | $ 33,769 | $ 9,079 | $ 35,572 | $ 27,702 |

**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 June 30, 2011 and June 30, 2010, and our outstanding interest rate swaps, we estimate that interest expense relating to variable rates would increase on an annual basis, in the event interest rates were to increase by one percentage point, as follows:

| | June 30, | |
|---|---|---|
| | 2011 | 2010 |
| | (Dollars in Thousands) | |
| Increase in Interest Expense Due to a One Percentage Point Increase in Interest Rates | $ 4,742 | $ 4,923 |

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, freestanding derivative contracts, repurchase and reverse repurchase agreements. We estimate that our investment income would decrease by $7.2 million, or 0.5% of the Treasury Liquidity Portfolio, if interest rates were to increase by one percentage point. This would be offset by an estimated increase in interest income of $4.1 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 $9.9 million, or 0.6% of the Treasury Liquidity Portfolio, if credit spreads were to increase by one percentage point.

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

## ITEM 4. CONTROLS AND PROCEDURES

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

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

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

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We may from time to time be involved in litigation and claims incidental to the conduct of our business. Our businesses are also subject to extensive regulation, which may result in regulatory proceedings against us. See “Part I. Item 1A. Risk Factors” in our 2010 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 seven purported sub-classes of plaintiffs seeking damages and/or restitution and comprised of shareholders of seven 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 United States District Court for the Southern District of New York in October 2008 against Blackstone, Stephen A. Schwarzman (Blackstone’s Chairman and Chief Executive Officer), Peter G. Peterson (Blackstone’s former Senior Chairman), Hamilton E. James (Blackstone’s President and Chief Operating Officer) and Michael A. Puglisi (Blackstone’s Chief Financial Officer at the time of the IPO). The amended complaint alleged that (1) the IPO prospectus was false and misleading for failing to disclose (a) one private equity investment would be adversely affected by trends in mortgage default rates, particularly for sub-prime mortgage loans, (b) another private equity investment was adversely affected by the loss of an exclusive manufacturing agreement, and (c) prior to the IPO the U.S. real estate market had started to deteriorate, adversely affecting the value of Blackstone’s real estate investments; and (2) the financial statements in the IPO prospectus were materially inaccurate principally because they overstated the value of the investments referred to in clause (1).

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

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

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

Blackstone believes that 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, 2010 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.

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, 2010.

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 June 30, 2011. See “Part I. Item 1. Financial Statements — Notes to Condensed Consolidated Financial Statements — Note 13. Net Income (Loss) Per Common Unit” and “Part I. Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Our Sources of Cash and Liquidity Needs” for further information regarding this unit repurchase program.

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.

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## ITEM 4. (REMOVED AND RESERVED)

## ITEM 5. OTHER INFORMATION

None.

## ITEM 6. EXHIBITS

| Exhibit Number | Exhibit Description |
|---|---|
| 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.

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## SIGNATURES

Pursuant to the requirements 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: August 5, 2011

**The Blackstone Group L.P.**

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

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

**Exhibit 31.1**

## 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 June 30, 2011 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 fiscal 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: August 5, 2011

/s/ Stephen A. Schwarzman
Stephen A. Schwarzman
Chief Executive Officer
of Blackstone Group Management L.L.C.

**Exhibit 31.2**

**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 June 30, 2011 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 fiscal 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: August 5, 2011

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

**Exhibit 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**

In connection with the Quarterly Report of The Blackstone Group L.P. (the "Partnership") on Form 10-Q for the quarter ended June 30, 2011 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: August 5, 2011

/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.

**Exhibit 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**

In connection with the Quarterly Report of The Blackstone Group L.P. (the "Partnership") on Form 10-Q for the quarter ended June 30, 2011 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: August 5, 2011

/s/ Laurence A. Tosi
Laurence A. Tosi
Chief Financial 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.