

Blackstone Group L.P.
Form 10-Q
August 08, 2013
Table of Contents

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, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-33551

The Blackstone Group L.P.

(Exact name of Registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

345 Park Avenue

New York, New York 10154

(Address of principal executive offices)(Zip Code)

(212) 583-5000

(Registrant's telephone number, including area code)

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 31, 2013 was 468,367,363. The number of the Registrant's non-voting common units representing limited partner interests outstanding as of July 31, 2013 was 94,583,468.

Table of Contents**TABLE OF CONTENTS**

	Page
PART I.	
	<u>FINANCIAL INFORMATION</u>
ITEM 1.	<u>FINANCIAL STATEMENTS</u>
	4
	<u>Unaudited Condensed Consolidated Financial Statements June 30, 2013 and 2012:</u>
	<u>Condensed Consolidated Statements of Financial Condition as of June 30, 2013 and December 31, 2012</u>
	4
	<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2013 and 2012</u>
	6
	<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2013 and 2012</u>
	7
	<u>Condensed Consolidated Statements of Changes in Partners' Capital for the Six Months Ended June 30, 2013 and 2012</u>
	8
	<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2013 and 2012</u>
	10
	<u>Notes to Condensed Consolidated Financial Statements</u>
	12
ITEM 1A.	<u>UNAUDITED SUPPLEMENTAL PRESENTATION OF STATEMENTS OF FINANCIAL CONDITION</u>
ITEM 2.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>
	63
ITEM 3.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>
	120
ITEM 4.	<u>CONTROLS AND PROCEDURES</u>
	123
PART II.	
	<u>OTHER INFORMATION</u>
ITEM 1.	<u>LEGAL PROCEEDINGS</u>
	124
ITEM 1A.	<u>RISK FACTORS</u>
	125
ITEM 2.	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>
	126
ITEM 3.	<u>DEFAULTS UPON SENIOR SECURITIES</u>
	126
ITEM 4.	<u>MINE SAFETY DISCLOSURES</u>
	126
ITEM 5.	<u>OTHER INFORMATION</u>
	126
ITEM 6.	<u>EXHIBITS</u>
	127
<u>SIGNATURES</u>	128
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 terms. 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, 2012 and in this report, as such factors may be updated from time to time in our periodic filings with the United States Securities and Exchange Commission (SEC), which are accessible on the SEC's website at www.sec.gov. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. The forward-looking

Table of Contents

statements speak only as of the date of this report, and we undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

Website and Social Media Disclosure

We use our website (www.blackstone.com), our corporate Facebook page (www.facebook.com/blackstone) and our corporate Twitter account (@Blackstone) as channels of distribution of company information. The information we post through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following our press releases, SEC filings and public conference calls and webcasts. In addition, you may automatically receive e-mail alerts and other information about Blackstone when you enroll your e-mail address by visiting the E-mail Alerts section of our website at <http://ir.blackstone.com/alerts.cfm>?. The contents of our website and social media channels are not, however, a part of this report.

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

Blackstone Funds, our funds and our investment funds refer to the private equity funds, real estate funds, funds of hedge funds, credit-focused funds, collateralized loan obligation (CLO) and collateralized debt obligation (CDO) vehicles, real estate investment trusts and registered investment companies that are managed by Blackstone. Our carry funds refer to the private equity funds, real estate funds and certain of the credit-focused funds (with multi-year drawdown, commitment-based structures that only pay carry on the realization of an investment) that are managed by Blackstone. Blackstone's Private Equity segment comprises its management of private equity funds (including our sector and regional focused funds), which we refer to collectively as our Blackstone Capital Partners (BCP) funds, and certain multi-asset class investment funds which we collectively refer to as our Blackstone Tactical Opportunities Accounts (Tactical Opportunities). We refer to our real estate opportunistic funds as our Blackstone Real Estate Partners (BREP) funds and our real estate debt investment funds as our Blackstone Real Estate Debt Strategies (BREDS) funds. We refer to our listed real estate investment trusts as REITs. Our hedge funds refer to our funds of hedge funds, certain of our real estate debt investment funds and certain other credit-focused funds, 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, REITs and our side-by-side and co-investment entities managed by us, plus the capital that we are entitled to call from investors in those funds and entities pursuant to the terms of their respective capital commitments, including capital commitments to funds that have yet to commence their investment periods,
- (b) the net asset value of our funds of hedge funds, hedge funds, and certain registered investment companies,
- (c) the fair value of assets we manage pursuant to separately managed accounts,
- (d) the amount of capital raised for our CLOs and the amount of debt and equity outstanding for our CDOs, and
- (e) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies.

Table of Contents

Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election. Our funds of hedge funds and hedge funds generally have structures that afford an investor the right to withdraw or redeem their interests on a periodic basis (for example, 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 performance fees. Our fee-earning assets under management equals the sum of:

- (a) for our Private Equity segment funds and carry funds including certain real estate debt investment funds in our Real Estate segment, the amount of capital commitments, remaining invested capital or par value of assets held, depending on the fee terms of the fund,
- (b) for our credit-focused carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,
- (c) the remaining invested capital of co-investments managed by us on which we receive fees,
- (d) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (e) the fair value of assets we manage pursuant to separately managed accounts,
- (f) the net proceeds received from equity offerings and accumulated core earnings of our REITs,
- (g) the aggregate par amount of collateral assets, including cash, of our CLOs and CDOs, and
- (h) the gross amount of assets (including leverage) for certain of our credit-focused 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, the remaining amount of invested capital at cost depending on whether the investment period has or has not expired or the fee terms of the fund. As such, fee-earning assets under management may be greater than total assets under management when the aggregate fair value of the remaining investments is less than the cost of those investments.

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

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****THE BLACKSTONE GROUP L.P.****Condensed Consolidated Statements of Financial Condition (Unaudited)****(Dollars in Thousands, Except Unit Data)**

	June 30, 2013	December 31, 2012
Assets		
Cash and Cash Equivalents	\$ 660,977	\$ 709,502
Cash Held by Blackstone Funds and Other	1,176,875	1,404,411
Investments (including assets pledged of \$0 and \$141,931 at June 30, 2013 and December 31, 2012, respectively)	19,897,566	20,847,270
Accounts Receivable	936,240	638,164
Reverse Repurchase Agreements	176,273	248,018
Due from Affiliates	997,055	1,120,067
Intangible Assets, Net	554,043	598,535
Goodwill	1,703,602	1,703,602
Other Assets	347,921	376,372
Deferred Tax Assets	1,292,326	1,285,611
Total Assets	\$ 27,742,878	\$ 28,931,552
Liabilities and Partners Capital		
Loans Payable	\$ 11,363,892	\$ 13,051,404
Due to Affiliates	1,824,009	2,002,644
Accrued Compensation and Benefits	1,380,546	1,254,978
Securities Sold, Not Yet Purchased	77,553	226,425
Repurchase Agreements		142,266
Accounts Payable, Accrued Expenses and Other Liabilities	1,096,167	1,038,888
Total Liabilities	15,742,167	17,716,605
Commitments and Contingencies		
Redeemable Non-Controlling Interests in Consolidated Entities	1,978,286	1,556,185
Partners Capital		
Partners Capital (common units: 564,782,122 issued and outstanding as of June 30, 2013; 556,354,387 issued and outstanding as of December 31, 2012)	5,202,090	4,955,649
Appropriated Partners Capital	335,656	509,028
Accumulated Other Comprehensive Income	1,154	2,170
Non-Controlling Interests in Consolidated Entities	1,560,344	1,443,559
Non-Controlling Interests in Blackstone Holdings	2,923,181	2,748,356
Total Partners Capital	10,022,425	9,658,762
Total Liabilities and Partners Capital	\$ 27,742,878	\$ 28,931,552

continued

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See notes to condensed consolidated financial statements.

Table of Contents**THE BLACKSTONE GROUP L.P.****Condensed Consolidated Statements of Financial Condition (Unaudited)****(Dollars in Thousands)**

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

	June 30, 2013	December 31, 2012
Assets		
Cash Held by Blackstone Funds and Other	\$ 947,924	\$ 1,163,915
Investments	10,582,000	12,320,611
Accounts Receivable	190,249	187,343
Due from Affiliates	25,133	27,034
Other Assets	36,897	35,447
Total Assets	\$ 11,782,203	\$ 13,734,350
Liabilities		
Loans Payable	\$ 9,690,646	\$ 11,375,877
Due to Affiliates	150,323	253,546
Accounts Payable, Accrued Expenses and Other	454,301	518,656
Total Liabilities	\$ 10,295,270	\$ 12,148,079

See notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues				
Management and Advisory Fees, Net	\$ 578,723	\$ 488,048	\$ 1,060,856	\$ 959,724
Performance Fees				
Realized				
Carried Interest	183,288	55,929	477,458	69,489
Incentive Fees	76,104	11,631	99,845	16,910
Unrealized				
Carried Interest	456,706	84,290	634,053	383,086
Incentive Fees	938	(16,436)	106,736	50,699
Total Performance Fees	717,036	135,414	1,318,092	520,184
Investment Income (Loss)				
Realized				
	75,490	5,758	117,843	22,093
Unrealized				
	56,570	(10,519)	162,800	62,307
Total Investment Income (Loss)	132,060	(4,761)	280,643	84,400
Interest and Dividend Revenue				
Other	13,814	9,267	26,371	16,903
	(1,163)	(765)	981	(1,972)
Total Revenues	1,440,470	627,203	2,686,943	1,579,239
Expenses				
Compensation and Benefits Compensation	478,981	533,367	930,411	1,028,622
Performance Fee Compensation				
Realized				
Carried Interest	75,910	7,898	165,347	15,836
Incentive Fees	35,014	5,576	45,522	9,828
Unrealized				
Carried Interest	172,824	36,815	268,296	121,359
Incentive Fees	3,084	(9,595)	47,562	3,183
Total Compensation and Benefits	765,813	574,061	1,457,138	1,178,828
General, Administrative and Other	117,365	135,737	226,671	278,503
Interest Expense	26,956	13,773	54,018	28,291
Fund Expenses	4,628	16,248	12,036	37,990
Total Expenses	914,762	739,819	1,749,863	1,523,612
Other Income				
Net Gains from Fund Investment Activities	40,966	248,230	108,176	536,372
Income Before Provision for Taxes	566,674	135,614	1,045,256	591,999
Provision for Taxes	56,082	41,337	107,075	80,090
Net Income	510,592	94,277	938,181	511,909

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Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	22,366	(17,666)	84,682	36,594
Net Income Attributable to Non-Controlling Interests in Consolidated Entities	27,944	239,934	18,492	437,576
Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings	249,134	(53,027)	456,224	54,378
Net Income (Loss) Attributable to The Blackstone Group L.P.	\$ 211,148	\$ (74,964)	\$ 378,783	\$ (16,639)
Distributions Declared Per Common Unit	\$ 0.30	\$ 0.10	\$ 0.72	\$ 0.32
Net Income (Loss) Per Common Unit Basic and Diluted	\$ 0.36	\$ (0.14)	\$ 0.65	\$ (0.03)
Weighted-Average Common Units Outstanding				
Common Units, Basic	583,843,094	528,778,977	583,086,840	517,882,253
Common Units, Diluted	586,763,053	528,778,977	586,235,677	517,882,253
Revenues Earned from Affiliates				
Management and Advisory Fees, Net	\$ 80,752	\$ 56,133	\$ 120,123	\$ 104,117

See notes to condensed consolidated financial statements.

Table of Contents**THE BLACKSTONE GROUP L.P.****Condensed Consolidated Statements of Comprehensive Income (Unaudited)****(Dollars in Thousands)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net Income	\$ 510,592	\$ 94,277	\$ 938,181	\$ 511,909
Other Comprehensive Income (Loss), Net of Tax Currency Translation Adjustment	10,018	(21,255)	(1,932)	(23,429)
Comprehensive Income	520,610	73,022	936,249	488,480
Less:				
Comprehensive Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	22,366	(17,666)	84,682	36,594
Comprehensive Income Attributable to Non-Controlling Interests in Consolidated Entities	34,856	220,044	17,576	414,173
Comprehensive Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings	249,134	(53,027)	456,224	54,378
Comprehensive Income (Loss) Attributable to The Blackstone Group L.P.	\$ 214,254	\$ (76,329)	\$ 377,767	\$ (16,665)

See notes to condensed consolidated financial statements.

Table of Contents**THE BLACKSTONE GROUP L.P.****Condensed Consolidated Statements of Changes in Partners Capital (Unaudited)**

(Dollars in Thousands, Except Unit Data)

The Blackstone Group L.P.								
	Common Units	Partners Capital	Appro- priated Partners Capital	Accumulated Other Compre- hensive Income	Non- Controlling Interests in Consolidated Entities	Non- Controlling Interests in Blackstone Holdings	Total Partners Capital	Redeemable Non- Controlling Interests in Consolidated Entities
Balance at December 31, 2012	556,354,387	\$ 4,955,649	\$ 509,028	\$ 2,170	\$ 1,443,559	\$ 2,748,356	\$ 9,658,762	\$ 1,556,185
Net Income		378,783			18,492	456,224	853,499	84,682
Allocation of Losses of Consolidated CLO Entities			(141,719)		141,719			
Currency Translation Adjustment				(1,016)	(916)		(1,932)	
Allocation of Currency Translation Adjustment of Consolidated CLO Entities			(916)		916			
Capital Contributions					95,651	153	95,804	502,372
Capital Distributions		(412,480)			(137,786)	(492,635)	(1,042,901)	(165,003)
Transfer of Non-Controlling Interests in Consolidated Entities					(1,291)		(1,291)	
Purchase of Interests from Certain Non-Controlling Interest Holders		(22)					(22)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		76,899					76,899	
Equity-Based Compensation		216,736				213,049	429,785	
Relinquished with Deconsolidation and Liquidation of Partnership			(30,737)				(30,737)	50
Net Delivery of Vested Common Units	5,988,448	(15,162)				(279)	(15,441)	
Change in The Blackstone Group L.P. s Ownership Interest		(10,476)				10,476		
Conversion of Blackstone Holdings Partnership Units to	2,439,287	12,163				(12,163)		

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Blackstone Common
Units

Balance at June 30, 2013	564,782,122	\$ 5,202,090	\$ 335,656	\$ 1,154	\$ 1,560,344	\$ 2,923,181	\$ 10,022,425	\$ 1,978,286
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See notes to condensed consolidated financial statements.

Table of Contents**THE BLACKSTONE GROUP L.P.****Condensed Consolidated Statements of Changes in Partners' Capital (Unaudited)**

(Dollars in Thousands, Except Unit Data)

	The Blackstone Group L.P.						Total Partners Capital	Redeemable Non- Controlling Interests in Consolidated Entities
	Common Units	Partners Capital	Accumulated Appro- priated Partners Capital	Other Compre- hensive Income	Non-Controlling Interests in Consolidated Entities	Non- Controlling Interests in Blackstone Holdings		
Balance at December 31, 2011	489,430,907	\$ 4,281,841	\$ 386,864	\$ 1,958	\$ 1,029,270	\$ 2,460,520	\$ 8,160,453	\$ 1,091,833
Transition and Acquisition Adjustments Relating to Consolidation of CLO Entities			233,386		155		233,541	
Net Income (Loss)		(16,639)			437,576	54,378	475,315	36,594
Allocation of Income of Consolidated CLO Entities			370,084		(370,084)			
Currency Translation Adjustment				(26)	(23,403)		(23,429)	
Allocation of Currency Translation Adjustment of Consolidated CLOs			(23,403)		23,403			
Capital Contributions					97,832		97,832	210,447
Capital Distributions		(163,964)			(47,843)	(226,326)	(438,133)	(100,728)
Transfer of Non-Controlling Interests in Consolidated Entities					(3,616)	(943)	(4,559)	
Purchase of Interests from Certain Non-Controlling Interest Holders		(33)					(33)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		12,743					12,743	
Equity-Based Compensation		234,224				274,730	508,954	
Relinquished in Deconsolidation and Liquidation of Partnership								20,149
Net Delivery of Vested Common Units	8,175,645	(17,032)				(207)	(17,239)	
Change in The Blackstone Group L.P.'s Ownership Interest		(9,467)				9,467		
	22,148,152	91,649				(91,649)		

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Conversion of Blackstone
Holdings Partnership
Units to Blackstone
Common Units

Balance at June 30, 2012	519,754,704	\$ 4,413,322	\$ 966,931	\$ 1,932	\$ 1,143,290	\$ 2,479,970	\$ 9,005,445	\$ 1,258,295
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See notes to condensed consolidated financial statements.

Table of Contents**THE BLACKSTONE GROUP L.P.****Condensed Consolidated Statements of Cash Flows (Unaudited)**

(Dollars in Thousands)

	Six Months Ended June 30,	
	2013	2012
Operating Activities		
Net Income	\$ 938,181	\$ 511,909
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Blackstone Funds Related:		
Unrealized Appreciation on Investments Allocable to Non-Controlling Interests in Consolidated Entities	(277,805)	(520,599)
Net Realized Gains on Investments	(788,643)	(97,353)
Changes in Unrealized Gains on Investments Allocable to The Blackstone Group L.P.	(160,642)	(31,230)
Unrealized Appreciation on Hedge Activities		22,599
Non-Cash Performance Fees	(381,415)	(332,432)
Non-Cash Performance Fee Compensation	526,727	150,206
Equity-Based Compensation Expense	378,587	467,005
Amortization of Intangibles	44,492	84,835
Other Non-Cash Amounts Included in Net Income	101,767	24,379
Cash Flows Due to Changes in Operating Assets and Liabilities:		
Cash Held by Blackstone Funds and Other	227,249	152,335
Cash Relinquished with Deconsolidation and Liquidation of Partnership	(135,843)	20,148
Accounts Receivable	(44,072)	(130,775)
Reverse Repurchase Agreements	71,745	50,961
Due from Affiliates	126,242	(20,202)
Other Assets	2,966	(8,051)
Accrued Compensation and Benefits	(267,844)	31,071
Securities Sold, Not Yet Purchased	(143,916)	(50,143)
Accounts Payable, Accrued Expenses and Other Liabilities	(342,707)	(425,377)
Repurchase Agreements	(142,073)	14,138
Due to Affiliates	(34,986)	(27,892)
Treasury Cash Management Strategies:		
Investments Purchased	(2,258,191)	(1,382,392)
Cash Proceeds from Sale of Investments	2,533,672	1,356,654
Blackstone Funds Related:		
Investments Purchased	(5,163,545)	(3,593,721)
Cash Proceeds from Sale or Pay Down of Investments	6,530,610	4,080,259
Net Cash Provided by Operating Activities	1,340,556	346,332
Investing Activities		
Purchase of Furniture, Equipment and Leasehold Improvements	(14,645)	(20,948)
Net Cash Paid for Acquisitions, Net of Cash Acquired		(156,972)
Changes in Restricted Cash	5,804	(176)
Net Cash Used in Investing Activities	(8,841)	(178,096)
Financing Activities		
Distributions to Non-Controlling Interest Holders in Consolidated Entities	(302,789)	(141,769)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	595,543	297,528

continued

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See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2013	2012
Purchase of Interests from Certain Non-Controlling Interest Holders	\$ (22)	\$ (32)
Net Settlement of Vested Common Units and Repurchase of Common and Holdings Units	(15,441)	(17,239)
Proceeds from Loans Payable	2,850	4,899
Repayment and Repurchase of Loans Payable	(3,691)	(10,115)
Distributions to Unitholders	(905,115)	(390,290)
Blackstone Funds Related:		
Proceeds from Loans Payable	4,075	3,981
Repayment of Loans Payable	(755,045)	(257,283)
Net Cash Used in Financing Activities	(1,379,635)	(510,320)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(605)	(115)
Net Decrease in Cash and Cash Equivalents	(48,525)	(342,199)
Cash and Cash Equivalents, Beginning of Period	709,502	754,744
Cash and Cash Equivalents, End of Period	\$ 660,977	\$ 412,545
Supplemental Disclosure of Cash Flows Information		
Payments for Interest	\$ 56,621	\$ 42,853
Payments for Income Taxes	\$ 41,808	\$ 14,752
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Net Activities Related to Capital Transactions of Consolidated Blackstone Funds	\$ (291)	\$ (4,377)
Net Assets Related to the Consolidation of CLO Vehicles	\$	\$ 233,541
In-kind Redemption of Capital	\$	\$ (2,017)
In-kind Contribution of Capital	\$ 2,323	\$ 2,017
Transfer of Interests to Non-Controlling Interest Holders	\$ (1,291)	\$ (3,615)
Change in The Blackstone Group L.P.'s Ownership Interest	\$ (10,476)	\$ (9,467)
Net Settlement of Vested Common Units	\$ 53,585	\$ 91,690
Conversion of Blackstone Holdings Units to Common Units	\$ 12,163	\$ 91,649
Acquisition of Ownership Interests from Non-Controlling Interest Holders:		
Deferred Tax Asset	\$ (85,538)	\$ (76,569)
Due to Affiliates	\$ 8,639	\$ 63,826

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Partners	Capital	\$	76,899	\$	12,743
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See notes to condensed consolidated financial statements.

Table of Contents

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, real estate investment trusts (REITs), funds of hedge funds, credit-focused funds, collateralized loan obligation (CLO) vehicles, collateralized debt obligation (CDO) vehicles, separately managed accounts and registered investment companies (collectively referred to as the Blackstone Funds). Blackstone also provides various financial advisory services, including financial and strategic 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 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). The Partnership, through its wholly-owned subsidiaries, is the sole general partner in each of these Holding Partnerships.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Partnership have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Form 10-Q. The condensed consolidated financial statements, including these notes, are unaudited and exclude some of the disclosures required in 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, 2012 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.

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements - Continued

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

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

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 VIE that most significantly impact the entity's economic performance and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The consolidation guidance requires an analysis to (a) determine whether an entity in which the Partnership holds a variable interest is a VIE and (b) whether the Partnership's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (for example, management and performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment. VIEs 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 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 (for example, 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

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements - Continued

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

determination of the primary beneficiary. At each reporting date, the Partnership assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

Assets of consolidated 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 Blackstone are presented in a separate section in the Condensed Consolidated Statements of Financial Condition.

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

Fair Value of Financial Instruments

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

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

Level I Quoted prices are available in active markets for identical financial instruments as of the reporting date. The 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 funds of hedge funds and proprietary 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-focused funds, distressed debt and non-investment grade residual interests in securitizations, certain corporate bonds and loans held within CLO vehicles, certain over-the-counter derivatives where the fair value is based on unobservable inputs and certain funds of hedge funds that 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. Senior and subordinate notes issued by CLO vehicles generally are classified within Level III of the fair value hierarchy.

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements - Continued

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

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.

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

Level II Valuation Techniques

Financial instruments classified within Level II of the fair value hierarchy comprise debt instruments, including corporate loans and bonds held by Blackstone's consolidated CLO vehicles, those held within Blackstone's Treasury Cash Management Strategies and debt securities sold, not yet purchased and interests in investment funds. Certain equity securities and derivative instruments valued using observable inputs are also classified as Level II.

The valuation techniques used to value financial instruments classified within Level II of the fair value hierarchy are as follows:

Debt Instruments and Equity Securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments. The valuation of certain equity securities is based on an observable price for an identical security adjusted for the effect of a restriction.

Investment Funds held by the consolidated Blackstone Funds are valued using net asset value per share as described in Level III Valuation Techniques Funds of Hedge Funds. Certain investments in investment funds are classified within Level II of the fair value hierarchy as the investment can be redeemed at, or within three months of, the reporting date.

Freestanding Derivatives and Derivative Instruments Designated as Fair Value Hedges are valued using contractual cash flows and observable inputs comprising yield curves, foreign currency rates and credit spreads.

Level III Valuation Techniques

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

Private Equity Investments The fair values of private equity investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization (EBITDA), the discounted cash flow method, public market or private transactions, valuations for comparable companies and other

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements - Continued

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

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 (for example, multiplying a key performance metric of the investee company such as EBITDA by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to EBITDA or price/earnings exit multiples.

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

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

Certain investments of Blackstone and of the consolidated Blackstone funds of hedge funds and credit-focused funds measure their investments in underlying funds at fair value using NAV per share without adjustment. The terms of the investee's investment generally provide for minimum holding periods or lock-ups, the institution of gates on redemptions or the suspension of redemptions or an ability to side pocket investments, at the discretion of the investee's fund manager, and as a result, investments may not be redeemable at, or within three months of, the reporting date. A side pocket is used by hedge funds and funds of hedge funds to separate investments that may lack a readily ascertainable value, are illiquid or are subject to liquidity restriction. Redemptions are generally not permitted until the investments within a side pocket are liquidated or it is deemed that the conditions existing at the time that required the investment to be included in the side pocket no longer exist. As the timing of either of these events is uncertain, the timing at which the Partnership may redeem an investment held in a side pocket cannot be estimated. Investments for which fair value is measured using NAV per share are reflected within the fair value hierarchy based on the observability of pricing inputs as described above. Further disclosure on instruments for which fair value is measured using NAV per share is presented in Note 5. Net Asset Value as Fair Value .

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

Credit-Focused Liabilities Credit-focused liabilities comprise senior and subordinate loans issued by Blackstone's consolidated CLO vehicles. Such liabilities are valued using a discounted cash flow method.

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements - Continued

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

Level III Valuation Process

Investments classified within Level III of the fair value hierarchy are valued on a quarterly basis, taking into consideration any changes in Blackstone's weighted average cost of capital assumptions, discounted cash flow projections and exit multiple assumptions, as well as any changes in economic and other relevant conditions, and valuation models are updated accordingly. The valuation process also includes a review by an independent valuation party, at least annually for all investments, and quarterly for certain investments, to corroborate the values determined by management. The valuations of Blackstone's investments are reviewed quarterly by a valuation committee which is chaired by Blackstone's Vice Chairman and includes senior heads of each of Blackstone's businesses, as well as representatives of legal and finance. Each quarter, the valuations of Blackstone's investments are also reviewed by the Audit Committee in a meeting attended by the chairman of the valuation committee as well as the senior heads of each of Blackstone's businesses. The valuations are further tested by comparison to actual sales prices obtained on disposition of the investments.

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 securities that otherwise would not have been carried at fair value with gains and losses recorded in net income. Accounting for these financial instruments at fair value 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 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-focused 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 CLO vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of variable interest entity consolidation guidance. The Partnership has also elected the fair value option for CLO vehicles consolidated as a result of the acquisitions of CLO management contracts or the acquisition of the share capital of CLO managers.

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements - Continued

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

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. The recognition of the initial difference between the fair value of assets and liabilities of CLO vehicles consolidated as a result of the acquisition of management contracts or CLO managers subsequent to the initial adoption of revised accounting guidance effective January 1, 2010, as an adjustment to Appropriated Partners' Capital, is currently under review by the Emerging Issues Task Force (EITF). Assets of the consolidated CLOs are presented within Investments within the Condensed Consolidated Statements of Financial Condition and Liabilities within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by non-consolidated affiliates. 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-focused 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. Expenses of consolidated CLO vehicles are presented in Fund Expenses. Amounts attributable to Non-Controlling Interests in Consolidated Entities have a corresponding adjustment to Appropriated Partners' Capital.

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

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

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

Equity Method Investments

Investments in which the Partnership is deemed to exert significant influence, but not control, are accounted for using the equity method of accounting. 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.

Repurchase and Reverse Repurchase Agreements

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

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 counterparty default, the right to liquidate collateral and the right to offset a counterparty's rights and obligations.

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements - Continued

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

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.

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

Securities Sold, Not Yet Purchased

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

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

Derivative Instruments

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

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. The Partnership may also at any time remove a designation of a fair value hedge. The fair value of the derivative instrument is reflected within Other Assets in the Condensed Consolidated Statements of Financial Condition.

For freestanding derivative contracts, the Partnership presents changes in fair value in current period earnings. Changes in the fair value of derivative instruments held by consolidated Blackstone Funds are reflected

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements - Continued

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

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

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

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

Affiliates

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

Distributions

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

Recent Accounting Developments

In February 2013, the Financial Accounting Standards Board (FASB) issued guidance on the reporting of amounts reclassified out of accumulated other comprehensive income. The guidance did not change the requirement for reporting net income or other comprehensive income in financial statements. However, the amendments required an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes to the financial statements, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts.

The guidance was effective prospectively for periods beginning after December 15, 2012. Adoption had no impact on the Partnership's financial statements.

In December 2011, the FASB issued guidance to enhance disclosures about financial instruments and derivative instruments that are either (a) offset or (b) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset. Under the amended guidance, an entity is required to

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements - Continued

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

disclose quantitative information relating to recognized assets and liabilities that are offset or subject to an enforceable master netting arrangement or similar agreement, including (a) the gross amounts of those recognized assets and liabilities, (b) the amounts offset to determine the net amount presented in the statement of financial position, and (c) the net amount presented in the statement of financial position. With respect to amounts subject to an enforceable master netting arrangement or similar agreement which are not offset, disclosure is required of (a) the amounts related to recognized financial instruments and other derivative instruments, (b) the amount related to financial collateral (including cash collateral), and (c) the overall net amount after considering amounts that have not been offset. The guidance was effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods and retrospective application is required. As the amendments were limited to disclosure only, adoption did not have a material impact on the Partnership's financial statements.

In January 2013, the FASB issued guidance to clarify the scope of disclosures about offsetting assets and liabilities. The amendments clarified that the scope of guidance issued in December 2011 to enhance disclosures around financial instruments and derivative instruments that are either (a) offset, or (b) subject to a master netting agreement or similar agreement, irrespective of whether they are offset, applies to derivatives, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. The amendments were effective for interim and annual periods beginning on or after January 1, 2013. Adoption did not have a material impact on the Partnership's financial statements.

In February 2013, the FASB issued guidance on the measurement of joint and several liability arrangements in which the total amount of the obligation is fixed at the reporting date. The guidance requires entities to measure obligations from joint and several liability arrangements for which the total amount of the obligation within the scope of the guidance is fixed at the reporting date as the sum of (a) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and (b) any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Adoption is not expected to have a material impact on the Partnership's financial statements.

In March 2013, the FASB issued guidance on a parent entity's accounting for cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. When a parent entity ceases to have a controlling financial interest in a subsidiary or a group of assets that is a business within a foreign entity, any related portion of the total cumulative translation adjustment should be released into net income if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. For an equity method investment that is a foreign entity, partial sale guidance applies. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. For an equity method investment that is not a foreign entity, the cumulative translation adjustment is released into net income only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the equity method investment. Additionally, the guidance clarifies that the sale of an investment in a foreign entity includes both (a) events that result in the loss of a controlling financial interest in a foreign entity (that is, irrespective of any retained investment) and (b) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events. The guidance shall be applied on a prospective basis for fiscal years, and interim periods within those years, beginning after December 15, 2013. The guidance

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued****(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

should be applied to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. Adoption is not expected to have a material impact on the Partnership's financial statements.

In April 2013, the FASB issued guidance on when and how an entity should prepare its financial statements using the liquidation basis of accounting. The guidance requires an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. Financial statements prepared using the liquidation basis of accounting shall measure and present assets at the amount of the expected cash proceeds from liquidation. The presentation of assets shall include any items that had not previously been recognized under GAAP but that it expects to either sell in liquidation or use in settling liabilities. Liabilities shall be recognized and measured in accordance with GAAP that otherwise applies to those liabilities. The guidance requires an entity to accrue and separately present the costs that it expects to incur and the income that it expects to earn during the expected duration of the liquidation, including any costs associated with sale or settlement of those assets and liabilities. The guidance requires disclosures about an entity's plan for liquidation, the methods and significant assumptions used to measure assets and liabilities, the type and amount of costs and income accrued, and the expected duration of the liquidation process. The guidance is effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013 and interim periods therein. The guidance should be applied prospectively. Adoption is not expected to have a material impact on the Partnership's financial statements.

In June 2013, the FASB issued guidance to clarify the characteristics of an investment company and to provide guidance for assessing whether an entity is an investment company. Consistent with existing guidance for investment companies, all investments are to be measured at fair value including non-controlling ownership interests in other investment companies. There are no changes to the current requirements relating to the retention of specialized accounting in the consolidated financial statements of a non-investment company parent. The guidance is effective for interim and annual periods beginning after December 15, 2013 and early application is prohibited. Adoption is not expected to have a material impact on the Partnership's financial statements.

3. INTANGIBLE ASSETS

Intangible Assets, Net consists of the following:

	June 30, 2013	December 31, 2012
Finite-Lived Intangible Assets / Contractual Rights	\$ 1,536,244	\$ 1,536,244
Accumulated Amortization	(982,201)	(937,709)
Intangible Assets, Net	\$ 554,043	\$ 598,535

Amortization expense associated with Blackstone's intangible assets was \$21.6 million and \$44.5 million for the three and six month periods ended June 30, 2013, respectively, and \$36.7 million and \$84.8 million for the three and six month periods ended June 30, 2012, respectively.

Amortization of Intangible Assets held at June 30, 2013 is expected to be \$88.1 million, \$83.5 million, \$77.1 million, \$72.8 million, and \$46.4 million for each of the years ending December 31, 2013, 2014, 2015, 2016, and 2017, respectively. Blackstone's intangible assets as of June 30, 2013 are expected to amortize over a weighted-average period of 8.2 years.

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued**

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

4. INVESTMENTS

Investments consist of the following:

	June 30, 2013	December 31, 2012
Investments of Consolidated Blackstone Funds	\$ 12,577,076	\$ 14,026,745
Equity Method Investments	2,777,039	2,582,504
Blackstone's Treasury Cash Management Strategies	1,079,171	1,411,680
Performance Fees	3,378,892	2,780,217
Other Investments	85,388	46,124
	\$ 19,897,566	\$ 20,847,270

Blackstone's share of Investments of Consolidated Blackstone Funds totaled \$480.4 million and \$500.5 million at June 30, 2013 and December 31, 2012, respectively.

At June 30, 2013 and December 31, 2012, 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, 2013 and December 31, 2012, no investment exceeded the 5% threshold.

Investments of Consolidated Blackstone Funds

The following table presents the Realized and Net Change in Unrealized Gains (Losses) on investments held by the consolidated Blackstone Funds and a reconciliation to Other Income Net Gains from Fund Investment Activities in the Condensed Consolidated Statements of Operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Realized Gains (Losses)	\$ 30,547	\$ (54,791)	\$ 98,335	\$ (10,441)
Net Change in Unrealized Gains (Losses)	(41,232)	232,484	(83,727)	388,169
Realized and Net Change in Unrealized Gains (Losses) from Consolidated Blackstone Funds	(10,685)	177,693	14,608	377,728
Interest and Dividend Revenue Attributable to Consolidated Blackstone Funds	51,651	70,537	93,568	158,644
Other Income Net Gains from Fund Investment Activities	\$ 40,966	\$ 248,230	\$ 108,176	\$ 536,372

Equity Method Investments

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

Blackstone evaluates each of its equity method investments to determine if any were significant as defined by guidance from the United States Securities and Exchange Commission. As of and for the three months ended June 30, 2013 and 2012, no individual equity method investment held by Blackstone met the significance criteria. As such, Blackstone is not required to present summarized financial information for any of its equity method investments.

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued****(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The Partnership recognized net gains (losses) related to its equity method investments of \$103.4 million and \$(14.1) million for the three months ended June 30, 2013 and 2012, respectively. The Partnership recognized net gains related to its equity method investments of \$211.3 million and \$44.0 million for the six months ended June 30, 2013 and 2012, respectively.

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, other investment and non-investment grade securities and other investments. These strategies are primarily managed by third-party institutions. The following table presents the realized and net change in unrealized gains (losses) on investments held by Blackstone's Treasury Cash Management Strategies:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Realized Gains (Losses)	\$ (1,354)	\$ 2,167	\$ 2,557	\$ 10
Net Change in Unrealized Gains (Losses)	(18,196)	5,245	(19,167)	826
	\$ (19,550)	\$ 7,412	\$ (16,610)	\$ 836

Performance Fees

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

	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
Performance Fees, December 31, 2012	\$ 780,474	\$ 1,633,279	\$ 6,214	\$ 360,250	\$ 2,780,217
Performance Fees Allocated as a Result of Changes in Fund Fair Values	173,638	728,716	30,666	169,897	1,102,917
Foreign Exchange Gain		3,060			3,060
Fund Distributions	(149,174)	(212,995)	(3,526)	(141,607)	(507,302)
Performance Fees, June 30, 2013	\$ 804,938	\$ 2,152,060	\$ 33,354	\$ 388,540	\$ 3,378,892

Other Investments

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

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	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Realized Gains	\$ 14,754	\$ 541	\$ 14,106	\$ 796
Net Change in Unrealized Gains (Losses)	(17,705)	(2,547)	(12,501)	190
	\$ (2,951)	\$ (2,006)	\$ 1,605	\$ 986

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued****(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)****5. NET ASSET VALUE AS FAIR VALUE**

A summary of fair value by strategy type alongside the remaining unfunded commitments and ability to redeem such investments as of June 30, 2013 is presented below:

Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Diversified Instruments	\$ 131,088	\$ 5,573	(a)	(a)
Credit Driven	224,468	1,980	(b)	(b)
Event Driven	111,200		(c)	(c)
Equity	487,390		(d)	(d)
Commodities	58,326		(e)	(e)
	\$ 1,012,472	\$ 7,553		

- (a) Diversified Instruments include investments in funds that invest across multiple strategies. Investments representing 61% of the value of the investments in this category may not be redeemed at, or within three months of, the reporting date. The remaining 39% 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. The time at which this redemption restriction may lapse cannot be estimated. As of the reporting date, the investee fund manager had elected to side-pocket 23% of Blackstone's investments in this category.
- (b) The Credit Driven category includes investments in hedge funds that invest primarily in domestic and international bonds. Investments representing 82% of the value of the investments in this category may not be redeemed at, or within three months of, the reporting date. Investments representing 6% of the total 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. The remaining 12% of investments within this category are redeemable as of the reporting date. As of the reporting date, the investee fund manager had not elected to side-pocket any of Blackstone's investments in this category.
- (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 70% of the total value of investments in this category may not be redeemed at, or within three months of, the reporting date. Investments representing 18% of the total value of investments in this category are subject to lock-up restrictions. Investments representing 11% of the total value of investments in this category 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 or gate such investments, whereby limiting the amount of withdrawals from the fund during a redemption period. Investments representing 1% of the total value of investments in this category are in hedge funds that are in the process of liquidating. As of the reporting date, the investee fund manager had elected to side-pocket 2% of Blackstone's investments in this category.
- (e) The Commodities category includes investments in commodities-focused funds that primarily invest in futures and physical-based commodity driven strategies. Investments in this category may not be redeemed at, or within three months of, the reporting date.

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued**

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

6. DERIVATIVE FINANCIAL INSTRUMENTS

Blackstone and the Blackstone Funds enter into derivative contracts in the normal course of business to achieve certain risk management objectives and for general investment purposes. Additionally, Blackstone may enter into derivative contracts in order to hedge its interest rate risk exposure against the effects of interest rate changes. 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.

Freestanding Derivatives

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

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

	June 30, 2013				December 31, 2012			
	Assets		Liabilities		Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
Freestanding Derivatives								
Blackstone Other								
Interest Rate Contracts	\$ 1,380,954	\$ 47,664	\$ 362,505	\$ 3,360	\$ 689,300	\$ 55,270	\$ 636,555	\$ 4,116
Foreign Currency Contracts	135,527	3,059	105,316	3,162	16,771	74	7,025	81
Credit Default Swaps			16,000	1,879				
Investments of Consolidated Blackstone Funds								
Foreign Currency Contracts	394,227	43,523	277,265	9,353	435,229	37,898	301,551	17,101
Interest Rate Contracts	79,637	4,010			165,517	6,132	90,500	772
Total	\$ 1,990,345	\$ 98,256	\$ 761,086	\$ 17,754	\$ 1,306,817	\$ 99,374	\$ 1,035,631	\$ 22,070

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued**

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

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,	
	2013	2012	2013	2012
Fair Value Hedges Interest Rate Swaps				
Hedge Ineffectiveness	\$	\$ 1,342	\$	\$ 548
Excluded from Assessment of Effectiveness	\$	\$ 4,950	\$	\$ (938)
Realized Gain	\$	\$ 22,941	\$	\$ 22,941
Freestanding Derivatives				
Realized Gains (Losses)				
Interest Rate Contracts	\$ (429)	\$ (2,687)	\$ (955)	\$ (2,551)
Foreign Currency Contracts	(2,527)	1,070	(3,763)	2,795
Other	(181)	7	(173)	7
Total	\$ (3,137)	\$ (1,610)	\$ (4,891)	\$ 251
Net Change in Unrealized Gains (Losses)				
Interest Rate Contracts	\$ (2,807)	\$ 1,022	\$ (9,493)	\$ 7,619
Foreign Currency Contracts	5,257	(14,386)	12,636	(665)
Credit Default Swaps	(277)	(45)	(300)	(41)
Total	\$ 2,173	\$ (13,409)	\$ 2,843	\$ 6,913

As of June 30, 2013 and December 31, 2012, 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, 2013	December 31, 2012
Assets		
Loans and Receivables	\$ 107,731	\$ 30,663
Equity and Preferred Securities	65,030	16,147
Assets of Consolidated CLO Vehicles		
Corporate Loans	9,282,272	11,053,513
Corporate Bonds	149,081	162,456

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Other	18,184	18,285
	\$ 9,622,298	\$ 11,281,064
Liabilities		
Liabilities of Consolidated CLO Vehicles		
Senior Secured Notes	\$ 9,189,948	\$ 10,695,136
Subordinated Notes	618,682	846,471
	\$ 9,808,630	\$ 11,541,607

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued**

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

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

	Three Months Ended June 30,			
	2013		2012	
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
Assets				
Loans and Receivables	\$	\$ (154)	\$	\$ (402)
Equity and Preferred Securities	(605)	(2,869)		
Assets of Consolidated CLO Vehicles				
Corporate Loans	3,499	(44,274)	(63,992)	12,481
Corporate Bonds	771	(2,070)	311	(3,386)
Other	537	(497)	1,419	6,626
	\$ 4,202	\$ (49,864)	\$ (62,262)	\$ 15,319
Liabilities				
Liabilities of Consolidated CLO Vehicles				
Senior Secured Notes	\$	\$ (64,042)	\$ 1	\$ (21,509)
Subordinated Notes		41,267		42,247
	\$	\$ (22,775)	\$ 1	\$ 20,738

	Six Months Ended June 30,			
	2013		2012	
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
Assets				
Loans and Receivables	\$ 43	\$ (204)	\$	\$ (396)
Equity and Preferred Securities	(1,398)	281		
Assets of Consolidated CLO Vehicles				
Corporate Loans	43,074	34,872	(24,718)	301,712
Corporate Bonds	3,653	(5,858)	718	9,295
Other	1,426	1,112	1,539	10,107
	\$ 46,798	\$ 30,203	\$ (22,461)	\$ 320,718
Liabilities				
Liabilities of Consolidated CLO Vehicles				
Senior Secured Notes	\$	\$ (291,953)	\$ (43)	\$ (114,712)
Subordinated Notes		78,009		7,764

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\$	\$ (213,944)	\$ (43)	\$ (106,948)
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Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued****(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

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

	June 30, 2013			December 31, 2012		
	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	\$ (440)	\$	\$	\$ (292)	\$	\$
Assets of Consolidated CLO Vehicles						
Corporate Loans	(448,964)	69,499	(167,937)	(586,450)	35,322	(73,291)
Corporate Bonds	(2,454)			(984)	831	(44)
	\$ (451,858)	\$ 69,499	\$ (167,937)	\$ (587,726)	\$ 36,153	\$ (73,335)

(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, 2013 and December 31, 2012, no Loans and Receivables for which the fair value option was elected were past due or in non-accrual status. As of June 30, 2013, no Corporate Bonds included within the Assets of Consolidated CLO Vehicles for which the fair value option was elected were past due or in non-accrual status.

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued**

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

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:

	June 30, 2013			
	Level I	Level II	Level III	Total
Assets				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	\$	\$	\$ 974,599	\$ 974,599
Equity Securities	59,432	63,314	217,646	340,392
Partnership and LLC Interests		8,547	628,255	636,802
Debt Instruments		1,102,396	25,817	1,128,213
Assets of Consolidated CLO Vehicles				
Corporate Loans		8,258,099	1,024,173	9,282,272
Corporate Bonds		146,472	2,609	149,081
Freestanding Derivatives Foreign Currency Contracts		43,523		43,523
Freestanding Derivatives Interest Rate Contracts		4,010		4,010
Other		964	17,220	18,184
Total Investments of Consolidated Blackstone Funds	59,432	9,627,325	2,890,319	12,577,076
Blackstone's Treasury Cash Management Strategies	415,584	631,783	31,804	1,079,171
Money Market Funds	178,931			178,931
Freestanding Derivatives				
Interest Rate Contracts	3,444	44,220		47,664
Foreign Currency Contracts		3,059		3,059
Loans and Receivables			107,731	107,731
Other Investments	62,197	7,081	16,110	85,388
	\$ 719,588	\$ 10,313,468	\$ 3,045,964	\$ 14,079,020
Liabilities				
Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes	\$	\$	\$ 9,189,948	\$ 9,189,948
Subordinated Notes			618,682	618,682
Freestanding Derivatives Foreign Currency Contracts		9,353		9,353
Freestanding Derivatives Interest Rate Contracts				
Freestanding Derivatives				
Interest Rate Contracts	1,289	2,071		3,360
Foreign Currency Contracts		3,162		3,162
Credit Default Swaps		1,879		1,879
Securities Sold, Not Yet Purchased		77,553		77,553
	\$ 1,289	\$ 94,018	\$ 9,808,630	\$ 9,903,937

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued**

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

	December 31, 2012			
	Level I	Level II	Level III	Total
Assets				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	\$	\$ 1,799	\$ 890,465	\$ 892,264
Equity Securities	95,898	28,654	217,060	341,612
Partnership and LLC Interests	212	12,375	581,151	593,738
Debt Instruments		903,123	17,724	920,847
Assets of Consolidated CLO Vehicles				
Corporate Loans		9,775,070	1,278,443	11,053,513
Corporate Bonds		146,625	15,831	162,456
Freestanding Derivatives Foreign Currency Contracts		37,898		37,898
Freestanding Derivatives Interest Rate Contracts		6,132		6,132
Other		1,260	17,025	18,285
Total Investments of Consolidated Blackstone Funds	96,110	10,912,936	3,017,699	14,026,745
Blackstone's Treasury Cash Management Strategies	672,766	737,708	1,206	1,411,680
Money Market Funds	129,549			129,549
Freestanding Derivatives				
Interest Rate Contracts	486	54,784		55,270
Foreign Currency Contracts		74		74
Loans and Receivables			30,663	30,663
Other Investments	12,443	6,783	26,898	46,124
	\$ 911,354	\$ 11,712,285	\$ 3,076,466	\$ 15,700,105
Liabilities				
Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes	\$	\$	\$ 10,695,136	\$ 10,695,136
Subordinated Notes			846,471	846,471
Freestanding Derivatives Foreign Currency Contracts		17,101		17,101
Freestanding Derivatives Interest Rate Contracts		772		772
Freestanding Derivatives				
Interest Rate Contracts	277	3,839		4,116
Foreign Currency Contracts		81		81
Securities Sold, Not Yet Purchased		226,425		226,425
	\$ 277	\$ 248,218	\$ 11,541,607	\$ 11,790,102

- (a) Pursuant to GAAP consolidation guidance, the Partnership is required to consolidate all VIEs in which it has been identified as the primary beneficiary, including certain CLO vehicles, and other funds in which a consolidated entity of the Partnership, as the general partner of the fund, 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.

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued****(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The following table summarizes the fair value transfers between Level I and Level II for positions that existed as of June 30, 2013 and 2012, respectively:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Transfers from Level I into Level II (a)	\$ 31	\$ 15,924	\$ 28,670	\$ 45,440
Transfers from Level II into Level I (b)	\$ 46,495	\$ 529	\$	\$ 801

- (a) Transfers out of Level I represent those financial instruments for which restrictions exist and adjustments were made to an otherwise observable price to reflect fair value at the reporting date.
- (b) Transfers into Level I represent those financial instruments for which an unadjusted quoted price in an active market became available for the identical asset.

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued**

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

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of June 30, 2013:

	Fair Value	Valuation	Unobservable	Ranges	Weighted Average (a)
		Techniques	Inputs		
Financial Assets					
Investments of Consolidated Blackstone Funds					
Investment Funds	\$ 974,599	NAV as Fair Value	N/A	N/A	N/A
Equity Securities	156,394	Discounted Cash Flows	Discount Rate	8.2% - 25.0%	11.3%
			Revenue CAGR	0.9% - 43.4%	5.4%
			Exit Multiple - EBITDA	5.0x - 11.5x	9.5x
			Exit Multiple - P/E	8.5x - 17.0x	10.0x
			Transaction Price	N/A	N/A
	279	Market Comparable Companies	EBITDA Multiple	7.2x - 7.8x	7.4x
	85	Third Party Pricing	N/A	N/A	N/A
	2,135	Other	N/A	N/A	N/A
Partnership and LLC Interests	608,846	Discounted Cash Flows	Discount Rate	5.1% - 26.3%	9.0%
			Revenue CAGR	-4.6% - 33.9%	5.9%
			Exit Multiple - EBITDA	3.0x - 20.0x	9.8x
			Exit Capitalization Rate	5.0% - 10.5%	7.0%
			Transaction Price	N/A	N/A
	12,107	Third Party Pricing	N/A	N/A	N/A
Debt Instruments	13,708	Discounted Cash Flows	Discount Rate	8.4% - 27.0%	15.7%
			Revenue CAGR	1.6% - 3.4%	2.1%
			Exit Multiple - EBITDA	5.8x - 11.5x	10.5x
			Exit Capitalization Rate	6.1% - 10.0%	7.4%
			Default Rate	2.0% - 3.0%	2.6%
			Recovery Rate	70.0%	N/A
			Recovery Lag	12 months	N/A

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			Pre-payment Rate	20.0%	N/A
			Reinvestment Rate	LIBOR + 375 bps	N/A
	11,690	Third Party Pricing	N/A	N/A	N/A
	121	Transaction Price	N/A	N/A	N/A
	298	Market Comparable Companies	EBITDA Multiple	6.3x - 7.6x	6.3x
Assets of Consolidated CLO Vehicles	562,383	Third Party Pricing	N/A	N/A	N/A
	426,496	Market Comparable Companies	EBITDA Multiple	2.0x - 11.4x	8.0x
	55,114	Discounted Cash Flows	Discount Rate	6.9% - 12.9%	7.6%
	9	Transaction Price	N/A	N/A	N/A

Total Investments of Consolidated Blackstone Funds	2,890,319				
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continued...

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued**

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

	Fair Value	Valuation	Unobservable	Weighted Average (a)	
		Techniques	Inputs		Ranges
Blackstone's Treasury Cash Management Strategies	\$ 4,351	Transaction Price	N/A	N/A	N/A
	17,822	Third Party Pricing	N/A	N/A	N/A
	9,631	Discounted Cash Flows	Default Rate	2.0%	N/A
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	10.0% - 20.0%	19.0%
			Reinvestment Rate	LIBOR + 375 bps	N/A
			Discount Rate	6.3% - 10.3%	8.0%
Loans and Receivables	107,731	Discounted Cash Flows	Discount Rate	8.5% - 30.1%	11.5%
Other Investments	3,983	NAV as Fair Value	N/A	N/A	N/A
	4,249	Discounted Cash Flows	Discount Rate	12.5%	N/A
	7,878	Transaction Price	N/A	N/A	N/A
Total	\$ 3,045,964				
Financial Liabilities					
Liabilities of Consolidated CLO Vehicles	\$ 9,808,630	Discounted Cash Flows	Default Rate	2.0% - 3.0%	2.1%
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	5.0% - 40.0%	18.0%
			Discount Rate	0.7% - 47.0%	3.2%
			Reinvestment Rate	LIBOR + 375 bps	N/A

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued**

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

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of December 31, 2012:

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted Average (a)
Financial Assets					
Investments of Consolidated Blackstone Funds					
Investment Funds	\$ 890,465	NAV as Fair Value	N/A	N/A	N/A
Equity Securities	151,899	Discounted Cash Flows	Discount Rate	8.4% - 25.1%	11.2%
			Revenue CAGR	0.7% - 83.4%	5.6%
			Exit Multiple - EBITDA	5.8x - 11.5x	9.2x
			Exit Multiple - P/E	8.5x - 17.0x	10.1x
	61,479	Transaction Price	N/A	N/A	N/A
	1,602	Market Comparable Companies	Book Value Multiple	0.9x	N/A
			EBITDA Multiple	5.0x - 8.7x	7.8x
	200	Third Party Pricing	N/A	N/A	N/A
	1,880	Other	N/A	N/A	N/A
Partnership and LLC Interests	562,678	Discounted Cash Flows	Discount Rate	5.3% - 22.6%	8.9%
			Revenue CAGR	-8.2% - 62.0%	5.3%
			Exit Multiple - EBITDA	4.5x - 15.4x	10.0x
			Exit Capitalization Rate	1.0% - 10.5%	7.0%
	13,316	Transaction Price	N/A	N/A	N/A
	5,157	Third Party Pricing	N/A	N/A	N/A
Debt Instruments	13,056	Discounted Cash Flows	Discount Rate	7.8% - 42.0%	15.6%
			Revenue CAGR	2.9% - 5.1%	3.8%
			Exit Multiple - EBITDA	9.5x	N/A
			Exit Capitalization Rate	7.0% - 7.5%	7.1%
			Default Rate	2.0%	N/A
			Recovery Rate	70.0%	N/A
			Recovery Lag	12 months	N/A

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			Pre-payment Rate	20.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
	4,004	Third Party Pricing	N/A	N/A	N/A
	664	Market Comparable Companies	EBITDA Multiple	6.5x - 7.5x	6.7x
Assets of Consolidated CLO Vehicles	900,146	Third Party Pricing	N/A	N/A	N/A
	278,972	Market Comparable Companies	EBITDA Multiple	2.0x - 13.0x	6.5x
			Liquidity Discount	1.0% - 25.0%	8.4%
	132,171	Discounted Cash Flows	Discount Rate	7.0% - 15.7%	9.3%
	10	Transaction Price	N/A	N/A	N/A
Total Investments of Consolidated Blackstone Funds	3,017,699				

continued...

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued**

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

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted Average (a)
Blackstone's Treasury Cash Management Strategies	\$ 1,006	Discounted Cash Flows	Default Rate	2.0%	N/A
			Recovery Rate	70.0%	N/A
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Discount Rate	12.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
	200	Transaction Price	N/A	N/A	N/A
Loans and Receivables	30,620	Discounted Cash Flows	Discount Rate	11.8% - 25.9%	13.7%
	43	Market Comparable Companies	EBITDA Multiple	8.7x	N/A
Other Investments	17,901	NAV as Fair Value	N/A	N/A	N/A
	5,647	Discounted Cash Flows	Discount Rate	12.5%	N/A
	3,350	Transaction Price	N/A	N/A	N/A
Total	\$ 3,076,466				

Financial Liabilities

Liabilities of Consolidated CLO Vehicles	\$ 11,541,607	Discounted Cash Flows	Default Rate	2.0% - 5.0%	2.1%
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	5.0% - 20.0%	18.0%
			Discount Rate	1.1% - 50.0%	3.9%
			Reinvestment Rate	LIBOR + 400 bps	N/A

N/A Not applicable.

CAGR Compound annual growth rate.

EBITDA Earnings before interest, taxes, depreciation and amortization.

Exit Multiple Ranges include the last twelve months EBITDA, forward EBITDA and price/earnings exit multiples.

(a) Unobservable inputs were weighted based on the fair value of the investments included in the range.

The significant unobservable inputs used in the fair value measurement of the assets, Blackstone's Treasury Cash Management Strategies, debt instruments and obligations of consolidated CLO vehicles are discount rates, default rates, recovery rates, recovery lag, pre-payment rates and reinvestment rates. Increases (decreases) in any of the discount rates, default rates, recovery lag and pre-payment rates in isolation would result in a lower (higher) fair value measurement. Increases (decreases) in any of the recovery rates and reinvestment rates in isolation would result in a higher (lower) fair value measurement. Generally, a change in the assumption used for default rates may be accompanied by a directionally similar change in the assumption used for recovery lag and a directionally opposite change in the assumption used for recovery rates and pre-payment rates.

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The significant unobservable inputs used in the fair value measurement of equity securities, partnership and LLC interests, debt instruments, assets of consolidated CLO vehicles and loans and receivables are discount rates, exit capitalization rates, exit multiples, book value multiples, EBITDA multiples, liquidity discount and revenue compound annual growth rates. Increases (decreases) in any of discount rates and exit capitalization rates in isolation can result in a lower (higher) fair value measurement. Increases (decreases) in any of exit multiples, book value multiples and revenue compound annual growth rates in isolation can result in a higher (lower) fair value measurement.

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued****(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

Since December 31, 2012, there have been no changes in valuation techniques within Level II and Level III that have had a material impact on the valuation of financial instruments.

The following tables summarize the changes in financial assets and liabilities measured at fair value for which the Partnership has used Level III inputs to determine fair value and does not include gains or losses that were reported in Level III in prior years or for instruments that were transferred out of Level III prior to the end of the respective reporting period. Total realized and unrealized gains and losses recorded for Level III investments are reported in 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,**

	2013				2012			
	Investments of Consolidated Funds	Loans and Receivables	Other Investments (c)	Total	Investments of Consolidated Funds	Loans and Receivables	Other Investments (c)	Total
Balance, Beginning of Period	\$ 2,937,297	\$ 3,867	\$ 63,049	\$ 3,004,213	\$ 2,390,276	\$ 105,004	\$ 21,791	\$ 2,517,071
Transfer Out Due to								
Deconsolidation	(50,181)			(50,181)	(1,599)			(1,599)
Transfer In to Level III (b)	177,145			177,145	171,916			171,916
Transfer Out of Level III (b)	(259,570)		(1,713)	(261,283)	(59,315)			(59,315)
Purchases	308,817	103,653	28,260	440,730	232,684	39,657	100	272,441
Sales	(302,010)		(41,074)	(343,084)	(173,516)	(41,872)	(541)	(215,929)
Settlements						(186)		(186)
Realized Gains (Losses), Net	29,476		13,587	43,063	(12,264)		541	(11,723)
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	49,345	211	(14,195)	35,361	(8,026)	1,604	(529)	(6,951)
Balance, End of Period	\$ 2,890,319	\$ 107,731	\$ 47,914	\$ 3,045,964	\$ 2,540,156	\$ 104,207	\$ 21,362	\$ 2,665,725

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued**

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

	Level III Financial Assets at Fair Value Six Months Ended June 30,							
	2013				2012			
	Investments of Consolidated Funds	Loans and Receivables	Other Investments (c)	Total	Investments of Consolidated Funds	Loans and Receivables	Other Investments (c)	Total
Balance, Beginning of Period	\$ 3,017,699	\$ 30,663	\$ 28,104	\$ 3,076,466	\$ 2,103,769	\$ 8,555	\$ 20,164	\$ 2,132,488
Transfer In Due to Consolidation and Acquisition (a)			11,960	11,960	122,565			122,565
Transfer Out Due to Deconsolidation	(152,727)			(152,727)	(1,599)			(1,599)
Transfer In to Level III (b)	224,363			224,363	253,608			253,608
Transfer Out of Level III (b)	(372,438)		(1,713)	(374,151)	(103,280)			(103,280)
Purchases	436,850	106,526	91,034	634,410	320,312	142,908	100	463,320
Sales	(430,563)	(29,462)	(80,536)	(540,561)	(229,623)	(49,251)	(541)	(279,415)
Settlements		(332)	(1,559)	(1,891)		(46)		(46)
Realized Gains (Losses), Net	1,959	43	14,436	16,438	(9,093)		639	(8,454)
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	165,176	293	(13,812)	151,657	83,497	2,041	1,000	86,538
Balance, End of Period	\$ 2,890,319	\$ 107,731	\$ 47,914	\$ 3,045,964	\$ 2,540,156	\$ 104,207	\$ 21,362	\$ 2,665,725

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued**

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

	Level III Financial Liabilities at Fair Value Three Months Ended June 30,					
	2013			2012		
	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	\$ 9,634,747	\$ 720,552	\$ 10,355,299	\$ 10,984,018	\$ 857,772	\$ 11,841,790
Transfer Out Due to Deconsolidation	(343,392)	(67,629)	(411,021)			
Issuances				227		227
Settlements	(299,993)	(4)	(299,997)	(140,736)	(238)	(140,974)
Realized (Gains) Losses, Net				(1)		(1)
Changes in Unrealized (Gains) Losses Included in Earnings Related to Liabilities Still Held at the Reporting Date	198,586	(34,237)	164,349	(309,255)	(155,886)	(465,141)
Balance, End of Period	\$ 9,189,948	\$ 618,682	\$ 9,808,630	\$ 10,534,253	\$ 701,648	\$ 11,235,901

	Level III Financial Liabilities at Fair Value Six Months Ended June 30,					
	2013			2012		
	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	\$ 10,695,136	\$ 846,471	\$ 11,541,607	\$ 7,449,766	\$ 630,236	\$ 8,080,002
Transfer In Due to Consolidation and Acquisition (a)				3,419,084	149,225	3,568,309
Transfer Out Due to Deconsolidation	(1,100,842)	(150,925)	(1,251,767)			
Issuances	1,054	775	1,829	4,620	838	5,458
Settlements	(704,377)	(346)	(704,723)	(272,609)	(2,984)	(275,593)
Realized (Gains) Losses, Net				43		43
Changes in Unrealized (Gains) Losses Included in Earnings Related to Liabilities Still Held at the Reporting Date	298,977	(77,293)	221,684	(66,651)	(75,667)	(142,318)
Balance, End of Period	\$ 9,189,948	\$ 618,682	\$ 9,808,630	\$ 10,534,253	\$ 701,648	\$ 11,235,901

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued****(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

- (a) Represents the transfer into Level III of financial assets and liabilities held by CLO vehicles as a result of the acquisition of management contracts and the Harbourmaster acquisition.
- (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.
- (c) Represents Blackstone's Treasury Cash Management Strategies and Other Investments.

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-focused 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, collateral manager or investment adviser, it generally considers itself the sponsor of the applicable Blackstone Fund. The Partnership does not provide performance guarantees and has no other financial obligation to provide funding to consolidated VIEs other than its own capital commitments.

The assets of consolidated variable interest entities may only be used to settle obligations of these consolidated Blackstone Funds. In addition, there is no recourse to the Partnership for the consolidated VIEs' liabilities including the liabilities of the consolidated CLO vehicles.

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, 2013	December 31, 2012
Investments	\$ 514,451	\$ 364,709
Accounts Receivable	74,300	1,885
Due from Affiliates	68,521	112,686
Total VIE Assets	657,272	479,280
Due to Affiliates	308	2,657
Potential Clawback Obligation	54,393	36,040
Maximum Exposure to Loss	\$ 711,973	\$ 517,977

10. REVERSE REPURCHASE AND REPURCHASE AGREEMENTS

At June 30, 2013, 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 \$175.3 million and cash as collateral for reverse repurchase agreements that could be replighted, delivered or otherwise used. Securities with a fair value of \$88.4 million were used to cover Securities Sold, Not Yet Purchased.

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued****(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

At December 31, 2012, 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 \$247.4 million and cash as collateral for reverse repurchase agreements that could be repledged, delivered or otherwise used. Securities with a fair value of \$226.4 million were used to cover Securities Sold, Not Yet Purchased. The Partnership also pledged securities with a carrying value of \$141.9 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

11. OFFSETTING OF ASSETS AND LIABILITIES

The following tables present the offsetting of assets and liabilities as of June 30, 2013:

	Gross and Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		
		Financial Instruments	Cash Collateral Received	Net Amount
Assets				
Freestanding Derivatives	\$ 50,723	\$ 4,188	\$ 34,113	\$ 12,422
Reverse Repurchase Agreements	176,273	175,329		944
Total	\$ 226,996	\$ 179,517	\$ 34,113	\$ 13,366

	Gross and Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		
		Financial Instruments	Cash Collateral Pledged	Net Amount
Liabilities				
Freestanding Derivatives	\$ 8,401	\$ 4,188	\$ 4,213	\$
Repurchase Agreements				
Total	\$ 8,401	\$ 4,188	\$ 4,213	\$

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued**

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

The following tables present the offsetting of assets and liabilities as of December 31, 2012:

	Gross and Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		
		Financial Instruments	Cash Collateral Received	Net Amount
Assets				
Freestanding Derivatives	\$ 55,344	\$ 3,983	\$ 36,748	\$ 14,613
Reverse Repurchase Agreements	248,018	248,018		
Total	\$ 303,362	\$ 252,001	\$ 36,748	\$ 14,613

	Gross and Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		
		Financial Instruments	Cash Collateral Pledged	Net Amount
Liabilities				
Freestanding Derivatives	\$ 4,197	\$ 3,983	\$	\$ 214
Repurchase Agreements	142,266	142,266		
Total	\$ 146,463	\$ 146,249	\$	\$ 214

Reverse Repurchase Agreements and Repurchase Agreements are presented separately on the Statements of Financial Condition. Freestanding Derivative assets are included in Other Assets in the Statements of Financial Condition. The following table presents the components of Other Assets:

	June 30, 2013	December 31, 2012
Furniture, Equipment and Leasehold Improvements, Net	\$ 143,804	\$ 142,390
Prepaid Expenses	75,125	81,498

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Other Assets	78,269	97,140
Freestanding Derivatives	50,723	55,344
	\$ 347,921	\$ 376,372

Freestanding Derivative liabilities are included in Accounts Payable, Accrued Expenses and Other Liabilities in the Statements of Financial Condition and are not a significant component thereof.

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements - Continued

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

12. BORROWINGS

The carrying value and fair value of the Blackstone issued notes, included in Loans Payable, were:

	June 30, 2013		December 31, 2012	
	Carrying Value	Fair Value (a)	Carrying Value	Fair Value (a)
Blackstone Issued 6.625%, \$600 Million Par, Notes Due 8/15/2019 (b)	\$ 636,560	\$ 681,525	\$ 640,220	\$ 682,344
Blackstone Issued 5.875%, \$400 Million Par, Notes Due 3/15/2021	\$ 398,463	\$ 445,440	\$ 398,386	\$ 456,200
Blackstone Issued 4.750%, \$400 Million Par, Notes Due 2/15/2023	\$ 392,912	\$ 412,880	\$ 392,629	\$ 426,160
Blackstone Issued 6.250%, \$250 Million Par, Notes Due 8/15/2042	\$ 239,677	\$ 262,075	\$ 239,619	\$ 275,275

- (a) Fair value is determined by broker quote and these notes would be classified as Level II within the fair value hierarchy.
 (b) The carrying and fair values are determined using the original \$600 million par amount less \$15 million attributable to these notes which were acquired but not retired by Blackstone during 2012.

Included within Loans Payable and Due to Affiliates are amounts due to holders of debt securities issued by Blackstone's consolidated CLO vehicles. Borrowings through the consolidated CLO vehicles consisted of the following:

	June 30, 2013			December 31, 2012		
	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	\$ 9,671,852	1.24%	4.3	\$ 11,518,111	1.34%	4.6
Subordinated Notes	1,191,506	(a)	N/A	1,449,191	(a)	2.6
	\$ 10,863,358			\$ 12,967,302		

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

Senior Secured Notes and Subordinated Notes comprise the following amounts:

June 30, 2013	December 31, 2012
Amounts Due to Non-Consolidated Affiliates	Amounts Due to Non-Consolidated Affiliates

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	Fair Value	Borrowing Outstanding	Fair Value	Fair Value	Borrowing Outstanding	Fair Value
Senior Secured Notes	\$ 9,189,948	\$ 22,000	\$ 20,511	\$ 10,695,136	\$ 22,000	\$ 18,229
Subordinated Notes	\$ 618,682	\$ 212,572	\$ 112,850	\$ 846,471	\$ 258,156	\$ 172,899

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, 2013 and December 31, 2012, the fair value of the consolidated CLO assets was \$10.6 billion and \$12.5 billion, respectively. This collateral consisted of Cash, Corporate Loans, Corporate Bonds and other securities.

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued****(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

Scheduled principal payments for borrowings as of June 30, 2013 were as follows:

	Operating Borrowings	Blackstone Fund Facilities / CLO Vehicles	Total Borrowings
2013	\$ 594	\$ 11,369	\$ 11,963
2014	5,040	4,004	9,044
2018 and Thereafter	1,635,000	10,863,358	12,498,358
Total	\$ 1,640,634	\$ 10,878,731	\$ 12,519,365

13. INCOME TAXES

Blackstone's effective tax rate was 9.9% and 30.5% for the three months ended June 30, 2013 and 2012, respectively, and 10.2% and 13.5% for the six months ended June 30, 2013 and 2012, respectively. Blackstone's income tax provision was an expense of \$56.1 million and an expense of \$41.3 million for the three months ended June 30, 2013 and 2012, respectively, and an expense of \$107.1 million and an expense of \$80.1 million for the six months ended June 30, 2013 and 2012, respectively.

Blackstone's effective tax rate for the three and six months ended June 30, 2013 and 2012 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.

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued**

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

14. NET INCOME (LOSS) PER COMMON UNIT

Basic and diluted net income (loss) per common unit for the three and six months ended June 30, 2013 and June 30, 2012 was calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net Income (Loss) Attributable to The Blackstone Group L.P.	\$ 211,148	\$ (74,964)	\$ 378,783	\$ (16,639)
Basic Net Income (Loss) Per Common Unit				
Weighted-Average Common Units Outstanding	583,843,094	528,778,977	583,086,840	517,882,253
Basic Net Income (Loss) Per Common Unit	\$ 0.36	\$ (0.14)	\$ 0.65	\$ (0.03)
Diluted Net Income (Loss) Per Common Unit				
Weighted-Average Common Units Outstanding	583,843,094	528,778,977	583,086,840	517,882,253
Weighted-Average Unvested Deferred Restricted Common Units	2,919,959		3,148,837	
Weighted-Average Diluted Common Units Outstanding	586,763,053	528,778,977	586,235,677	517,882,253
Diluted Net Income (Loss) Per Common Unit	\$ 0.36	\$ (0.14)	\$ 0.65	\$ (0.03)

The following table summarizes the anti-dilutive securities for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Weighted-Average Unvested Deferred Restricted Common Units		4,820,609		7,612,319
Weighted-Average Blackstone Holdings Partnership Units	555,224,714	591,155,160	556,337,696	596,986,114

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.

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During the six months ended June 30, 2013 and 2012, no units were repurchased. As of June 30, 2013, the amount remaining available for repurchases under this program was \$335.8 million.

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued****(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)****15. 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 advisers 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, 2013, the Partnership had the ability to grant 163,217,431 units under the Equity Plan.

For the three and six months ended June 30, 2013, the Partnership recorded compensation expense of \$183.2 million and \$378.6 million, respectively, in relation to its equity-based awards with corresponding tax benefits of \$6.2 million and \$11.7 million, respectively. For the three and six months ended June 30, 2012, the Partnership recorded compensation expense of \$244.6 million and \$467.0 million, respectively, in relation to its equity-based awards with corresponding tax benefits of \$7.2 million and \$12.7 million, respectively. As of June 30, 2013, there was \$1.5 billion of estimated unrecognized compensation expense related to unvested awards. This cost is expected to be recognized over a weighted-average period of 2.1 years.

Total vested and unvested outstanding units, including Blackstone Common Units, Blackstone Holdings Partnership Units and deferred restricted common units, were 1,144,494,706 as of June 30, 2013. Total outstanding unvested phantom units were 150,725 as of June 30, 2013.

A summary of the status of the Partnership's unvested equity-based awards as of June 30, 2013 and a summary of changes during the period January 1, 2013 through June 30, 2013 are presented below:

	Blackstone Holdings		The Blackstone Group L.P.			
	Partnership Units	Weighted- Average Grant Date Fair Value	Equity Settled Awards Deferred		Cash Settled Awards	
Restricted Common Units and Options			Weighted- Average Grant Date Fair Value	Phantom Units	Weighted- Average Grant Date Fair Value	
Unvested Units						
Balance, December 31, 2012	66,591,089	\$ 28.19	20,199,382	\$ 15.76	221,356	\$ 14.89
Granted	1,112,255	17.74	1,843,134	13.53	5,384	20.63
Vested	(18,093,540)	30.16	(2,723,936)	19.98	(76,015)	20.60
Forfeited	(1,038,930)	29.92	(584,914)	16.16		
Balance, June 30, 2013	48,570,874	\$ 27.18	18,733,666	\$ 14.92	150,725	\$ 20.74

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued****(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)****Units Expected to Vest**

The following unvested units, after expected forfeitures, as of June 30, 2013, are expected to vest:

	Units	Weighted-Average Service Period in Years
Blackstone Holdings Partnership Units	45,299,604	2.1
Deferred Restricted Blackstone Common Units and Options	15,229,823	2.6
Total Equity-Based Awards	60,529,427	2.3
Phantom Units	140,735	2.0

Equity-Based Awards with Performance Conditions

The Partnership has also granted certain equity-based awards with performance requirements. These awards are based on the performance of certain businesses over a three to five year period beginning January 2012, relative to a predetermined threshold. Blackstone has determined that it is probable that the relevant performance thresholds will be exceeded in future periods and, therefore, has recorded compensation expense since the beginning of the performance period of \$40.4 million.

16. RELATED PARTY TRANSACTIONS**Affiliate Receivables and Payables**

Due from Affiliates and Due to Affiliates consisted of the following:

	June 30, 2013	December 31, 2012
Due from Affiliates		
Accrual for Potential Clawback of Previously Distributed Carried Interest	\$ 70,994	\$ 165,322
Primarily Interest Bearing Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees for Investments in Blackstone Funds	142,094	155,302
Amounts Due from Portfolio Companies and Funds	322,062	259,196
Investments Redeemed in Non-Consolidated Funds of Hedge Funds	50,835	39,507
Management and Performance Fees Due from Non-Consolidated Funds	190,577	343,846
Payments Made on Behalf of Non-Consolidated Entities	207,168	150,317
Advances Made to Certain Non-Controlling Interest Holders and Blackstone Employees	13,325	6,577
	\$ 997,055	\$ 1,120,067

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued**

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

	June 30, 2013	December 31, 2012
Due to Affiliates		
Due to Certain Non-Controlling Interest Holders in Connection with the Tax Receivable Agreements	\$ 1,229,111	\$ 1,218,488
Accrual for Potential Repayment of Previously Received Performance Fees	175,312	267,116
Due to Note Holders of Consolidated CLO Vehicles	133,361	191,128
Due to Certain Non-Controlling Interest Holders	206,529	201,286
Distributions Received on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees	17,983	12,506
Payable to Affiliates for Consolidated Funds	36,329	81,589
Distributions Received on Behalf of Blackstone Entities	17,990	20,295
Payments Made by Non-Consolidated Entities	7,394	10,236
	\$ 1,824,009	\$ 2,002,644

Interests of the Founder, Senior Managing Directors, Employees and Other Related Parties

The founder, senior managing directors, employees and certain other related parties 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, 2013 and December 31, 2012, such investments aggregated \$1.0 billion and \$939.4 million, respectively. Their share of the Net Income Attributable to Redeemable Non-Controlling and Non-Controlling Interests in Consolidated Entities aggregated \$50.2 million and \$9.9 million for the three months ended June 30, 2013 and 2012, respectively, and \$100.6 million and \$43.3 million for the six months ended June 30, 2013 and 2012, respectively.

Revenues Earned from Affiliates

Management and Advisory Fees, Net earned from affiliates totaled \$80.8 million and \$56.1 million for the three months ended June 30, 2013 and 2012, respectively. Management and Advisory Fees, Net earned from affiliates totaled \$120.1 million and \$104.1 million for the six months ended June 30, 2013 and 2012, 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 \$0.7 million and \$1.0 million for the three months ended June 30, 2013 and 2012, respectively, and \$1.7 million and \$2.3 million for the six months ended June 30, 2013 and 2012, respectively.

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 Potential 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

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements - Continued

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

liquidated based on the fair value of their underlying investments as of June 30, 2013. See Note 17. 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). Mr. Schwarzman paid for his purchases of the Personal Aircraft himself and bears all operating, personnel and maintenance costs associated with their operation. Payment by Blackstone for the use of the Personal Aircraft by Blackstone employees is made at market rates. 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 is charged for his and his family's personal use of Blackstone assets based on market rates and usage. Personal use of Blackstone resources is 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.

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 \$1.2 billion over the next 15 years. The after-tax net present value of these estimated payments totals \$384.2 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.

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements - Continued

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

Other

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

17. COMMITMENTS AND CONTINGENCIES

Commitments

Investment Commitments

Blackstone had \$1.4 billion of investment commitments as of June 30, 2013 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 \$74.4 million as of June 30, 2013 which includes \$27.5 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 \$4.1 million as of June 30, 2013.

On March 28, 2012, the Blackstone Holdings Partnerships entered into a guaranty agreement with a lending institution in which the Holdings Partnerships guarantee certain loans held by employees for investment in Blackstone funds. The amount guaranteed as of June 30, 2013 was \$56.2 million.

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 affect its results of operations, financial position or cash flows.

Contingent Obligations (Clawback)

Carried Interest is subject to clawback to the extent that the Carried Interest received to date exceeds the amount due to Blackstone based on cumulative results. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate funds and multi-asset class investment funds, which may have an interim clawback liability. The lives of the carry funds with a potential clawback obligation, including available contemplated extensions, are currently anticipated to expire at various points 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

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued****(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

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:

Segment	June 30, 2013			December 31, 2012		
	Blackstone Holdings	Current and Former Personnel	Total	Blackstone Holdings	Current and Former Personnel	Total
Private Equity	\$ 70,511	\$ 63,926	\$ 134,437	\$ 69,302	\$ 133,852	\$ 203,154
Real Estate	32,355	5,997	38,352	32,152	31,223	63,375
Credit	1,452	1,071	2,523	340	247	587
Total	\$ 104,318	\$ 70,994	\$ 175,312	\$ 101,794	\$ 165,322	\$ 267,116

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, 2013, \$438.2 million was held in segregated accounts for the purpose of meeting any clawback obligations of current and former personnel if such payments are required.

18. SEGMENT REPORTING

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

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

Private Equity Blackstone's Private Equity segment comprises its management of private equity funds and certain multi-asset class investment funds.

Real Estate Blackstone's Real Estate segment primarily comprises its management of global, European focused and Asian 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 principally of Blackstone Alternative Asset Management (BAAM), an institutional solutions provider utilizing hedge funds across a variety of strategies.

Credit Blackstone's Credit segment, which principally includes GSO Capital Partners LP (GSO), manages credit-focused products within private debt and public market strategies. GSO's products include senior credit-focused funds, distressed debt funds, mezzanine funds,

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general credit-focused funds, registered investment companies, separately managed accounts and CLO vehicles.

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

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements - Continued

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

These business segments are differentiated by their various sources of income. The Private Equity, Real Estate, Hedge Fund Solutions and Credit 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 Income (EI) as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its five segments. EI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges arise from Blackstone's IPO and long-term retention programs outside of annual deferred compensation 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. EI presents revenues and expenses on a basis that deconsolidates the investment funds Blackstone manages. Economic Net Income (ENI) represents EI adjusted to include current period taxes. Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes.

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

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued**

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

The following table presents the financial data for Blackstone's segments for the three months ended June 30, 2013 and 2012:

	Three Months Ended June 30, 2013					Total
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Segments
Segment Revenues						
Management and Advisory Fees, Net						
Base Management Fees	\$ 86,621	\$ 137,000	\$ 100,113	\$ 101,940	\$	\$ 425,674
Advisory Fees					120,734	120,734
Transaction and Other Fees, Net	38,348	19,013	61	9,002	40	66,464
Management Fee Offsets	(1,950)	(6,312)	(714)	(1,559)		(10,535)
Total Management and Advisory Fees, Net	123,019	149,701	99,460	109,383	120,774	602,337
Performance Fees						
Realized						
Carried Interest	3,899	143,481		35,908		183,288
Incentive Fees		31,102	13,845	29,920		74,867
Unrealized						
Carried Interest	182,926	259,972		13,808		456,706
Incentive Fees		(32,279)	20,989	15,648		4,358
Total Performance Fees	186,825	402,276	34,834	95,284		719,219
Investment Income (Loss)						
Realized						
Carried Interest	21,586	18,577	13,668	901	(146)	54,586
Incentive Fees	21,088	30,636	(12,054)	4,381	(1,518)	42,533
Unrealized						
Carried Interest	42,674	49,213	1,614	5,282	(1,664)	97,119
Interest and Dividend Revenue	3,251	4,396	1,878	4,071	1,746	15,342
Other	366	(274)	(254)	(1,063)	61	(1,164)
Total Investment Income (Loss)	356,135	605,312	137,532	212,957	120,917	1,432,853
Expenses						
Compensation and Benefits						
Compensation	63,747	73,792	36,844	55,941	76,153	306,477
Performance Fee Compensation						
Realized						
Carried Interest	877	55,005		20,028		75,910
Incentive Fees		15,733	5,116	14,165		35,014
Unrealized						
Carried Interest	88,111	78,604		6,109		172,824
Incentive Fees		(16,329)	7,666	11,747		3,084

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Total Compensation and Benefits	152,735	206,805	49,626	107,990	76,153	593,309
Other Operating Expenses	32,178	27,617	16,535	22,961	20,861	120,152
Total Expenses	184,913	234,422	66,161	130,951	97,014	713,461
Economic Income	\$ 171,222	\$ 370,890	\$ 71,371	\$ 82,006	\$ 23,903	\$ 719,392

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued**

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

	Three Months Ended June 30, 2012					Total Segments
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	
Segment Revenues						
Management and Advisory Fees, Net						
Base Management Fees	\$ 87,475	\$ 127,817	\$ 84,278	\$ 81,774	\$	\$ 381,344
Advisory Fees					93,372	93,372
Transaction and Other Fees, Net	14,951	25,151	65	9,184	102	49,453
Management Fee Offsets	(672)	(5,357)	(375)	(1,569)		(7,973)
Total Management and Advisory Fees, Net	101,754	147,611	83,968	89,389	93,474	516,196
Performance Fees						
Realized						
Carried Interest	28,781	13,539		13,609		55,929
Incentive Fees		7,766	1,175	2,751		11,692
Unrealized						
Carried Interest	(87,893)	144,510		27,673		84,290
Incentive Fees		(1,526)	(10,981)	(4,567)		(17,074)
Total Performance Fees	(59,112)	164,289	(9,806)	39,466		134,837
Investment Income (Loss)						
Realized						
	(6,195)	9,067	929	5,638	(79)	9,360
Unrealized						
	(28,337)	14,944	(3,636)	(9,156)	561	(25,624)
Total Investment Income (Loss)	(34,532)	24,011	(2,707)	(3,518)	482	(16,264)
Interest and Dividend Revenue	3,114	3,277	495	1,752	1,753	10,391
Other	562	(590)	27	(787)	(40)	(828)
Total Revenues	11,786	338,598	71,977	126,302	95,669	644,332
Expenses						
Compensation and Benefits						
Compensation	53,775	76,576	34,559	42,845	61,129	268,884
Performance Fee Compensation						
Realized						
Carried Interest	804	3,401		3,694		7,899
Incentive Fees		3,871	(345)	2,049		5,575
Unrealized						
Carried Interest	(8,259)	31,677		13,397		36,815
Incentive Fees		(629)	(2,820)	(6,147)		(9,596)
Total Compensation and Benefits	46,320	114,896	31,394	55,838	61,129	309,577
Other Operating Expenses	30,521	26,560	14,506	15,749	25,702	113,038
Total Expenses	76,841	141,456	45,900	71,587	86,831	422,615

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Economic Income (Loss)	\$ (65,055)	\$ 197,142	\$ 26,077	\$ 54,715	\$ 8,838	\$ 221,717
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Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements - Continued

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

The following table reconciles the Total Segments to Blackstone's Income Before Provision for Taxes for the three months ended June 30, 2013 and 2012:

	Three Months Ended June 30, 2013			Three Months Ended June 30, 2012		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	\$ 1,432,853	\$ 7,617(a)	\$ 1,440,470	\$ 644,332	\$ (17,129)(a)	\$ 627,203
Expenses	\$ 713,461	\$ 201,301(b)	\$ 914,762	\$ 422,615	\$ 317,204(b)	\$ 739,819
Other Income	\$	\$ 40,966(c)	\$ 40,966	\$	\$ 248,230(c)	\$ 248,230
Economic Income	\$ 719,392	\$ (152,718)(d)	\$ 566,674	\$ 221,717	\$ (86,103)(d)	\$ 135,614

- (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,	
	2013	2012
Fund Management Fees and Performance Fees Eliminated in Consolidation and Transactional Investment Loss	\$ (7,886)	\$ 15,892
Fund Expenses Added in Consolidation	5,623	17,170
Non-Controlling Interests in Income of Consolidated Entities	50,310	222,268
Transaction-Related Other Income	(7,081)	(7,100)
Total Consolidation Adjustments and Reconciling Items	\$ 40,966	\$ 248,230

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

	Three Months Ended June 30,	
	2013	2012
Economic Income	\$ 719,392	\$ 221,717
Adjustments		
Amortization of Intangibles	(24,322)	(39,435)

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IPO and Acquisition-Related Charges	(178,706)	(268,936)
Non-Controlling Interests in Income of Consolidated Entities	50,310	222,268
Total Consolidation Adjustments and Reconciling Items	(152,718)	(86,103)
Income Before Provision for Taxes	\$ 566,674	\$ 135,614

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued**

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

The following table presents the financial data for Blackstone's segments as and for the six months ended June 30, 2013 and 2012:

	June 30, 2013 and the Six Months Then Ended					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
Segment Revenues						
Management and Advisory Fees, Net						
Base Management Fees	\$ 172,867	\$ 275,346	\$ 192,904	\$ 193,304	\$	\$ 834,421
Advisory Fees					187,754	187,754
Transaction and Other Fees, Net	62,801	28,153	65	13,376	43	104,438
Management Fee Offsets	(2,430)	(13,598)	(1,038)	(3,131)		(20,197)
Total Management and Advisory Fees	233,238	289,901	191,931	203,549	187,797	1,106,416
Performance Fees						
Realized						
Carried Interest	143,791	212,254		121,413		477,458
Incentive Fees		34,194	27,554	37,846		99,594
Unrealized						
Carried Interest	98,972	540,048		(4,967)		634,053
Incentive Fees		(29,879)	76,490	65,502		112,113
Total Performance Fees	242,763	756,617	104,044	219,794		1,323,218
Investment Income (Loss)						
Realized						
Carried Interest	45,748	28,111	14,520	4,229	88	92,696
Incentive Fees	52,799	90,939	(8,141)	5,474	(1,877)	139,194
Unrealized						
Carried Interest	98,972	540,048		(4,967)		634,053
Incentive Fees		(29,879)	76,490	65,502		112,113
Total Investment Income (Loss)	98,547	119,050	6,379	9,703	(1,789)	231,890
Interest and Dividend Revenue	6,235	8,694	3,094	8,618	3,362	30,003
Other	790	(407)	(169)	765		979
Total Revenues	581,573	1,173,855	305,279	442,429	189,370	2,692,506
Expenses						
Compensation and Benefits						
Compensation	123,950	143,251	70,712	101,462	134,079	573,454
Performance Fee Compensation						
Realized						
Carried Interest	17,123	80,868		67,356		165,347
Incentive Fees		17,457	10,138	17,927		45,522
Unrealized						
Carried Interest	104,730	167,661		(4,095)		268,296
Incentive Fees		(15,295)	27,502	35,355		47,562

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Total Compensation and Benefits	245,803	393,942	108,352	218,005	134,079	1,100,181
Other Operating Expenses	61,346	56,079	31,694	43,923	41,554	234,596
Total Expenses	307,149	450,021	140,046	261,928	175,633	1,334,777
Economic Income	\$ 274,424	\$ 723,834	\$ 165,233	\$ 180,501	\$ 13,737	\$ 1,357,729
Segment Assets as of June 30, 2013	\$ 4,118,466	\$ 5,842,665	\$ 1,298,257	\$ 2,258,620	\$ 678,330	\$ 14,196,338

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued**

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

	Six Months Ended June 30, 2012					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
Segment Revenues						
Management and Advisory Fees, Net						
Base Management Fees	\$ 173,264	\$ 275,619	\$ 166,099	\$ 161,868	\$	\$ 776,850
Advisory Fees					169,218	169,218
Transaction and Other Fees, Net	33,048	39,563	157	14,909	247	87,924
Management Fee Offsets	(4,454)	(13,984)	(710)	(1,875)		(21,023)
Total Management and Advisory Fees	201,858	301,198	165,546	174,902	169,465	1,012,969
Performance Fees						
Realized						
Carried Interest	32,714	22,156		14,619		69,489
Incentive Fees		7,765	4,473	4,733		16,971
Unrealized						
Carried Interest	(53,842)	366,010		70,918		383,086
Incentive Fees		6,388	12,206	32,453		51,047
Total Performance Fees	(21,128)	402,319	16,679	122,723		520,593
Investment Income (Loss)						
Realized						
	7,716	16,879	1,432	6,321	504	32,852
Unrealized						
	(11,868)	40,856	4,735	55	512	34,290
Total Investment Income (Loss)	(4,152)	57,735	6,167	6,376	1,016	67,142
Interest and Dividend Revenue	5,534	5,829	881	4,177	3,315	19,736
Other	347	(1,299)	(100)	(1,025)	42	(2,035)
Total Revenues	182,459	765,782	189,173	307,153	173,838	1,618,405
Expenses						
Compensation and Benefits						
Compensation	106,322	145,465	62,792	79,988	129,089	523,656
Performance Fee Compensation						
Realized						
Carried Interest	1,124	7,478		7,235		15,837
Incentive Fees		3,873	1,033	4,921		9,827
Unrealized						
Carried Interest	(9,311)	85,952		44,717		121,358
Incentive Fees		3,139	4,474	(4,430)		3,183
Total Compensation and Benefits	98,135	245,907	68,299	132,431	129,089	673,861
Other Operating Expenses	59,402	55,484	28,440	32,845	46,388	222,559
Total Expenses	157,537	301,391	96,739	165,276	175,477	896,420

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Economic Income (Loss)	\$ 24,922	\$ 464,391	\$ 92,434	\$ 141,877	\$ (1,639)	\$ 721,985
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Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued**

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

The following table reconciles the Total Segments to Blackstone's Income Before Provision for Taxes and Total Assets as of and for the six months ended June 30, 2013 and 2012:

	June 30, 2013 and the Six Months Then Ended			Six Months Ended June 30, 2012		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	\$ 2,692,506	\$ (5,563)(a)	\$ 2,686,943	\$ 1,618,405	\$ (39,166)(a)	\$ 1,579,239
Expenses	\$ 1,334,777	\$ 415,086(b)	\$ 1,749,863	\$ 896,420	\$ 627,192(b)	\$ 1,523,612
Other Income	\$	\$ 108,176(c)	\$ 108,176	\$	\$ 536,372(c)	\$ 536,372
Economic Income	\$ 1,357,729	\$ (312,473)(d)	\$ 1,045,256	\$ 721,985	\$ (129,986)(d)	\$ 591,999
Total Assets	\$ 14,196,338	\$ 13,546,540(e)	\$ 27,742,878			

- (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,	
	2013	2012
Fund Management Fees and Performance Fees Eliminated in Consolidation and Transactional Investment Loss	\$ 5,134	\$ 36,490
Fund Expenses Added in Consolidation	14,024	39,877
Non-Controlling Interests in Income of Consolidated Entities	103,174	474,170
Transaction-Related Other Income	(14,156)	(14,165)
Total Consolidation Adjustments and Reconciling Items	\$ 108,176	\$ 536,372

Table of Contents**THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued****(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

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

	Six Months Ended June 30,	
	2013	2012
Economic Income	\$ 1,357,729	\$ 721,985
Adjustments		
Amortization of Intangibles	(49,979)	(90,323)
IPO and Acquisition-Related Charges	(365,668)	(513,833)
Non-Controlling Interests in Income of Consolidated Entities	103,174	474,170
Total Consolidation Adjustments and Reconciling Items	(312,473)	(129,986)
Income Before Provision for Taxes	\$ 1,045,256	\$ 591,999

- (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.

19. SUBSEQUENT EVENTS

There have been no events since June 30, 2013 that require recognition or disclosure in the Condensed Consolidated Financial Statements.

Table of Contents**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, 2013			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
Assets				
Cash and Cash Equivalents	\$ 660,977	\$	\$	\$ 660,977
Cash Held by Blackstone Funds and Other	130,447	1,046,428		1,176,875
Investments	7,819,798	12,554,339	(476,571)	19,897,566
Accounts Receivable	592,040	344,200		936,240
Reverse Repurchase Agreements	176,273			176,273
Due from Affiliates	955,945	78,259	(37,149)	997,055
Intangible Assets, Net	554,043			554,043
Goodwill	1,703,602			1,703,602
Other Assets	310,887	37,034		347,921
Deferred Tax Assets	1,292,326			1,292,326
Total Assets	\$ 14,196,338	\$ 14,060,260	\$ (513,720)	\$ 27,742,878
Liabilities and Partners Capital				
Loans Payable	\$ 1,673,246	\$ 9,690,646	\$	\$ 11,363,892
Due to Affiliates	1,639,014	241,591	(56,596)	1,824,009
Accrued Compensation and Benefits	1,380,546			1,380,546
Securities Sold, Not Yet Purchased	77,553			77,553
Repurchase Agreements				
Accounts Payable, Accrued Expenses and Other Liabilities	445,589	650,578		1,096,167
Total Liabilities	5,215,948	10,582,815	(56,596)	15,742,167
Redeemable Non-Controlling Interests in Consolidated Entities		1,978,286		1,978,286
Partners Capital				
Partners Capital	5,202,090	458,861	(458,861)	5,202,090
Appropriated Partners Capital		335,656		335,656
Accumulated Other Comprehensive Income (Loss)	(506)	1,660		1,154
Non-Controlling Interests in Consolidated Entities	855,625	702,982	1,737	1,560,344
Non-Controlling Interests in Blackstone Holdings	2,923,181			2,923,181
Total Partners Capital	8,980,390	1,499,159	(457,124)	10,022,425
Total Liabilities and Partners Capital	\$ 14,196,338	\$ 14,060,260	\$ (513,720)	\$ 27,742,878

continued

Table of Contents**THE BLACKSTONE GROUP L.P.****Unaudited Consolidating Statements of Financial Condition**

(Dollars in Thousands)

	December 31, 2012			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
Assets				
Cash and Cash Equivalents	\$ 709,502	\$	\$	\$ 709,502
Cash Held by Blackstone Funds and Other	154,555	1,249,856		1,404,411
Investments	7,324,538	14,004,268	(481,536)	20,847,270
Accounts Receivable	402,395	235,769		638,164
Reverse Repurchase Agreements	248,018			248,018
Due from Affiliates	1,114,835	42,683	(37,451)	1,120,067
Intangible Assets, Net	598,535			598,535
Goodwill	1,703,602			1,703,602
Other Assets	313,888	63,618	(1,134)	376,372
Deferred Tax Assets	1,285,611			1,285,611
Total Assets	\$ 13,855,479	\$ 15,596,194	\$ (520,121)	\$ 28,931,552
Liabilities and Partners Capital				
Loans Payable	\$ 1,677,081	\$ 11,374,323	\$	\$ 13,051,404
Due to Affiliates	1,711,003	358,448	(66,807)	2,002,644
Accrued Compensation and Benefits	1,254,978			1,254,978
Securities Sold, Not Yet Purchased	226,425			226,425
Repurchase Agreements	142,266			142,266
Accounts Payable, Accrued Expenses and Other Liabilities	365,005	674,454	(571)	1,038,888
Total Liabilities	5,376,758	12,407,225	(67,378)	17,716,605
Redeemable Non-Controlling Interests in Consolidated Entities		1,556,185		1,556,185
Partners Capital				
Partners Capital	4,955,649	455,309	(455,309)	4,955,649
Appropriated Partners Capital		509,028		509,028
Accumulated Other Comprehensive Income	1,047	1,123		2,170
Non-Controlling Interests in Consolidated Entities	773,669	667,324	2,566	1,443,559
Non-Controlling Interests in Blackstone Holdings	2,748,356			2,748,356
Total Partners Capital	8,478,721	1,632,784	(452,743)	9,658,762
Total Liabilities and Partners Capital	\$ 13,855,479	\$ 15,596,194	\$ (520,121)	\$ 28,931,552

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

Blackstone Hedged Equity Fund L.P.

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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 Secured Trust Ltd.

Table of Contents

BTD CP Holdings, LP

GSO Legacy Associates II LLC

GSO Legacy Associates LLC

Shanghai Blackstone Equity Investment Partnership 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

Table of Contents

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.

Our business is organized into five business segments:

Private Equity. We are a world leader in private equity investing, having managed six general private equity funds, as well as two sector focused funds and a regionally focused fund, since we established this business in 1987. We refer to these funds collectively as our Blackstone Capital Partners (BCP) funds. We also manage certain multi-asset class investment accounts which we collectively refer to as our Blackstone Tactical Opportunities Accounts (Tactical Opportunities). 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 since launching our first real estate fund in 1994. We have managed or continue to manage seven global opportunistic real estate funds, three European focused opportunistic real estate funds, an Asian focused opportunistic real estate fund, a number of real estate debt investment funds, CDOs, REITs and an acquired Asian real estate platform. Our real estate opportunity funds are diversified geographically and have made significant investments in lodging, major urban office buildings, shopping centers, residential and a variety of real estate operating companies. 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. We refer to our real estate opportunistic funds as our Blackstone Real Estate Partners (BREP) funds and our real estate debt investment funds as our Blackstone Real Estate Debt Strategies (BREDS) funds. In December 2012, we completed the acquisition of Capital Trust's investment management business with an expertise in debt origination and special servicing. In May 2013, Capital Trust changed its name to Blackstone Mortgage Trust, Inc. (BXMT) and completed a secondary offering.

Hedge Fund Solutions. Blackstone's Hedge Fund Solutions segment is comprised principally of Blackstone Alternative Asset Management (BAAM). 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. Our Credit segment is comprised principally of GSO Capital Partners LP (GSO), a global leader in managing credit-focused products within private debt and public market strategies. GSO's products include senior credit-focused funds, distressed debt funds, mezzanine funds, general credit-focused funds, registered investment companies, separately managed accounts and collateralized loan obligation (CLO) vehicles.

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

Table of Contents

We generate 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 and strategic advisory services, restructuring and reorganization advisory services and fund placement services for alternative investment funds. We invest in the funds we manage and, in most cases, receive a preferred allocation of income (i.e., a carried interest) or an incentive fee from an investment fund in the event that specified cumulative investment returns are achieved. The composition of our revenues will vary based on market conditions and the cyclicity of the different businesses in which we operate. Net investment gains and 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

World equity and debt markets were mixed in the second quarter of 2013. The MSCI All Country index declined 1% for the quarter, with positive performance in certain developed markets including the United States and Japan, offset by continued weak equities performance in emerging markets. In the U.S., the S&P 500 index rose 2.4%, although it declined in the second half of the quarter, coupled with an increase in volatility, largely driven by rising speculation around when the Federal Reserve might start to reduce its bond purchasing program.

Credit indices were flat to down in the second quarter, with the high yield index declining 1.4% and the leveraged loan index mostly flat. Benchmark rates widened, with the U.S. 10-year Treasury increasing to approximately 2.5% from 1.8% at the end of the first quarter, and high yield spreads widened moderately as well.

In response to the increasing market speculation around monetary stimulus withdrawal, the Federal Reserve reiterated its commitment to a near-zero interest rate policy, and stated it would be careful not to prematurely withdraw stimulus without improving economic activity, which helped stabilize investor confidence early in the third quarter. The U.S. unemployment rate remains elevated at 7.6%, largely unchanged from March levels, and GDP growth remains weak, with pockets of clear strength in housing and other sub-sectors offset by pressures on consumer and government spending.

Despite recent volatility, real estate capital markets in the U.S. were up in the second quarter in both equities and credit compared to the second quarter of 2012. The Dow Jones Equity All REIT Index was up 3.9% and commercial mortgage backed securities issuance was at \$43 billion year to date compared to \$18 billion during the same period in the prior year. Real estate fundamentals remain positive with generally improving demand and limited new supply. In the U.S. office and retail sector, overall vacancy levels have declined 20 and 10 basis points for the quarter to 15.2% and 10.5%, respectively. In the U.S. hospitality sector, new construction remains significantly below historical levels and supply/demand fundamentals continue to support RevPAR (Revenue per Available Room) growth of 5.0% for the quarter. On a national level, home prices have increased 12.2% year over year through May 2013.

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

Significant Transactions

On August 2, 2013, Blackstone acquired Strategic Partners, Credit Suisse's dedicated secondary private equity business. The transaction added approximately \$10 billion of Total Assets Under Management.

Table of Contents

On May 22, 2013, Blackstone Mortgage Trust, Inc. (NYSE: BXMT), a real estate investment trust we manage, completed a secondary offering of 25.9 million shares of its class A common stock, raising \$660 million of gross proceeds.

Organizational Structure

The simplified diagram below depicts our current organizational structure. The diagram does not depict all of our subsidiaries, including intermediate holding companies through which certain of the subsidiaries depicted are held.

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 2012 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, or in some cases, a fixed fee. Base management fees are based on contractual terms specified in the underlying investment advisory agreements.

Table of Contents

Transaction and other fees (including monitoring fees) are fees charged directly to managed funds and portfolio companies. The investment advisory agreements generally require that the investment adviser reduce the amount of management fees payable by the limited partners to the Partnership (management fee reductions) by an amount equal to a portion of the transaction and other fees 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 (Incentive Fees) 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 Incentive 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. Accrued but unpaid Incentive Fees on onshore funds as of the reporting date are reflected in Investments in the Condensed Consolidated Statements of Financial Condition. Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback.

In certain fund structures, specifically in private equity, real estate and certain credit-focused 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. 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

Table of Contents

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 terms of 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 consists of miscellaneous income and 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 and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, 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 consists of Carried Interest and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone's firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis. In the limited circumstance of public companies that are also investment advisory clients, compensation paid to the adviser in the form of listed securities of such client may be allocated to employees and senior managing directors.

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 Blackstone Funds and side-by-side entities held by third party investors and employees. The percentage interests held by third parties and employees is adjusted for general partner allocations and by

Table of Contents

subscriptions and redemptions in funds of hedge funds and certain credit-focused funds which occur during the reporting period. In addition, all non-controlling interests in consolidated Blackstone Funds are attributed a share of income (loss) arising from the respective funds and a share of other comprehensive income, if applicable. Income (Loss) is allocated to non-controlling interests in consolidated entities based on the relative ownership interests of third party investors and employees after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group L.P. Non-controlling interests related to funds of hedge funds and certain other credit-focused 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-focused 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 Liabilities 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.

Non-Controlling Interests in Blackstone Holdings

Non-Controlling Interests in Blackstone Holdings represent the component of Partners' Capital in the consolidated Blackstone Holdings Partnerships held by Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships.

Certain costs and expenses are borne directly by the Holdings Partnerships. Income (Loss), excluding those costs directly borne by and attributable to the Holdings Partnerships, is attributable to Non-Controlling Interests in Blackstone Holdings. This residual attribution is based on the year to date average percentage of Holdings Partnership units held by Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships.

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 asset and 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 tax rates in effect for the year in which the differences are expected to reverse. 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. Current and deferred tax liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Condensed Consolidated Statements of Financial Position.

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. Blackstone records uncertain tax positions on the basis of a two-step process: (a) determination is made whether it is more

Table of Contents

likely than not that the tax positions will be sustained based on the technical merits of the position and (b) those tax positions that meet the more-likely-than-not threshold are recognized as the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority. 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. Over the past several years, a number of legislative and administrative proposals to change the taxation of Carried Interest have been introduced and, in certain cases, have been passed by the U.S. House of Representatives. On May 28, 2010, the U.S. House of Representatives passed legislation, or May 2010 House bill, that would have, in general, treated income and gains, including gain on sale, attributable to an investment services partnership interest, or ISPI, as income subject to a new blended tax rate that is higher than the capital gains rate applicable to such income under current law, except to the extent such ISPI would have been considered under the legislation to be a qualified capital interest. Our common units and the interests that we hold in entities that are entitled to receive Carried Interest would likely have been classified as ISPIs for purposes of this legislation. In June 2010, the U.S. Senate considered but did not pass legislation that was generally similar to the legislation passed by the U.S. House of Representatives. More recently, Representative Levin and Senator Harkin (and other representatives) separately introduced similar legislation, or recent bills, that would tax Carried Interest at ordinary income tax rates (which would be higher than the proposed blended rate under the May 2010 House bill). It is unclear whether or when the U.S. Congress will pass such legislation or what provisions will be included in any final legislation if enacted.

Each of the May 2010 House bill and the recent bills also 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 subject to the foregoing rules would not meet the qualifying income requirements under the publicly traded partnership rules. Therefore, if similar legislation were to be enacted, following such ten-year period, we would be precluded from qualifying as a partnership for U.S. federal income tax purposes or be required to hold all such ISPIs through corporations.

On September 12, 2011, the Obama administration submitted similar legislation to Congress in the American Jobs Act that would tax income and gain, including gain on sale, attributable to an ISPI at ordinary rates, with an exception for certain qualified capital interests. The proposed legislation would also characterize certain income and gain in respect of ISPIs as non-qualifying income under the tax rules applicable to publicly traded partnerships after a ten-year transition period from the effective date, with an exception for certain qualified capital interests. This proposed legislation follows several prior statements by the Obama administration in support of changing the taxation of Carried Interest. In its published revenue proposal for 2014, the Obama administration proposed that the current law regarding the treatment of Carried Interest be changed to subject such income to ordinary income tax. The Obama administration proposed similar changes in its published revenue proposals for 2011, 2012 and 2013.

States and other jurisdictions have also considered legislation to increase taxes with respect to Carried Interest. For example, in 2010, the New York State Assembly passed a bill, which could have caused a non-resident of New York who holds our common units to be subject to New York state income tax on carried interest earned by entities in which we hold an indirect interest, thereby requiring the non-resident to file a New York state income tax return reporting such carried interest income. This legislation would have been retroactive to January 1, 2010. It is unclear whether or when similar legislation will be enacted. Finally, several state and local jurisdictions are evaluating ways to subject partnerships to entity level taxation through the imposition of state or local income, franchise or other forms of taxation or to increase the amount of such taxation.

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

Table of Contents

statutory rate for corporations is currently 35%, and the state and local tax rates, net of the federal benefit, aggregate approximately 5%. 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. In addition, we, and our common unitholders, could be taxed on any such restructuring. 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.

On February 22, 2012, the Obama administration announced its framework of key elements to change the U.S. federal income tax rules for businesses. Few specifics were included, and it is unclear what any actual legislation would provide, when it would be proposed or what its prospects for enactment would be. Several parts of the framework, if enacted, could adversely affect us. First, the framework would reduce the deductibility of interest for corporations in some manner not specified. A reduction in interest deductions could increase our tax rate and thereby reduce cash available for distribution to investors or for other uses by us. Such a reduction could also increase the effective cost of financing by companies in which we invest, which could reduce the value of our Carried Interest in respect of such companies. The framework would also reduce the top marginal tax rate on corporations from 35% to 28%. Such a change could increase the effective cost of financing such investments, which could again reduce the value of our Carried Interest. The framework suggests some entities currently treated as partnerships for tax purposes should be subject to an entity-level income tax similar to the corporate income tax. If such a proposal caused us to be subject to additional entity-level taxes, it could reduce cash available for distribution to investors or for other uses by us. Finally, the framework reiterates the President's support for treatment of Carried Interest as ordinary income, as provided in the President's revenue proposal for 2014 described above. Because the framework did not include specifics, its effect on us is unclear.

Economic Income

Blackstone uses Economic Income (EI) as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its five segments. EI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges arise from Blackstone's initial public offering (IPO) and long-term retention programs outside of annual deferred compensation 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. EI presents revenues and expenses on a basis that deconsolidates the investment funds we manage. Economic Net Income (ENI) represents EI adjusted to include current period taxes. Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes. (See Note 18. Segment Reporting in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements.)

Table of Contents

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 measure not prepared under accounting principles generally accepted in the United States of America (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 and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. See [Liquidity and Capital Resources](#) [Sources of Liquidity](#) below for our 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, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses and (d) Taxes and Payables Under the Tax Receivable Agreement.

Blackstone amended its definition of Distributable Earnings in the second quarter of 2013 to exclude the expense of equity-based awards. Excluding this expense presents a better determination of amounts available for distribution to Blackstone unitholders. Distributable Earnings amounts presented for prior periods have been conformed to this presentation.

Fee Related Earnings

Blackstone uses Fee Related Earnings (FRE), which is derived from our segment reported results, 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 FRE as a measure to assess whether recurring revenue from our businesses is sufficient to adequately cover all of our operating expenses and generate profits. FRE 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) and (b) other operating expenses. See [Liquidity and Capital Resources](#) [Sources of Liquidity](#) below for our discussion of Fee Related Earnings.

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 equals the sum of:

- (a) the fair value of the investments held by our carry funds, REITs and our side-by-side and co-investment entities managed by us, plus the capital that we are entitled to call from investors in those funds and entities pursuant to the terms of their respective capital commitments, including capital commitments to funds that have yet to commence their investment periods,
- (b) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,

Table of Contents

- (c) the fair value of assets we manage pursuant to separately managed accounts,
- (d) the amount of capital raised for our CLOs and the amount of debt and equity outstanding for our CDOs, and

(e) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies. Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election. Our funds of hedge funds and hedge funds generally have structures that afford an investor the right to withdraw or redeem their interests on a periodic basis (for example, 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. Fee-Earning Assets Under Management refers to the assets we manage on which we derive management and / or performance fees. Our Fee-Earning Assets Under Management equals the sum of:

- (a) for our Private Equity segment funds and carry funds including certain real estate debt investment funds in our Real Estate segment, the amount of capital commitments, remaining invested capital or par value of assets held, depending on the fee terms of the fund,
- (b) for our credit-focused carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,
- (c) the remaining invested capital of co-investments managed by us on which we receive fees,
- (d) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (e) the fair value of assets we manage pursuant to separately managed accounts,
- (f) the net proceeds received from equity offerings and accumulated core earnings of our REITs,
- (g) the aggregate par amount of collateral assets, including cash, of our CLOs and CDOs, and

(h) the gross amount of assets (including leverage) for certain of our credit-focused 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, the remaining amount of invested capital at cost depending on whether the investment period has or has not expired or the fee terms of the fund. As such, fee-earning assets under management may be greater than total assets under management when the aggregate fair value of the remaining investments is less than the cost of those investments.

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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

Table of Contents

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, 2013 and 2012. 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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Table of Contents

The following tables set forth information regarding our consolidated results of operations and certain key operating metrics for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		2013 vs. 2012		Six Months Ended June 30,		2013 vs. 2012	
	2013	2012	\$	%	2013	2012	\$	%
(Dollars in Thousands)								
Revenues								
Management and Advisory Fees, Net	\$ 578,723	\$ 488,048	\$ 90,675	19%	\$ 1,060,856	\$ 959,724	\$ 101,132	11%
Performance Fees								
Realized								
Carried Interest	183,288	55,929	127,359	N/M	477,458	69,489	407,969	N/M
Incentive Fees	76,104	11,631	64,473	N/M	99,845	16,910	82,935	N/M
Unrealized								
Carried Interest	456,706	84,290	372,416	N/M	634,053	383,086	250,967	66%
Incentive Fees	938	(16,436)	17,374	N/M	106,736	50,699	56,037	111%
Total Performance Fees	717,036	135,414	581,622	N/M	1,318,092	520,184	797,908	153%
Investment Income (Loss)								
Realized	75,490	5,758	69,732	N/M	117,843	22,093	95,750	N/M
Unrealized	56,570	(10,519)	67,089	N/M	162,800	62,307	100,493	161%
Total Investment Income (Loss)	132,060	(4,761)	136,821	N/M	280,643	84,400	196,243	N/M
Interest and Dividend Revenue	13,814	9,267	4,547	49%	26,371	16,903	9,468	56%
Other	(1,163)	(765)	(398)	-52%	981	(1,972)	2,953	N/M
Total Revenues	1,440,470	627,203	813,267	130%	2,686,943	1,579,239	1,107,704	70%
Expenses								
Compensation and Benefits								
Compensation	478,981	533,367	(54,386)	-10%	930,411	1,028,622	(98,211)	-10%
Performance Fee Compensation								
Realized								
Carried Interest	75,910	7,898	68,012	N/M	165,347	15,836	149,511	N/M
Incentive Fees	35,014	5,576	29,438	N/M	45,522	9,828	35,694	N/M
Unrealized								
Carried Interest	172,824	36,815	136,009	N/M	268,296	121,359	146,937	121%
Incentive Fees	3,084	(9,595)	12,679	N/M	47,562	3,183	44,379	N/M
Total Compensation and Benefits	765,813	574,061	191,752	33%	1,457,138	1,178,828	278,310	24%
General, Administrative and Other	117,365	135,737	(18,372)	-14%	226,671	278,503	(51,832)	-19%
Interest Expense	26,956	13,773	13,183	96%	54,018	28,291	25,727	91%
Fund Expenses	4,628	16,248	(11,620)	-72%	12,036	37,990	(25,954)	-68%
Total Expenses	914,762	739,819	174,943	24%	1,749,863	1,523,612	226,251	15%
Other Income								
Net Gains from Fund Investment Activities	40,966	248,230	(207,264)	-83%	108,176	536,372	(428,196)	-80%
Income Before								
Provision for Taxes	566,674	135,614	431,060	N/M	1,045,256	591,999	453,257	77%
Provision for Taxes	56,082	41,337	14,745	36%	107,075	80,090	26,985	34%
Net Income	510,592	94,277	416,315	N/M	938,181	511,909	426,272	83%
	22,366	(17,666)	40,032	N/M	84,682	36,594	48,088	131%

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Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities									
Net Income Attributable to Non-Controlling Interests in Consolidated Entities	27,944	239,934	(211,990)	-88%	18,492	437,576	(419,084)	-96%	
Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings	249,134	(53,027)	302,161	N/M	456,224	54,378	401,846	N/M	
Net Income (Loss) Attributable to The Blackstone Group L.P.	\$ 211,148	\$ (74,964)	\$ 286,112	N/M	\$ 378,783	\$ (16,639)	\$ 395,422	N/M	

N/M Not meaningful.

Table of Contents

Revenues

Total Revenues were \$1.4 billion for the three months ended June 30, 2013, an increase of \$813.3 million compared to Total Revenues for the three months ended June 30, 2012 of \$627.2 million. This increase in revenues was primarily driven by an increase of \$581.6 million in Performance Fees and an increase of \$136.8 million in Investment Income (Loss).

The increase in Performance Fees in our Private Equity segment was principally due to positive returns in our BCP IV, BCP VI and Blackstone Energy Partners (BEP) funds as a result of the strong performance of our publicly traded portfolio companies and private holdings in the hospitality/leisure and energy sectors. The increase in Performance Fees in our Real Estate segment was due to the strong performance of our Real Estate carry funds and was primarily driven by BREP V, VI and VII. This increase was driven by continued positive real estate operating fundamentals across our office, hospitality and retail portfolios. The increase in Performance Fees in our Hedge Fund Solutions segment was due to the increase in Fee-Earning Assets Under Management above their respective high water marks and/or hurdle. The increase in Performance Fees in our Credit segment was primarily due to continued increases in fund valuations across the platform.

The increase in Investment Income was primarily across the Private Equity and Real Estate segments, as a result of the strong performance of the public holdings in our Private Equity segment as well as from our private investments in the hospitality/leisure and energy sectors and the year over year net increase in the appreciation of investments across our global Real Estate funds.

Total Revenues were \$2.7 billion for the six months ended June 30, 2013, an increase of \$1.1 billion compared to Total Revenues for the six months ended June 30, 2012 of \$1.6 billion. The increase in revenues was primarily attributable to an increase of \$797.9 million in Performance Fees and a \$196.2 million increase in Investment Income (Loss). These increases were largely driven by stronger appreciation of investments during the current year period compared to the prior year period.

Expenses

Expenses were \$914.8 million for the three months ended June 30, 2013, an increase of \$174.9 million, or 24%, compared to \$739.8 million for the three months ended June 30, 2012. The increase was primarily attributable to an increase of \$191.8 million in Compensation and Benefits, comprised of an increase in Performance Fee Compensation due to the increase in Performance Fees Revenue and partially offset by a decrease in Compensation due to a decrease in the equity-based amortization expense on our transaction-based awards.

Expenses were \$1.7 billion for the six months ended June 30, 2013, an increase of \$226.3 million, or 15%, compared to \$1.5 billion for the six months ended June 30, 2012. The increase was primarily attributable to an increase of \$376.5 million in Performance Fee Compensation due to the increase in Performance Fees Revenue. This increase was partially offset by decreases in Compensation of \$98.2 million and General, Administrative and Other of \$51.8 million from the prior year. The decrease in Compensation was principally due to a decrease in the equity-based amortization charges on our transaction-related awards. The decrease in General, Administrative and Other was primarily due to a decrease in depreciation and amortization expenses.

Other Income

Other Income Net Gains from Fund Investment Activities is attributable to the consolidated Blackstone Funds which are largely held by third party investors. As such, most of this Other Income is eliminated from the results attributable to The Blackstone Group L.P. through the redeemable non-controlling interests and non-controlling interests items in the Condensed Consolidated Statements of Operations.

Table of Contents

Other Income Net Gains from Fund Investment Activities was \$41.0 million for the three months ended June 30, 2013, a decrease of \$207.3 million compared to \$248.2 million for the three months ended June 30, 2012. The change was principally driven by an increase in the prices of debt relating to the consolidated CLO vehicles that resulted in an increase in notes payable and a decrease in unrealized gains.

Other Income Net Gains from Fund Investment Activities was \$108.2 million for the six months ended June 30, 2013, a decrease of \$428.2 million compared to \$536.4 million for the six months ended June 30, 2012. The change was principally driven by the same factors discussed above for the three month period.

Provision for Taxes

Blackstone's Provision for Taxes for the three months ended June 30, 2013 and 2012 was an expense of \$56.1 million and \$41.3 million, respectively. This resulted in an effective tax rate of 9.9% and 30.5%, respectively, based on our Income Before Provision for Taxes of \$566.7 million and \$135.6 million, respectively. The decrease in the effective tax rate was mainly from the impact of book equity-based compensation that is not deductible for tax purposes and the amount of income or loss not subject to tax that is passed through to common unit holders and non-controlling interests.

Blackstone's Provision for Taxes for the six months ended June 30, 2013 and 2012 was \$107.1 million and \$80.1 million, respectively. This resulted in an effective tax rate of 10.2% and 13.5%, respectively, based on our Income Before Provision for Taxes of \$1.0 billion and \$592.0 million, respectively.

One factor largely contributed to the decrease in the effective tax rate for the six months ended June 30, 2013 compared to the six months ended June 30, 2012. The amount by which the book equity-based compensation expense exceeded the tax deductible equity-based compensation expense decreased for the six months ended June 30, 2013 compared to the six months ended June 30, 2012, which resulted in an increase to the income tax provision of \$26.1 million and the effective rate of 2.5% for the six months ended June 30, 2013.

Non-Controlling Interests in Consolidated Entities

The Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities and Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities is attributable to the consolidated Blackstone Funds. The amounts of these items vary directly with the performance of the consolidated Blackstone Funds and largely eliminate the amount of Other Income Net Gains from Fund Investment Activities from the Net Income Attributable to The Blackstone Group L.P.

Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings is derived from the Income Before Provision for Taxes, excluding the Net Gains from Fund Investment Activities, and the percentage allocation of the income between Blackstone Holdings and The Blackstone Group L.P. after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group L.P.

For the three months ended June 30, 2013 and 2012, the net income before taxes allocated to Blackstone Holdings was 49.5% and 53.3%, respectively. For the six months ended June 30, 2013 and 2012, the net income before taxes allocated to Blackstone Holdings was 49.6% and 54.0%, respectively. The decrease of 3.8% and 4.4%, respectively, was primarily due to conversions of Blackstone Holdings Partnership Units to Blackstone common units and the vesting of common unit grants.

Operating Metrics

The following tables present certain operating metrics for the three and six months ended June 30, 2013 and 2012. 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 :

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Table of Contents

	June 30, 2013				Three Months Ended			June 30, 2012		
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
	(Dollars in Thousands)									
Earnings Under Management										
Income, net of										
Operating	\$ 36,785,770	\$ 42,140,507	\$ 45,585,454	\$ 46,437,616	\$ 170,949,347	\$ 37,323,635	\$ 36,647,462	\$ 40,543,772	\$ 41,746,577	\$ 156,261,444
Expenses, including										
Commitments (a)	805,104	2,814,991	2,712,762	4,635,166	10,968,023	298,933	2,499,061	1,218,854	1,760,420	5,777,266
Expenses, including										
Contributions (b)		(104,147)	(1,128,102)	(367,514)	(1,599,763)		(61,337)	(774,950)	(825,462)	(1,661,744)
Dispositions (c)	(950,299)	(1,255,384)		(2,550,021)	(4,755,704)	(455,862)	(447,054)		(133,487)	(1,036,403)
Net Inflows	(145,195)	1,455,460	1,584,660	1,717,631	4,612,556	(156,929)	1,990,670	443,904	801,471	3,079,111
Net Depreciation										
(Appreciation) (d)	(5,351)	39,526	402,351	340,518	777,044	(7,254)	(162,009)	(826,497)	(698,281)	(1,694,044)
Balance, End of Period (e)	\$ 36,635,224	\$ 43,635,493	\$ 47,572,465	\$ 48,495,765	\$ 176,338,947	\$ 37,159,452	\$ 38,476,123	\$ 40,161,179	\$ 41,849,767	\$ 157,646,522
Change (Increase)	\$ (150,546)	\$ 1,494,986	\$ 1,987,011	\$ 2,058,149	\$ 5,389,600	\$ (164,183)	\$ 1,828,661	\$ (382,593)	\$ 103,190	\$ 1,385,077
Change (Increase)	-0%	4%	4%	4%	3%	-0%	5%	-1%	0%	

	June 30, 2013				Six Months Ended			June 30, 2012		
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
	(Dollars in Thousands)									
Earnings Under Management										
Income, net of										
Operating	\$ 37,050,167	\$ 41,931,339	\$ 43,478,791	\$ 45,420,143	\$ 167,880,440	\$ 37,237,791	\$ 31,236,540	\$ 37,819,636	\$ 30,462,786	\$ 136,756,752
Expenses, including										
Commitments (a)	1,275,239	3,567,325	3,921,677	8,537,997	17,302,238	798,480	8,391,945	2,664,813	13,477,969	25,333,202
Expenses, including										
Contributions (b)		(112,205)	(1,452,443)	(853,979)	(2,418,627)		(67,482)	(1,126,168)	(1,329,829)	(2,523,477)
Dispositions (c)	(1,670,254)	(1,663,616)		(5,065,477)	(8,399,347)	(876,475)	(1,057,641)		(732,150)	(2,666,268)
Net Inflows	(395,015)	1,791,504	2,469,234	2,618,541	6,484,264	(77,995)	7,266,822	1,538,645	11,415,990	20,143,461
Net Depreciation										
(Appreciation) (d)	(19,928)	(87,350)	1,624,440	457,081	1,974,243	(344)	(27,239)	802,898	(29,009)	746,300
Balance, End of Period (e)	\$ 36,635,224	\$ 43,635,493	\$ 47,572,465	\$ 48,495,765	\$ 176,338,947	\$ 37,159,452	\$ 38,476,123	\$ 40,161,179	\$ 41,849,767	\$ 157,646,522

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ase crease)	\$ (414,943)	\$ 1,704,154	\$ 4,093,674	\$ 3,075,622	\$ 8,458,507	\$ (78,339)	\$ 7,239,583	\$ 2,341,543	\$ 11,386,981	\$ 20,889,76
ase crease)	-1%	4%	9%	7%	5%	-0%	23%	6%	37%	1

Table of Contents