Blackstone Group L.P.
Form 10-Q
November 08, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

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

345 Park Avenue

New York, New York 10154

(Address of principal executive offices)(Zip Code)

(212) 583-5000

(Registrant s telephone number, including area code)

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

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

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

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

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

The number of the Registrant s voting common units representing limited partner interests outstanding as of October 31, 2013 was 485,694,686. The number of the Registrant s non-voting common units representing limited partner interests outstanding as of October 31, 2013 was 79,083,468.

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Forward-Looking Statements

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as outlook, believes, expects, potential, continues, may, wil should, seeks, approximately, predicts, intends, plans, estimates, anticipates or the negative version of these words or other compara Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled Risk Factors in our annual report on Form 10-K for the year ended December 31, 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 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, certain multi-asset class investment funds which we collectively refer to as our Blackstone Tactical Opportunities Accounts (Tactical Opportunities), and Strategic Partners Fund Solutions (Strategic Partners), a secondary private fund of funds business. 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 debt and equity outstanding for our CLOs and 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 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, fair value 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.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Financial Condition (Unaudited)

(Dollars in Thousands, Except Unit Data)

	September 30, 2013	December 31, 2012
Assets		
Cash and Cash Equivalents	$ 888,938	$ 709,502
Cash Held by Blackstone Funds and Other	1,123,530	1,404,411
Investments (including assets pledged of $68,449 and $141,931 at September 30, 2013 and December 31, 2012, respectively)	20,151,386	20,847,270
Accounts Receivable	854,607	638,164
Reverse Repurchase Agreements	95,977	248,018
Due from Affiliates	954,733	1,120,067
Intangible Assets, Net	587,144	598,535
Goodwill	1,787,392	1,703,602
Other Assets	312,395	376,372
Deferred Tax Assets	1,278,780	1,285,611
Total Assets	$ 28,034,882	$ 28,931,552
Liabilities and Partners Capital		
Loans Payable	$ 10,801,714	$ 13,051,404
Due to Affiliates	1,810,168	2,002,644
Accrued Compensation and Benefits	1,633,184	1,254,978
Securities Sold, Not Yet Purchased	101,581	226,425
Repurchase Agreements	68,505	142,266
Accounts Payable, Accrued Expenses and Other Liabilities	1,115,206	1,038,888
Total Liabilities	15,530,358	17,716,605
Commitments and Contingencies		
Redeemable Non-Controlling Interests in Consolidated Entities	2,117,602	1,556,185
Partners Capital		
Partners Capital (common units: 569,206,010 issued and outstanding as of September 30, 2013; 556,354,387 issued and outstanding as of December 31, 2012)	5,373,626	4,955,649
Appropriated Partners Capital	296,304	509,028
Accumulated Other Comprehensive Income	1,634	2,170
Non-Controlling Interests in Consolidated Entities	1,676,552	1,443,559
Non-Controlling Interests in Blackstone Holdings	3,038,806	2,748,356
Total Partners Capital	10,386,922	9,658,762
Total Liabilities and Partners Capital	$ 28,034,882	$ 28,931,552

continued

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Financial Condition (Unaudited)

(Dollars in Thousands)

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

	September 30, 2013	December 31, 2012
Assets		
Cash Held by Blackstone Funds and Other	$ 826,809	$ 1,163,915
Investments	10,119,663	12,320,611
Accounts Receivable	148,847	187,343
Due from Affiliates	23,118	27,034
Other Assets	29,630	35,447
Total Assets	$ 11,148,067	$ 13,734,350
Liabilities		
Loans Payable	$ 9,130,406	$ 11,375,877
Due to Affiliates	141,629	253,546
Accounts Payable, Accrued Expenses and Other	382,261	518,656
Total Liabilities	$ 9,654,296	$ 12,148,079

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Operations (Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Management and Advisory Fees, Net	$ 531,095	$ 469,109	$ 1,591,951	$ 1,428,833
Performance Fees				
Realized				
Carried Interest	182,654	83,765	660,112	153,254
Incentive Fees	30,884	11,588	130,729	28,497
Unrealized				
Carried Interest	290,052	403,465	924,105	786,551
Incentive Fees	37,713	104,312	144,449	155,011
Total Performance Fees	541,303	603,130	1,859,395	1,123,313
Investment Income				
Realized	19,507	18,559	137,350	40,652
Unrealized	100,341	119,599	263,141	181,906
Total Investment Income	119,848	138,158	400,491	222,558
Interest and Dividend Revenue	19,892	10,278	46,263	27,181
Other	4,707	2,415	5,688	443
Total Revenues	1,216,845	1,223,090	3,903,788	2,802,328
Expenses				
Compensation and Benefits				
Compensation	465,631	503,295	1,396,042	1,531,917
Performance Fee Compensation				
Realized				
Carried Interest	60,369	22,023	225,716	37,860
Incentive Fees	14,599	4,457	60,121	14,284
Unrealized				
Carried Interest	82,341	128,863	350,637	250,221
Incentive Fees	11,084	44,254	58,646	47,437
Total Compensation and Benefits	634,024	702,892	2,091,162	1,881,719
General, Administrative and Other	119,435	139,172	346,106	417,675
Interest Expense	26,268	19,074	80,286	47,365
Fund Expenses	6,678	(9,747)	18,714	28,243
Total Expenses	786,405	851,391	2,536,268	2,375,002
Other Income (Loss)				
Net Gains (Losses) from Fund Investment Activities	87,952	(135,960)	196,128	400,412
Income Before Provision for Taxes	518,392	235,739	1,563,648	827,738
Provision for Taxes	57,477	39,237	164,552	119,327

Net Income	460,915	196,502	1,399,096	708,411
Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	51,188	41,854	135,870	78,447
Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities	30,231	(157,607)	48,723	279,970
Net Income Attributable to Non-Controlling Interests in Blackstone Holdings	208,332	183,431	664,556	237,809
Net Income Attributable to The Blackstone Group L.P.	$ 171,164	$ 128,824	$ 549,947	$ 112,185
Distributions Declared Per Common Unit	$ 0.23	$ 0.10	$ 0.95	$ 0.42
Net Income Per Common Unit				
Common Units, Basic	$ 0.29	$ 0.24	$ 0.94	$ 0.21
Common Units, Diluted	$ 0.29	$ 0.24	$ 0.93	$ 0.21
Weighted-Average Common Units Outstanding				
Common Units, Basic	589,643,844	544,716,399	585,296,526	526,892,258
Common Units, Diluted	592,920,795	546,923,603	588,488,068	532,702,872
Revenues Earned from Affiliates				
Management and Advisory Fees, Net	$ 48,906	$ 48,972	$ 169,029	$ 153,089

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Net Income	$ 460,915	$ 196,502	$ 1,399,096	$ 708,411
Other Comprehensive Income (Loss), Net of Tax Currency Translation Adjustment	6,420	14,637	4,488	(8,792)
Comprehensive Income	467,335	211,139	1,403,584	699,619
Less				
Comprehensive Income in Redeemable Non-Controlling Interests in Consolidated Entities	51,188	41,854	135,870	78,447
Comprehensive Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities	36,171	(142,440)	53,747	271,733
Comprehensive Income Attributable to Non-Controlling Interests in Blackstone Holdings	208,332	183,431	664,556	237,809
Comprehensive Income Attributable to The Blackstone Group L.P.	$ 171,644	$ 128,294	$ 549,411	$ 111,630

See notes to condensed consolidated financial statements.

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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		549,947			48,723	664,556	1,263,226	135,870
Allocation of Losses of Consolidated CLO Entities			(187,011)		187,011			
Currency Translation Adjustment				(536)	5,024		4,488	
Allocation of Currency Translation Adjustment of Consolidated CLO Entities			5,024		(5,024)			
Capital Contributions					182,273	153	182,426	763,387
Capital Distributions		(545,259)			(184,004)	(647,533)	(1,376,796)	(337,890)
Transfer of Non-Controlling Interests in Consolidated Entities					(1,010)		(1,010)	
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		88,132					88,132	
Equity-Based Compensation		312,797				306,199	618,996	
Relinquished in Deconsolidation and Liquidation of Partnership			(30,737)				(30,737)	50
Net Delivery of Vested Common Units	6,251,348	(20,051)				(481)	(20,532)	
Change in The Blackstone Group L.P. s Ownership Interest		(1,798)				1,798		
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	6,600,275	34,242				(34,242)		
Balance at September 30, 2013	569,206,010	$ 5,373,626	$ 296,304	$ 1,634	$ 1,676,552	$ 3,038,806	$ 10,386,922	$ 2,117,602

continued

See notes to condensed consolidated financial statements.

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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, 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		112,185			279,970	237,809	629,964	78,447
Allocation of Income of Consolidated CLO Entities			125,066		(125,066)			
Currency Translation Adjustment				(555)	(8,237)		(8,792)	
Allocation of Currency Translation Adjustment of Consolidated CLOs			(8,237)		8,237			
Capital Contributions					222,314	22	222,336	374,820
Capital Distributions		(217,603)			(80,235)	(284,796)	(582,634)	(94,041)
Transfer of Non-Controlling Interests in Consolidated Entities					(4,444)	3,553	(891)	
Purchase of Interests from Certain Non-Controlling Interest Holders		(48)					(48)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non- Controlling Interest Holders		16,413					16,413	
Equity-Based Compensation		344,039				397,141	741,180	
Relinquished in Deconsolidation and Liquidation of Partnership								(89)
Net Delivery of Vested Common Units	8,477,448	(19,973)				(789)	(20,762)	
Change in The Blackstone Group L.P. s Ownership Interest		(1,475)				1,475		
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	27,122,582	112,726				(112,726)		
Balance at September 30, 2012	525,030,937	$ 4,628,105	$ 737,079	$ 1,403	$ 1,321,964	$ 2,702,209	$ 9,390,760	$ 1,450,970

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

	Nine Months Ended September 30, 2013	2012
Operating Activities		
Net Income	$ 1,399,096	$ 708,411
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	(452,478)	(546,221)
Net Realized Gains on Investments	(1,017,481)	(215,711)
Changes in Unrealized Gains on Investments Allocable to The Blackstone Group L.P.	(253,445)	(107,763)
Unrealized Depreciation on Hedge Activities		22,599
Non-Cash Performance Fees	(588,894)	(704,852)
Non-Cash Performance Fee Compensation	695,120	349,802
Equity-Based Compensation Expense	572,134	690,617
Amortization of Intangibles	69,275	115,432
Other Non-Cash Amounts Included in Net Income	148,748	91,612
Cash Flows Due to Changes in Operating Assets and Liabilities		
Cash Held by Blackstone Funds and Other	292,510	212,350
Cash Relinquished in Deconsolidation and Liquidation of Partnership	(136,524)	(46,330)
Accounts Receivable	(95,491)	2,286
Reverse Repurchase Agreements	152,041	33,904
Due from Affiliates	182,372	(86,496)
Other Assets	(4,624)	62,117
Accrued Compensation and Benefits	(165,771)	167,451
Securities Sold, Not Yet Purchased	(119,741)	(33,413)
Accounts Payable, Accrued Expenses and Other Liabilities	(231,459)	(465,817)
Repurchase Agreements	(73,761)	(32,397)
Due to Affiliates	(46,836)	(13,665)
Treasury Cash Management Strategies		
Investments Purchased	(3,263,154)	(2,306,256)
Cash Proceeds from Sale of Investments	3,630,030	1,767,080
Blackstone Funds Related		
Investments Purchased	(6,815,776)	(4,894,341)
Cash Proceeds from Sale or Pay Down of Investments	8,856,814	5,585,951
Net Cash Provided by Operating Activities	2,732,705	356,350
Investing Activities		
Purchase of Furniture, Equipment and Leasehold Improvements	(18,574)	(26,973)
Net Cash Paid for Acquisitions, Net of Cash Acquired	(146,117)	(156,972)
Changes in Restricted Cash	5,765	2,341
Net Cash Used in Investing Activities	(158,926)	(181,604)

continued

See notes to condensed consolidated financial statements.

THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Financing Activities		
Distributions to Non-Controlling Interest Holders in Consolidated Entities	$ (521,894)	$ (167,473)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	880,530	586,073
Purchase of Interests from Certain Non-Controlling Interest Holders	(33)	(48)
Net Settlement of Vested Common Units and Repurchase of Common and Holdings Units	(20,532)	(20,762)
Proceeds from Loans Payable	4,087	632,710
Repayment and Repurchase of Loans Payable	(4,576)	(27,347)
Distributions to Unitholders	(1,192,792)	(502,399)
Blackstone Funds Related		
Proceeds from Loans Payable	8,654	16,284
Repayment of Loans Payable	(1,547,497)	(613,000)
Net Cash Used in Financing Activities	(2,394,053)	(95,962)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(290)	(13)
Net Increase in Cash and Cash Equivalents	179,436	78,771
Cash and Cash Equivalents, Beginning of Period	709,502	754,744
Cash and Cash Equivalents, End of Period	$ 888,938	$ 833,515
Supplemental Disclosure of Cash Flows Information		
Payments for Interest	$ 109,911	$ 78,750
Payments for Income Taxes	$ 60,415	$ 23,105
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Non-Cash Contributions from Non-Controlling Interest Holders	$	$ 6,803
Non-Cash Distributions to Non-Controlling Interest Holders	$	$ (6,803)
Net Activities Related to Capital Transactions of Consolidated Blackstone Funds	$ (1,145)	$ (5,370)
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
Notes Issuance Costs	$	$ 4,788
Transfer of Interests to Non-Controlling Interest Holders	$ (1,010)	$ (4,444)

Change in The Blackstone Group L.P. s Ownership Interest	$ (1,798)	$ (1,475)
Net Settlement of Vested Common Units	$ 60,732	$ 100,041
Conversion of Blackstone Holdings Units to Common Units	$ 34,242	$ 112,726
Acquisition of Ownership Interests from Non-Controlling Interest Holders		
Deferred Tax Asset	$ (113,040)	$ (89,464)
Due to Affiliates	$ 24,908	$ 73,051
Partners Capital	$ 88,132	$ 16,413

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements

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

1. ORGANIZATION

The Blackstone Group L.P., together with its subsidiaries, (Blackstone or the Partnership) is a leading global manager of private capital and provider of financial advisory services. The alternative asset management business includes the management of private equity funds, real estate funds, 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.

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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 in the 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

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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.

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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

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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.

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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 (Losses) from Fund Investment Activities in the Condensed Consolidated Statements of Operations. Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price).

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

For certain instruments, the Partnership has elected the fair value option. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. The Partnership has applied the fair value option for certain loans and receivables and certain investments in private debt 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.

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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 (Losses) 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.

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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

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in Net Gains (Losses) 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 disclose quantitative information relating to recognized assets and liabilities that are offset or subject to an

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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

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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. GOODWILL AND INTANGIBLE ASSETS

On August 5, 2013, Blackstone completed its acquisition of Strategic Partners Fund Solutions, a secondary private fund of funds business, which resulted in an increase in Goodwill of $83.8 million and an increase in Intangible Assets, primarily comprising contractual rights to earn future fee income, of $57.9 million. Goodwill arising from the acquisition has been allocated to the Private Equity segment.

Intangible Assets, Net consists of the following:

	September 30, 2013	December 31, 2012
Finite-Lived Intangible Assets/Contractual Rights	$ 1,594,128	$ 1,536,244
Accumulated Amortization	(1,006,984)	(937,709)
Intangible Assets, Net	$ 587,144	$ 598,535

Amortization expense associated with Blackstone s intangible assets was $24.8 million and $69.3 million for the three and nine month periods ended September 30, 2013, respectively, and $30.6 million and $115.4 million for the three and nine month periods ended September 30, 2012, respectively.

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Amortization of Intangible Assets held at September 30, 2013 is expected to be $95.8 million, $102.2 million, $95.8 million, $85.6 million, and $46.5 million for each of the years ending December 31, 2013, 2014, 2015, 2016, and 2017, respectively. Blackstone s intangible assets as of September 30, 2013 are expected to amortize over a weighted-average period of 7.6 years.

4. INVESTMENTS

Investments consist of the following:

	September 30, 2013	December 31, 2012
Investments of Consolidated Blackstone Funds	$ 12,328,927	$ 14,026,745
Equity Method Investments	2,964,438	2,582,504
Blackstone s Treasury Cash Management Strategies	1,066,170	1,411,680
Performance Fees	3,705,713	2,780,217
Other Investments	86,138	46,124
	$ 20,151,386	$ 20,847,270

Blackstone s share of Investments of Consolidated Blackstone Funds totaled $506.3 million and $500.5 million at September 30, 2013 and December 31, 2012, respectively.

At September 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 September 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 (Loss) Net Gains (Losses) from Fund Investment Activities in the Condensed Consolidated Statements of Operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Realized Gains (Losses)	$ (2,932)	$ 6,162	$ 95,403	$ (4,279)
Net Change in Unrealized Gains (Losses)	46,872	(152,801)	(36,855)	235,368
Realized and Net Change in Unrealized Gains (Losses) from Consolidated Blackstone Funds	43,940	(146,639)	58,548	231,089
Interest and Dividend Revenue Attributable to Consolidated Blackstone Funds	44,012	10,679	137,580	169,323

Other Income (Loss)	Net Gains (Losses) from Fund Investment Activities	$ 87,952	$ (135,960)	$ 196,128	$ 400,412

Equity Method Investments

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.

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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 September 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.

The Partnership recognized net gains related to its equity method investments of $71.3 million and $81.4 million for the three months ended September 30, 2013 and 2012, respectively. The Partnership recognized net gains related to its equity method investments of $282.6 million and $125.4 million for the nine months ended September 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Realized Gains (Losses)	$ (6,587)	$ 3,228	$ (4,030)	$ 3,238
Net Change in Unrealized Gains (Losses)	10,126	6,525	(9,041)	7,351
	$ 3,539	$ 9,753	$ (13,071)	$ 10,589

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	165,884	1,156,423	45,520	210,801	1,578,628
Foreign Exchange Gain		2,540			2,540
Fund Distributions	(223,502)	(273,755)	(10,875)	(147,540)	(655,672)
Performance Fees, September 30, 2013	$ 722,856	$ 2,518,487	$ 40,859	$ 423,511	$ 3,705,713

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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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Realized Gains (Losses)	$ (168)	$ 111	$ 13,938	$ 907
Net Change in Unrealized Gains (Losses)	1,331	(912)	(11,170)	(722)
	$ 1,163	$ (801)	$ 2,768	$ 185

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 September 30, 2013 is presented below:

Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Diversified Instruments	$ 139,008	$ 4,925	(a)	(a)
Credit Driven	195,787	1,980	(b)	(b)
Event Driven	110,442		(c)	(c)
Equity	611,919		(d)	(d)
Commodities	59,593		(e)	(e)
	$ 1,116,749	$ 6,905		

(a) Diversified Instruments include investments in funds that invest across multiple strategies. Investments representing 59% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date. Investments representing 34% of the fair value of the investments in 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. The remaining 7% of investments in this category are redeemable as of the reporting date. As of the reporting date, the investee fund manager had elected to side-pocket 21% 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 94% of the fair 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 fair value in the credit driven category are subject to redemption restrictions at the discretion of the investee fund manager who may choose (but may not have exercised such ability) to side-pocket such investments. As of the reporting date, the investee fund manager had 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 76% of the total fair value of investments in this category may

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not be redeemed at, or within three months of, the reporting date. Investments representing 16% of the total fair value of investments in this category are subject to lock-up restrictions. Investments representing 7% of the total fair 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 fair 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 1% 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.

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.

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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.

	September 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	$ 1,914,476	$ 44,545	$ 1,035,600	$ 4,673	$ 689,300	$ 55,270	$ 636,555	$ 4,116
Foreign Currency Contracts	68,896	1,490	66,115	1,398	16,771	74	7,025	81
Credit Default Swaps			41,000	4,534				
Investments of Consolidated CLO Vehicles								
Foreign Currency Contracts	362,841	30,954	236,887	8,775	435,229	37,898	301,551	17,101
Interest Rate Contracts	81,505	3,653			165,517	6,132	90,500	772
Total	$ 2,427,718	$ 80,642	$ 1,379,602	$ 19,380	$ 1,306,817	$ 99,374	$ 1,035,631	$ 22,070

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Fair Value Hedges Interest Rate Swaps				
Hedge Ineffectiveness	$	$	$	$ 548
Excluded from Assessment of Effectiveness	$	$	$	$ (938)
Realized Gain	$	$	$	$ 22,941
Freestanding Derivatives				
Realized Gains (Losses)				
Interest Rate Contracts	$ 359	$ (189)	$ (596)	$ (2,740)
Foreign Currency Contracts	11,847	(1,438)	8,084	1,357
Other	92	8	(81)	15
Total	$ 12,298	$ (1,619)	$ 7,407	$ (1,368)
Net Change in Unrealized Gains (Losses)				
Interest Rate Contracts	$ (2,512)	$ 1,946	$ (12,005)	$ 9,565
Foreign Currency Contracts	(11,553)	(11,027)	1,083	(11,692)
Credit Default Swaps	211	(5)	(89)	(46)

Total	$ (13,854)	$ (9,086)	$ (11,011)	$ (2,173)

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As of September 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:

	September 30, 2013	December 31, 2012
Assets		
Loans and Receivables	$ 98,077	$ 30,663
Equity and Preferred Securities	65,614	16,147
Assets of Consolidated CLO Vehicles		
Corporate Loans	8,800,348	11,053,513
Corporate Bonds	146,086	162,456
Other	14,348	18,285
	$ 9,124,473	$ 11,281,064
Liabilities		
Liabilities of Consolidated CLO Vehicles		
Senior Secured Notes	$ 8,641,507	$ 10,695,136
Subordinated Notes	605,380	846,471
	$ 9,246,887	$ 11,541,607

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 September 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	$	$ (897)	$ (308)	$ 30
Equity and Preferred Securities	(622)	1,206		
Assets of Consolidated CLO Vehicles				
Corporate Loans	(14,533)	90,412	(2,522)	163,390
Corporate Bonds	156	1,262	(268)	708
Other	280	(4,075)	886	1,382

	$ (14,719)	$ 87,908	$ (2,212)	$ 165,510
Liabilities				
Liabilities of Consolidated CLO Vehicles				
Senior Secured Notes	$ (2,833)	$ (127,864)	$ 60	$ (289,500)
Subordinated Notes		19,158		(104,325)
	$ (2,833)	$ (108,706)	$ 60	$ (393,825)

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	Nine Months Ended September 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	$ (1,101)	$ (308)	$ (366)
Equity and Preferred Securities	(2,020)	1,487		
Assets of Consolidated CLO Vehicles				
Corporate Loans	28,541	125,284	(27,240)	465,102
Corporate Bonds	3,809	(4,596)	450	10,003
Other	1,706	(2,963)	2,425	11,489
	$ 32,079	$ 118,111	$ (24,673)	$ 486,228
Liabilities				
Liabilities of Consolidated CLO Vehicles				
Senior Secured Notes	$ (2,833)	$ (419,817)	$ 17	$ (335,598)
Subordinated Notes		97,167		(38,920)
	$ (2,833)	$ (322,650)	$ 17	$ (374,518)

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

	September 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	$ (1,223)	$	$	$ (292)	$	$
Assets of Consolidated CLO Vehicles						
Corporate Loans	(351,515)	52,986	(143,727)	(586,450)	35,322	(73,291)
Corporate Bonds	(1,216)			(984)	831	(44)
	$ (353,954)	$ 52,986	$ (143,727)	$ (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 September 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 September 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.

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8. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The following tables summarize the valuation of the Partnership s financial assets and liabilities by the fair value hierarchy:

	September 30, 2013			
	Level I	**Level II**	**Level III**	**Total**
Assets				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	$	$	$ 1,096,331	$ 1,096,331
Equity Securities	110,951	16,828	246,489	374,268
Partnership and LLC Interests		7,892	652,430	660,322
Debt Instruments		1,143,086	59,531	1,202,617
Assets of Consolidated CLO Vehicles				
Corporate Loans		7,749,081	1,051,267	8,800,348
Corporate Bonds		143,415	2,671	146,086
Freestanding Derivatives Foreign Currency Contracts		30,954		30,954
Freestanding Derivatives Interest Rate Contracts		3,653		3,653
Other	14	994	13,340	14,348
Total Investments of Consolidated Blackstone Funds	110,965	9,095,903	3,122,059	12,328,927
Blackstone s Treasury Cash Management Strategies	169,860	850,250	46,060	1,066,170
Money Market Funds	229,914			229,914
Freestanding Derivatives				
Interest Rate Contracts	5,007	39,538		44,545
Foreign Currency Contracts		1,490		1,490
Loans and Receivables			98,077	98,077
Other Investments	63,671	7,204	15,263	86,138
	$ 579,417	$ 9,994,385	$ 3,281,459	$ 13,855,261
Liabilities				
Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes	$	$	$ 8,641,507	$ 8,641,507
Subordinated Notes			605,380	605,380
Freestanding Derivatives Foreign Currency Contracts		8,775		8,775
Freestanding Derivatives				
Interest Rate Contracts	4,535	138		4,673
Foreign Currency Contracts		1,398		1,398
Credit Default Swaps		4,534		4,534
Securities Sold, Not Yet Purchased		101,581		101,581
	$ 4,535	$ 116,426	$ 9,246,887	$ 9,367,848

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	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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Transfers from Level I into Level II (a)	$	$ 288	$ 31	$ 45,440
Transfers from Level II into Level I (b)	$ 41,155	$ 45	$ 1,308	$ 846

(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.

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

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted Average (a)
Financial Assets					
Investments of Consolidated Blackstone Funds					
Investment Funds	$ 1,096,331	NAV as Fair Value	N/A	N/A	N/A
Equity Securities	166,586	Discounted Cash Flows	Discount Rate	8.1% - 25.0%	11.0%
			Revenue CAGR	0.9% - 43.4%	6.0%
			Exit Multiple - EBITDA	5.0x - 13.0x	9.6x
			Exit Multiple - P/E	8.5x - 19.0x	10.1x
	76,633	Transaction Price	N/A	N/A	N/A
	265	Market Comparable Companies	EBITDA Multiple	7.2x - 7.8x	7.3x
	58	Third Party Pricing	N/A	N/A	N/A
	2,947	Other	N/A	N/A	N/A
Partnership and LLC Interests	635,164	Discounted Cash Flows	Discount Rate	5.0% - 22.5%	8.9%
			Revenue CAGR	-0.5% - 39.3%	5.5%
			Exit Multiple - EBITDA	3.0x - 23.3x	9.9x

			Exit Capitalization Rate	4.3% - 10.5%	7.0%
	8,419	Transaction Price	N/A	N/A	N/A
	7,919	Third Party Pricing	N/A	N/A	N/A
	928	Other	N/A	N/A	N/A
Debt Instruments	14,328	Discounted Cash Flows	Discount Rate	8.4% - 20.0%	16.5%
			Revenue CAGR	1.6% - 3.7%	2.5%
			Exit Multiple - EBITDA	5.8x - 11.5x	10.6x
			Exit Capitalization Rate	6.8% - 7.5%	6.9%
			Default Rate	2.0%	N/A
			Recovery Rate	66.0%	N/A
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
	44,397	Third Party Pricing	N/A	N/A	N/A
	528	Transaction Price	N/A	N/A	N/A
	278	Market Comparable Companies	EBITDA Multiple	6.3x - 7.9x	6.3x

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	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted Average (a)
Assets of Consolidated CLO Vehicles	$ 749,162	Third Party Pricing	N/A	N/A	N/A
	256,496	Market Comparable Companies	EBITDA Multiple	2.0x - 11.4x	6.9x
	61,564	Discounted Cash Flows	Discount Rate	7.0% - 13.0%	7.3%
			Revenue CAGR	5.6%	N/A
			Exit Multiple - EBITDA	7.0x	N/A
	56	Transaction Price	N/A	N/A	N/A
Total Investments of Consolidated Blackstone Funds	3,122,059				
Blackstone s Treasury Cash Management Strategies	19,386	Third Party Pricing	N/A	N/A	N/A
	16,855	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	20.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
			Discount Rate	5.8% - 7.3%	6.4%
	9,819	NAV as Fair Value	N/A	N/A	N/A
Loans and Receivables	98,077	Discounted Cash Flows	Discount Rate	12.0% - 13.0%	12.4%
Other Investments	7,898	Transaction Price	N/A	N/A	N/A
	3,738	NAV as Fair Value	N/A	N/A	N/A
	3,627	Discounted Cash Flows	Discount Rate	12.5%	N/A
Total	$ 3,281,459				
Financial Liabilities					
Liabilities of Consolidated CLO Vehicles	$ 9,246,887	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%	19.0%
			Discount Rate	0.2% - 44.9%	2.7%
			Reinvestment Rate	LIBOR + 400 bps	N/A

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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	Book Value Multiple	0.9x	N/A
		Companies	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
			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				
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

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

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted Average (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.

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.

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

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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 (Losses) from Fund Investment Activities in the Condensed Consolidated Statements of Operations.

Level III Financial Assets at Fair Value
Three Months Ended September 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	$ 2,890,319	$ 107,731	$ 47,914	$ 3,045,964	$ 2,540,156	$ 104,207	$ 21,362	$ 2,665,725
Transfer In Due to Consolidation and Acquisition (a)					1,036		2,180	3,216
Transfer Out Due to Deconsolidation	(96)			(96)				
Transfer In to Level III (b)	226,144		8,868	235,012	436,233			436,233
Transfer Out of Level III (b)	(270,059)		(3,180)	(273,239)	(159,482)			(159,482)
Purchases	349,209	127,370	23,225	499,804	209,642	5,956	1,350	216,948
Sales	(154,446)	(138,937)	(15,038)	(308,421)	(181,324)	(100,728)	(99)	(282,151)
Settlements		2,293	(253)	2,040		(79)		(79)
Realized Gains (Losses), Net	13,861		(157)	13,704	13,671	(308)	99	13,462
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	67,127	(380)	(56)	66,691	76,224	(1,753)	(479)	73,992
Balance, End of Period	$ 3,122,059	$ 98,077	$ 61,323	$ 3,281,459	$ 2,936,156	$ 7,295	$ 24,413	$ 2,967,864

Level III Financial Assets at Fair Value
Nine Months Ended September 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	123,601		2,180	125,781
Transfer Out Due to Deconsolidation	(152,823)			(152,823)	(1,599)			(1,599)
Transfer In to Level III (b)	684,621		8,868	693,489	575,238			575,238
Transfer Out of Level III (b)	(377,527)		(4,894)	(382,421)	(135,729)			(135,729)
Purchases	673,179	233,890	129,259	1,036,328	564,076	148,864	1,450	714,390
Sales	(959,115)	(168,399)	(110,767)	(1,238,281)	(464,193)	(149,979)	(639)	(614,811)
Settlements		2,312	(1,822)	490		(46)		(46)
Realized Gains (Losses), Net	(4,913)	43	14,472	9,602	(5,772)	(308)	738	(5,342)

Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	240,938	(432)	(13,857)	226,649	176,765	209	520	177,494
Balance, End of Period	$ 3,122,059	$ 98,077	$ 61,323	$ 3,281,459	$ 2,936,156	$ 7,295	$ 24,413	$ 2,967,864

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	Level III Financial Liabilities at Fair Value Three Months Ended September 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	$ 9,189,948	$ 618,682	$ 9,808,630	$ 10,534,253	$ 701,648	$ 11,235,901
Issuances	1,503	922	2,425	10,844	1,459	12,303
Settlements	(787,918)	(180)	(788,098)	(338,222)	(572)	(338,794)
Realized (Gains) Losses, Net	2,833		2,833	(60)		(60)
Changes in Unrealized (Gains) Losses Included in Earnings Related to Liabilities Still Held at the Reporting Date	235,141	(14,044)	221,097	405,687	108,789	514,476
Balance, End of Period	$ 8,641,507	$ 605,380	$ 9,246,887	$ 10,612,502	$ 811,324	$ 11,423,826

	Level III Financial Liabilities at Fair Value Nine Months Ended September 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	2,558	1,697	4,255	14,073	2,211	16,284
Settlements	(1,492,295)	(526)	(1,492,821)	(609,440)	(3,470)	(612,910)
Realized (Gains) Losses, Net	2,833		2,833	(17)		(17)
Changes in Unrealized (Gains) Losses Included in Earnings Related to Liabilities Still Held at the Reporting Date	534,117	(91,337)	442,780	339,036	33,122	372,158
Balance, End of Period	$ 8,641,507	$ 605,380	$ 9,246,887	$ 10,612,502	$ 811,324	$ 11,423,826

(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

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Notes to Condensed Consolidated Financial Statements Continued

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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:

	September 30, 2013	December 31, 2012
Investments	$ 560,879	$ 364,709
Accounts Receivable	83,495	1,885
Due from Affiliates	62,340	112,686
Total VIE Assets	706,714	479,280
Due to Affiliates	442	2,657
Accounts Payable, Accrued Expenses and Other Liabilities	3	
Potential Clawback Obligation	55,574	36,040
Maximum Exposure to Loss	$ 762,733	$ 517,977

10. REVERSE REPURCHASE AND REPURCHASE AGREEMENTS

At September 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 $95.8 million and cash as collateral for reverse repurchase agreements that could be repledged, delivered or otherwise used. Securities with a fair value of $92.8 million were used to cover Securities Sold, Not Yet Purchased. The Partnership also pledged securities with a carrying value of $68.4 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

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.

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11. OFFSETTING OF ASSETS AND LIABILITIES

The following tables present the offsetting of assets and liabilities as of September 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	$ 46,035	$ 2,629	$ 30,743	$ 12,663
Reverse Repurchase Agreements	95,977	95,761		216
Total	$ 142,012	$ 98,390	$ 30,743	$ 12,879

	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	$ 10,605	$ 2,629	$ 7,976	$
Repurchase Agreements	68,505	68,449		56
Total	$ 79,110	$ 71,078	$ 7,976	$ 56

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

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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:

	September 30, 2013	December 31, 2012
Furniture, Equipment and Leasehold Improvements, Net	$ 138,433	$ 142,390
Prepaid Expenses	50,933	81,498
Other Assets	76,994	97,140
Freestanding Derivatives	46,035	55,344
	$ 312,395	$ 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.

12. BORROWINGS

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

	September 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)	$ 634,710	$ 687,317	$ 640,220	$ 682,344
Blackstone Issued 5.875%, $400 Million Par, Notes Due 3/15/2021	$ 398,502	$ 447,920	$ 398,386	$ 456,200
Blackstone Issued 4.750%, $400 Million Par, Notes Due 2/15/2023	$ 393,053	$ 416,920	$ 392,629	$ 426,160
Blackstone Issued 6.250%, $250 Million Par, Notes Due 8/15/2042	$ 239,707	$ 265,150	$ 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:

September 30, 2013			December 31, 2012		
Borrowing Outstanding	Weighted-Average Interest Rate	Weighted-Average Remaining	Borrowing Outstanding	Weighted-Average Interest Rate	Weighted-Average Remaining

			Maturity in Years			Maturity in Years
Senior Secured Notes	$ 9,006,731	1.28%	4.2	$ 11,518,111	1.34%	4.6
Subordinated Notes	1,207,626	(a)	N/A	1,449,191	(a)	2.6
	$ 10,214,357			$ 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.

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Senior Secured Notes and Subordinated Notes comprise the following amounts:

	September 30, 2013			December 31, 2012		
		Amounts Due to Non-Consolidated Affiliates			Amounts Due to Non-Consolidated Affiliates	
	Fair Value	Borrowing Outstanding	Fair Value	Fair Value	Borrowing Outstanding	Fair Value
Senior Secured Notes	$ 8,641,507	$ 22,000	$ 21,018	$ 10,695,136	$ 22,000	$ 18,229
Subordinated Notes	$ 605,380	$ 213,037	$ 109,317	$ 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 September 30, 2013 and December 31, 2012, the fair value of the consolidated CLO assets was $9.9 billion and $12.5 billion, respectively. This collateral consisted of Cash, Corporate Loans, Corporate Bonds and other securities.

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

	Operating Borrowings	Blackstone Fund Facilities / CLO Vehicles	Total Borrowings
2013	$ 297	$ 9,859	$ 10,156
2014	5,040	3,993	9,033
2018 and Thereafter	1,635,000	10,214,357	11,849,357
Total	$ 1,640,337	$ 10,228,209	$ 11,868,546

13. INCOME TAXES

Blackstone s effective tax rate was 11.1% and 16.6% for the three months ended September 30, 2013 and 2012, respectively, and 10.5% and 14.4% for the nine months ended September 30, 2013 and 2012, respectively. Blackstone s income tax provision was $57.5 million and $39.2 million for the three months ended September 30, 2013 and 2012, respectively, and $164.6 million and $119.3 million for the nine months ended September 30, 2013 and 2012, respectively.

Blackstone s effective tax rate for the three and nine months ended September 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.

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14. NET INCOME PER COMMON UNIT

Basic and diluted net income per common unit for the three and nine months ended September 30, 2013 and September 30, 2012 was calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net Income Attributable to The Blackstone Group L.P.	$ 171,164	$ 128,824	$ 549,947	$ 112,185
Basic Net Income Per Common Unit				
Weighted-Average Common Units Outstanding	589,643,844	544,716,399	585,296,526	526,892,258
Basic Net Income Per Common Unit	$ 0.29	$ 0.24	$ 0.94	$ 0.21
Diluted Net Income Per Common Unit				
Weighted-Average Common Units Outstanding	589,643,844	544,716,399	585,296,526	526,892,258
Weighted-Average Unvested Deferred Restricted Common Units	3,276,951	2,207,204	3,191,542	5,810,614
Weighted-Average Diluted Common Units Outstanding	592,920,795	546,923,603	588,488,068	532,702,872
Diluted Net Income Per Common Unit	$ 0.29	$ 0.24	$ 0.93	$ 0.21

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Weighted-Average Blackstone Holdings Partnership Units	551,916,623	586,762,611	554,857,282	593,555,609

Unit Repurchase Program

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

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

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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 Blackstone s initial public offering (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 nine months ended September 30, 2013, the Partnership recorded compensation expense of $193.6 million and $572.1 million, respectively, in relation to its equity-based awards with corresponding tax benefits of $4.3 million and $16.0 million, respectively. For the three and nine months ended September 30, 2012, the Partnership recorded compensation expense of $223.6 million and $690.6 million, respectively, in relation to its equity-based awards with corresponding tax benefits of $2.3 million and $15.0 million, respectively. As of September 30, 2013, there was $1.4 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 1,149,898,936 as of September 30, 2013. Total outstanding unvested phantom units were 150,725 as of September 30, 2013.

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

	Blackstone Holdings		The Blackstone Group L.P.			
			Equity Settled Awards		Cash Settled Awards	
Unvested Units	Partnership Units	Weighted-Average Grant Date Fair Value	Deferred Restricted Common Units and Options	Weighted-Average Grant Date Fair Value	Phantom Units	Weighted-Average Grant Date Fair Value
Balance, December 31, 2012	66,591,089	$ 28.19	20,199,382	$ 15.76	221,356	$ 14.89
Granted	4,645,938	20.65	4,057,293	17.44	5,384	20.63
Vested	(20,206,544)	29.87	(3,150,007)	19.28	(76,015)	20.60
Forfeited	(1,038,930)	29.92	(820,298)	17.36		
Balance, September 30, 2013	49,991,553	$ 26.78	20,286,370	$ 15.49	150,725	$ 23.70

Units Expected to Vest

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

	Units	Weighted-Average Service Period in

		Years
Blackstone Holdings Partnership Units	46,743,135	2.1
Deferred Restricted Blackstone Common Units and Options	16,398,203	2.5
Total Equity-Based Awards	63,141,338	2.2
Phantom Units	142,313	1.7

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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 $57.3 million.

16. RELATED PARTY TRANSACTIONS
Affiliate Receivables and Payables

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

	September 30, 2013	December 31, 2012
Due from Affiliates		
Accrual for Potential Clawback of Previously Distributed Carried Interest	$ 59,071	$ 165,322
Primarily Interest Bearing Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees for Investments in Blackstone Funds	150,374	155,302
Amounts Due from Portfolio Companies and Funds	174,163	259,196
Investments Redeemed in Non-Consolidated Funds of Hedge Funds	38,660	39,507
Management and Performance Fees Due from Non-Consolidated Funds	290,851	343,846
Payments Made on Behalf of Non-Consolidated Entities	236,894	150,317
Advances Made to Certain Non-Controlling Interest Holders and Blackstone Employees	4,720	6,577
	$ 954,733	$ 1,120,067

	September 30, 2013	December 31, 2012
Due to Affiliates		
Due to Certain Non-Controlling Interest Holders in Connection with the Tax Receivable Agreements	$ 1,246,374	$ 1,218,488
Accrual for Potential Repayment of Previously Received Performance Fees	157,686	267,116
Due to Note Holders of Consolidated CLO Vehicles	130,335	191,128
Due to Certain Non-Controlling Interest Holders	209,128	201,286
Distributions Received on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees	13,149	12,506
Payable to Affiliates for Consolidated Funds	31,080	81,589
Distributions Received on Behalf of Blackstone Entities	13,829	20,295
Payments Made by Non-Consolidated Entities	8,587	10,236
	$ 1,810,168	$ 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

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to preferential management fee and performance fee arrangements. As of September 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 $43.9 million and $46.8 million for the three months ended September 30, 2013 and 2012, respectively, and $144.5 million and $90.2 million for the nine months ended September 30, 2013 and 2012, respectively.

Revenues Earned from Affiliates

Management and Advisory Fees, Net earned from affiliates totaled $48.9 million and $49.0 million for the three months ended September 30, 2013 and 2012, respectively. Management and Advisory Fees, Net earned from affiliates totaled $169.0 million and $153.1 million for the nine months ended September 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 $0.9 million and $1.1 million for the three months ended September 30, 2013 and 2012, respectively, and $2.7 million and $3.3 million for the nine months ended September 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 liquidated based on the fair value of their underlying investments as of September 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.

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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 $396.1 million assuming a 15% discount rate and using Blackstone s most recent projections relating to the estimated timing of the benefit to be received. Future payments under the tax receivable agreements in respect of subsequent exchanges would be in addition to these amounts. The payments under the tax receivable agreements are not conditioned upon continued ownership of Blackstone equity interests by the pre-IPO owners and the others mentioned above.

Other

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

17. COMMITMENTS AND CONTINGENCIES
Commitments

Investment Commitments

Blackstone had $1.5 billion of investment commitments as of September 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 $73.4 million as of September 30, 2013 which includes $35.4 million of signed investment commitments for portfolio company acquisitions in the process of closing.

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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 $4.0 million as of September 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 September 30, 2013 was $56.9 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 remaining investments and where the fund s general partner has previously received Carried Interest distributions with respect to such fund s realized investments.

The following table presents the clawback obligations by segment:

	September 30, 2013			December 31, 2012		
Segment	Blackstone Holdings	Current and Former Personnel	Total	Blackstone Holdings	Current and Former Personnel	Total
Private Equity	$ 70,510	$ 57,352	$ 127,862	$ 69,302	$ 133,852	$ 203,154
Real Estate	26,784	748	27,532	32,152	31,223	63,375
Credit	1,321	971	2,292	340	247	587
Total	$ 98,615	$ 59,071	$ 157,686	$ 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

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Condensed Consolidated Financial Statements of the Partnership, except to the extent a portion of the assets held in the segregated accounts may be allocated to a consolidated Blackstone fund of hedge funds. At September 30, 2013, $442.7 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, 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.

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

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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.

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

	Three Months Ended September 30, 2013					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
Segment Revenues						
Management and Advisory Fees, Net						
Base Management Fees	$ 95,281	$ 136,721	$ 103,392	$ 101,900	$	$ 437,294
Advisory Fees					83,602	83,602
Transaction and Other Fees, Net	16,052	19,205	295	7,058	196	42,806
Management Fee Offsets	(2,080)	(2,385)	(1,200)	(2,606)		(8,271)
Total Management and Advisory Fees, Net	109,253	153,541	102,487	106,352	83,798	555,431
Performance Fees						
Realized						
Carried Interest	85,121	93,878		3,655		182,654
Incentive Fees		3,737	5,320	22,181		31,238
Unrealized						
Carried Interest	(86,300)	340,406		35,946		290,052
Incentive Fees		2,481	29,208	9,303		40,992
Total Performance Fees	(1,179)	440,502	34,528	71,085		544,936
Investment Income (Loss)						
Realized	11,495	928	(598)	496	(829)	11,492
Unrealized	23,621	57,656	6,439	(1,042)	1,006	87,680
Total Investment Income (Loss)	35,116	58,584	5,841	(546)	177	99,172
Interest and Dividend Revenue	5,231	6,060	2,523	5,288	2,437	21,539
Other	1,521	2,113	595	(357)	836	4,708
Total Revenues	149,942	660,800	145,974	181,822	87,248	1,225,786
Expenses						
Compensation and Benefits						
Compensation	55,800	75,346	37,611	53,250	57,491	279,498
Performance Fee Compensation						
Realized						
Carried Interest	19,824	38,942		1,603		60,369
Incentive Fees		1,919	1,954	10,726		14,599
Unrealized						

Carried Interest	(36,198)	99,323		19,216		82,341
Incentive Fees		615	10,177	292		11,084
Total Compensation and Benefits	39,426	216,145	49,742	85,087	57,491	447,891
Other Operating Expenses	30,024	30,614	19,575	23,451	19,208	122,872
Total Expenses	69,450	246,759	69,317	108,538	76,699	570,763
Economic Income	$ 80,492	$ 414,041	$ 76,657	$ 73,284	$ 10,549	$ 655,023

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	Three Months Ended September 30, 2012					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
Segment Revenues						
Management and Advisory Fees, Net						
Base Management Fees	$ 86,136	$ 135,659	$ 87,334	$ 88,959	$	$ 398,088
Advisory Fees					59,951	59,951
Transaction and Other Fees, Net	25,693	14,937	4	4,486	6	45,126
Management Fee Offsets	(767)	(6,034)	(382)	(1,271)		(8,454)
Total Management and Advisory Fees, Net	111,062	144,562	86,956	92,174	59,957	494,711
Performance Fees						
Realized						
Carried Interest	31,592	51,845		328		83,765
Incentive Fees		4,879	2,637	4,104		11,620
Unrealized						
Carried Interest	128,746	207,695		67,024		403,465
Incentive Fees		6,150	36,635	61,364		104,149
Total Performance Fees	160,338	270,569	39,272	132,820		602,999
Investment Income (Loss)						
Realized	7,189	10,324	637	6,697	251	25,098
Unrealized	43,267	33,676	5,199	(736)	928	82,334
Total Investment Income	50,456	44,000	5,836	5,961	1,179	107,432
Interest and Dividend Revenue	3,413	3,581	540	2,673	1,797	12,004
Other	1,650	1,941	315	(678)	(751)	2,477
Total Revenues	326,919	464,653	132,919	232,950	62,182	1,219,623
Expenses						
Compensation and Benefits						
Compensation	62,424	71,456	28,826	50,236	46,619	259,561
Performance Fee Compensation						
Realized						
Carried Interest	1,048	19,822		1,153		22,023
Incentive Fees		2,570	1,062	825		4,457
Unrealized						
Carried Interest	43,228	47,940		37,695		128,863
Incentive Fees		2,876	8,062	33,316		44,254
Total Compensation and Benefits	106,700	144,664	37,950	123,225	46,619	459,158
Other Operating Expenses	30,944	31,284	12,878	33,527	18,823	127,456
Total Expenses	137,644	175,948	50,828	156,752	65,442	586,614

Economic Income (Loss)	$ 189,275	$ 288,705	$ 82,091	$ 76,198	$ (3,260)	$ 633,009

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

	Three Months Ended September 30, 2013			Three Months Ended September 30, 2012		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	$ 1,225,786	$ (8,941)(a)	$ 1,216,845	$ 1,219,623	$ 3,467(a)	$ 1,223,090
Expenses	$ 570,763	$ 215,642(b)	$ 786,405	$ 586,614	$ 264,777(b)	$ 851,391
Other Income (Loss)	$	$ 87,952(c)	$ 87,952	$	$ (135,960)(c)	$ (135,960)
Economic Income	$ 655,023	$ (136,631)(d)	$ 518,392	$ 633,009	$ (397,270)(d)	$ 235,739

(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 (Loss) adjustment results from the following:

	Three Months Ended September 30, 2013	2012
Fund Management Fees and Performance Fees Eliminated in Consolidation and Transactional Investment Loss	$ 6,321	$ (4,273)
Fund Expenses Added in Consolidation	7,679	(8,837)
Non-Controlling Interests in Income (Loss) of Consolidated Entities	81,419	(115,753)
Transaction-Related Other Income	(7,467)	(7,097)
Total Consolidation Adjustments and Reconciling Items	$ 87,952	$ (135,960)

(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 September 30, 2013	2012
Economic Income	$ 655,023	$ 633,009
Adjustments		
Amortization of Intangibles	(27,525)	(33,338)

IPO and Acquisition-Related Charges	(190,525)	(248,179)
Non-Controlling Interests in Income (Loss) of Consolidated Entities	81,419	(115,753)
Total Consolidation Adjustments and Reconciling Items	(136,631)	(397,270)
Income Before Provision for Taxes	$ 518,392	$ 235,739

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The following table presents the financial data for Blackstone s segments as of and for the nine months ended September 30, 2013 and 2012:

	September 30, 2013 and the Nine 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	$ 268,148	$ 412,067	$ 296,296	$ 295,204	$	$ 1,271,715
Advisory Fees					271,356	271,356
Transaction and Other Fees, Net	78,853	47,358	360	20,434	239	147,244
Management Fee Offsets	(4,510)	(15,983)	(2,238)	(5,737)		(28,468)
Total Management and Advisory Fees, Net	342,491	443,442	294,418	309,901	271,595	1,661,847
Performance Fees						
Realized						
Carried Interest	228,912	306,132		125,068		660,112
Incentive Fees		37,931	32,874	60,027		130,832
Unrealized						
Carried Interest	12,672	880,454		30,979		924,105
Incentive Fees		(27,398)	105,698	74,805		153,105
Total Performance Fees	241,584	1,197,119	138,572	290,879		1,868,154
Investment Income (Loss)						
Realized	57,243	29,039	13,922	4,725	(741)	104,188
Unrealized	76,420	148,595	(1,702)	4,432	(871)	226,874
Total Investment Income (Loss)	133,663	177,634	12,220	9,157	(1,612)	331,062
Interest and Dividend Revenue	11,466	14,754	5,617	13,906	5,799	51,542
Other	2,311	1,706	426	408	836	5,687
Total Revenues	731,515	1,834,655	451,253	624,251	276,618	3,918,292
Expenses						
Compensation and Benefits						
Compensation	179,750	218,597	108,323	154,712	191,570	852,952
Performance Fee Compensation						
Realized						
Carried Interest	36,947	119,810		68,959		225,716
Incentive Fees		19,376	12,092	28,653		60,121
Unrealized						
Carried Interest	68,532	266,984		15,121		350,637
Incentive Fees		(14,680)	37,679	35,647		58,646

Total Compensation and Benefits	285,229	610,087	158,094	303,092	191,570	1,548,072
Other Operating Expenses	91,370	86,693	51,269	67,374	60,762	357,468
Total Expenses	376,599	696,780	209,363	370,466	252,332	1,905,540
Economic Income	$ 354,916	$ 1,137,875	$ 241,890	$ 253,785	$ 24,286	$ 2,012,752
Segment Assets as of September 30, 2013	$ 4,231,858	$ 6,410,733	$ 996,494	$ 2,500,468	$ 763,965	$ 14,903,518

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THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

	Nine Months Ended September 30, 2012					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
Segment Revenues						
Management and Advisory Fees, Net						
Base Management Fees	$ 259,400	$ 411,278	$ 253,433	$ 250,827	$	$ 1,174,938
Advisory Fees					229,169	229,169
Transaction and Other Fees, Net	58,741	54,500	161	19,395	253	133,050
Management Fee Offsets	(5,221)	(20,018)	(1,092)	(3,146)		(29,477)
Total Management and Advisory Fees, Net	312,920	445,760	252,502	267,076	229,422	1,507,680
Performance Fees						
Realized						
Carried Interest	64,306	74,001		14,947		153,254
Incentive Fees		12,644	7,110	8,837		28,591
Unrealized						
Carried Interest	74,904	573,705		137,942		786,551
Incentive Fees		12,538	48,841	93,817		155,196
Total Performance Fees	139,210	672,888	55,951	255,543		1,123,592
Investment Income (Loss)						
Realized	14,905	27,203	2,069	13,018	755	57,950
Unrealized	31,399	74,532	9,934	(681)	1,440	116,624
Total Investment Income	46,304	101,735	12,003	12,337	2,195	174,574
Interest and Dividend Revenue	8,947	9,410	1,421	6,850	5,112	31,740
Other	1,997	642	215	(1,703)	(709)	442
Total Revenues	509,378	1,230,435	322,092	540,103	236,020	2,838,028
Expenses						
Compensation and Benefits						
Compensation	168,746	216,921	91,618	130,224	175,708	783,217
Performance Fee Compensation						
Realized						
Carried Interest	2,172	27,300		8,388		37,860
Incentive Fees		6,443	2,095	5,746		14,284
Unrealized						
Carried Interest	33,917	133,892		82,412		250,221
Incentive Fees		6,015	12,536	28,886		47,437
Total Compensation and Benefits	204,835	390,571	106,249	255,656	175,708	1,133,019
Other Operating Expenses	90,346	86,768	41,318	66,372	65,211	350,015
Total Expenses	295,181	477,339	147,567	322,028	240,919	1,483,034

Economic Income (Loss)	$ 214,197	$ 753,096	$ 174,525	$ 218,075	$ (4,899)	$ 1,354,994

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THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

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

	September 30, 2013 and the Nine Months Then Ended			Nine Months Ended September 30, 2012		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	$ 3,918,292	$ (14,504)(a)	$ 3,903,788	$ 2,838,028	$ (35,700)(a)	$ 2,802,328
Expenses	$ 1,905,540	$ 630,728(b)	$ 2,536,268	$ 1,483,034	$ 891,968(b)	$ 2,375,002
Other Income	$	$ 196,128(c)	$ 196,128	$	$ 400,412(c)	$ 400,412
Economic Income	$ 2,012,752	$ (449,104)(d)	$ 1,563,648	$ 1,354,994	$ (527,256)(d)	$ 827,738
Total Assets	$ 14,903,518	$ 13,131,364(e)	$ 28,034,882			

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

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

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

	Nine Months Ended September 30, 2013	2012
Fund Management Fees and Performance Fees Eliminated in Consolidation and Transactional Investment Loss	$ 11,455	$ 32,217
Fund Expenses Added in Consolidation	21,703	31,040
Non-Controlling Interests in Income of Consolidated Entities	184,593	358,417
Transaction-Related Other Income	(21,623)	(21,262)
Total Consolidation Adjustments and Reconciling Items	$ 196,128	$ 400,412

(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:

	Nine Months Ended September 30, 2013	2012
Economic Income	$ 2,012,752	$ 1,354,994
Adjustments		

Amortization of Intangibles	(77,504)	(123,661)
IPO and Acquisition-Related Charges	(556,193)	(762,012)
Non-Controlling Interests in Income of Consolidated Entities	184,593	358,417
Total Consolidation Adjustments and Reconciling Items	(449,104)	(527,256)
Income Before Provision for Taxes	$ 1,563,648	$ 827,738

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

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THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

19. SUBSEQUENT EVENTS

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

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

Unaudited Consolidating Statements of Financial Condition

(Dollars in Thousands)

	September 30, 2013			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
Assets				
Cash and Cash Equivalents	$ 888,938	$	$	$ 888,938
Cash Held by Blackstone Funds and Other	146,510	977,020		1,123,530
Investments	8,338,006	12,301,179	(487,799)	20,151,386
Accounts Receivable	580,919	273,688		854,607
Reverse Repurchase Agreements	95,977			95,977
Due from Affiliates	916,756	66,185	(28,208)	954,733
Intangible Assets, Net	587,144			587,144
Goodwill	1,787,392			1,787,392
Other Assets	283,096	29,299		312,395
Deferred Tax Assets	1,278,780			1,278,780
Total Assets	$ 14,903,518	$ 13,647,371	$ (516,007)	$ 28,034,882
Liabilities and Partners Capital				
Loans Payable	$ 1,671,308	$ 9,130,406	$	$ 10,801,714
Due to Affiliates	1,637,750	220,303	(47,885)	1,810,168
Accrued Compensation and Benefits	1,633,184			1,633,184
Securities Sold, Not Yet Purchased	101,581			101,581
Repurchase Agreements	68,505			68,505
Accounts Payable, Accrued Expenses and Other Liabilities	466,020	649,186		1,115,206
Total Liabilities	5,578,348	9,999,895	(47,885)	15,530,358
Redeemable Non-Controlling Interests in Consolidated Entities		2,117,602		2,117,602
Partners Capital				
Partners Capital	5,373,626	478,587	(478,587)	5,373,626
Appropriated Partners Capital		296,304		296,304
Accumulated Other Comprehensive Income (Loss)	(107)	1,741		1,634
Non-Controlling Interests in Consolidated Entities	912,845	753,242	10,465	1,676,552
Non-Controlling Interests in Blackstone Holdings	3,038,806			3,038,806
Total Partners Capital	9,325,170	1,529,874	(468,122)	10,386,922
Total Liabilities and Partners Capital	$ 14,903,518	$ 13,647,371	$ (516,007)	$ 28,034,882

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THE BLACKSTONE GROUP L.P.

Unaudited Consolidating Statements of Financial Condition Continued

(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.

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.

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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

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 the Blackstone Tactical Opportunities Accounts (Tactical Opportunities), which are multi-asset class investment accounts, and Strategic Partners Fund Solutions (Strategic Partners), a secondary private fund of funds business acquired on August 5, 2013. 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, four 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.

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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.

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

Business Environment

World equity markets rose sharply in the third quarter of 2013. The MSCI All Country Index was up 6.5%, with positive performance in both developing and emerging markets. In the U.S., the S&P 500 Index rose 4.7%, reaching record levels in September, after the Federal Reserve surprised markets with the announcement that it would not yet start tapering its bond purchase program. Continued strength in the equity markets has provided a supportive environment for increased levels of equity capital markets activity, including IPOs and secondary offerings.

Credit indices also rose in the quarter with the high yield index up 2.4% and the leveraged loan index up 1.4%. Benchmark rates remained mostly stable for the quarter with the U.S. 10-year Treasury at 2.6%, following a sharp increase in the second quarter, and high yield spreads moderately tightened.

The U.S. unemployment rate remains elevated at 7.2%, although there have been clear signs of improvement in the economy, including housing and certain other sub-sectors. Following the government shutdown in October, continued political dysfunction remains an overhang for the economy and markets.

Real estate capital markets in the U.S. continue to strengthen, with U.S. hotel REITs trading at 14.5x this quarter compared to 13.7x in the second quarter of 2013 and commercial mortgage backed securities issuance of almost $61 billion, up 96% year to date. Real estate fundamentals continue to improve, driven by a lack of new supply and growth in demand. In the U.S., overall vacancy levels have declined 10 basis points to 15.1% within the office sector while the retail sector has remained unchanged at 10.5% for the quarter. In the U.S. hospitality sector, new construction continues to remain significantly below historical levels and supply/demand fundamentals continue to support RevPAR (Revenue per Available Room) growth of 5.6% year to date. On a national level, home prices have increased 12.8% year over year through August 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.

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Significant Transaction

On August 5, 2013, Blackstone completed its acquisition of Strategic Partners Fund Solutions, a secondary private fund of funds business.

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.

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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 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 represents 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

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percentage interests held by third parties and employees is adjusted for general partner allocations and by 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.

Redeemable Non-Controlling Interests in Consolidated Entities

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 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 or January 1, 2014, as applicable, 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.

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If we were taxed as a corporation or were forced to hold interests in entities earning income from Carried Interest through taxable subsidiary corporations, our effective tax rate could increase significantly. The federal statutory rate for corporations is currently 35%, and the state and local tax rates, net of the federal benefit, aggregate approximately 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.)

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,

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

(d) the amount of debt and equity outstanding for our CLOs and 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, fair value 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 invested through co-investments arranged by us that were made by limited partners in investments of our carry funds on which we receive fees or a Carried Interest allocation.

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

Consolidated Results of Operations

Following is a discussion of our consolidated results of operations for the three and nine months ended September 30, 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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The following tables set forth information regarding our consolidated results of operations and certain key operating metrics for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	2013 vs. 2012 $	2013 vs. 2012 %	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012	2013 vs. 2012 $	2013 vs. 2012 %
	(Dollars in Thousands)							
Revenues								
Management and Advisory Fees, Net	$ 531,095	$ 469,109	$ 61,986	13%	$ 1,591,951	$ 1,428,833	$ 163,118	11%
Performance Fees								
Realized								
Carried Interest	182,654	83,765	98,889	118%	660,112	153,254	506,858	331%
Incentive Fees	30,884	11,588	19,296	167%	130,729	28,497	102,232	359%
Unrealized								
Carried Interest	290,052	403,465	(113,413)	-28%	924,105	786,551	137,554	17%
Incentive Fees	37,713	104,312	(66,599)	-64%	144,449	155,011	(10,562)	-7%
Total Performance Fees	541,303	603,130	(61,827)	-10%	1,859,395	1,123,313	736,082	66%
Investment Income								
Realized	19,507	18,559	948	5%	137,350	40,652	96,698	238%
Unrealized	100,341	119,599	(19,258)	-16%	263,141	181,906	81,235	45%
Total Investment Income	119,848	138,158	(18,310)	-13%	400,491	222,558	177,933	80%
Interest and Dividend Revenue	19,892	10,278	9,614	94%	46,263	27,181	19,082	70%
Other	4,707	2,415	2,292	95%	5,688	443	5,245	N/M
Total Revenues	1,216,845	1,223,090	(6,245)	-1%	3,903,788	2,802,328	1,101,460	39%
Expenses								
Compensation and Benefits								
Compensation	465,631	503,295	(37,664)	-7%	1,396,042	1,531,917	(135,875)	-9%
Performance Fee Compensation								
Realized								
Carried Interest	60,369	22,023	38,346	174%	225,716	37,860	187,856	496%
Incentive Fees	14,599	4,457	10,142	228%	60,121	14,284	45,837	321%
Unrealized								
Carried Interest	82,341	128,863	(46,522)	-36%	350,637	250,221	100,416	40%
Incentive Fees	11,084	44,254	(33,170)	-75%	58,646	47,437	11,209	24%
Total Compensation and Benefits	634,024	702,892	(68,868)	-10%	2,091,162	1,881,719	209,443	11%
General, Administrative and Other	119,435	139,172	(19,737)	-14%	346,106	417,675	(71,569)	-17%
Interest Expense	26,268	19,074	7,194	38%	80,286	47,365	32,921	70%
Fund Expenses	6,678	(9,747)	16,425	N/M	18,714	28,243	(9,529)	-34%
Total Expenses	786,405	851,391	(64,986)	-8%	2,536,268	2,375,002	161,266	7%
Other Income (Loss)								
Net Gains (Losses) from Fund Investment Activities	87,952	(135,960)	223,912	N/M	196,128	400,412	(204,284)	-51%
Income Before Provision for Taxes	518,392	235,739	282,653	120%	1,563,648	827,738	735,910	89%
Provision for Taxes	57,477	39,237	18,240	46%	164,552	119,327	45,225	38%
Net Income	460,915	196,502	264,413	135%	1,399,096	708,411	690,685	97%
Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated	51,188	41,854	9,334	22%	135,870	78,447	57,423	73%

Entities								
Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities	30,231	(157,607)	187,838	N/M	48,723	279,970	(231,247)	-83%
Net Income Attributable to Non-Controlling Interests in Blackstone Holdings	208,332	183,431	24,901	14%	664,556	237,809	426,747	179%
Net Income Attributable to The Blackstone Group L.P.	$ 171,164	$ 128,824	$ 42,340	33%	$ 549,947	$ 112,185	$ 437,762	390%

N/M Not meaningful.

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Revenues

Total Revenues were $1.2 billion for the three months ended September 30, 2013, essentially unchanged from the three months ended September 30, 2012. Performance Fees and Investment Income decreased between these periods by $61.8 million and $18.3 million, respectively, and Management and Advisory Fees, Net increased by $62.0 million.

Performance Fees in our Private Equity segment decreased by $161.5 million driven by lower net returns in our BCP VI and Blackstone Energy Partners (BEP) funds than the returns in the comparable prior year when both funds generated significant appreciation on new investments. Performance Fees decreased by $61.7 million in our Credit segment due to a slower pace of appreciation in performance across the platform. These decreases were partially offset by a $169.9 million increase in Performance Fees in our Real Estate segment due to the strong performance of our Real Estate carry funds, primarily BREP V, VI and VII. This increase was driven by strong operating fundamentals across all sectors of the portfolio.

The decrease in Investment Income was primarily due to decreases in our Private Equity and Credit segments of $15.3 million and $6.5 million, respectively, partially offset by an increase in our Real Estate segment of $14.6 million. The decreases in Private Equity and Credit were driven by strong returns generated on our BCP VI, BEP and Credit drawdown funds in the prior period outpacing current quarter performance. The increase in Real Estate was driven by the year over year net increase in the appreciation of real estate investments across the portfolio.

The increase in Management and Advisory Fees, Net was primarily due to increases in our Financial Advisory segment of $23.8 million, our Hedge Fund Solutions segment of $15.5 million, our Credit segment of $14.2 million and our Real Estate segment of $9.0 million. The increase in our Financial Advisory segment was due to the number and size of transactions completed during the current period compared to the prior period. The increases in our Hedge Fund Solutions and Credit segments were primarily due to increases in Fee-Earning Assets Under Management. The increase in our Real Estate segment was primarily driven by an increase in Transaction Fees related to a greater volume of completed transactions in the current quarter compared to the prior year quarter.

Total Revenues were $3.9 billion for the nine months ended September 30, 2013, an increase of $1.1 billion, or 39%, compared to Total Revenues for the nine months ended September 30, 2012 of $2.8 billion. The increase in revenues was primarily attributable to an increase of $736.1 million in Performance Fees, a $177.9 million increase in Investment Income and a $163.1 million increase in Management and Advisory Fees, Net. The overall increase in our Private Equity segment was due to significant appreciation across our portfolio, successful exits, including the initial public offerings of Pinnacle Foods and SeaWorld Parks & Entertainment (SeaWorld), and new funds raised. The overall increase in our Real Estate segment was due to the stronger appreciation of investments resulting in a significant increase in Performance Fees. The overall increase 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 overall increase in our Credit segment was due to an increase in Fee-Earning Assets Under Management and the stronger appreciation of investments. The overall increase in our Financial Advisory segment was due to the number and size of transactions completed during the current period compared to the prior period.

Expenses

Expenses were $786.4 million for the three months ended September 30, 2013, a decrease of $65.0 million, or 8%, compared to $851.4 million for the three months ended September 30, 2012. The decrease was primarily attributable to a decrease of $68.9 million in Total Compensation and Benefits, which was comprised of a decrease of $37.7 million in Compensation due to a decrease in the equity-based amortization charges on our transaction-related awards and a decrease in Performance Fee Compensation of $31.2 million due to the decrease in Performance Fees Revenue.

Expenses were $2.5 billion for the nine months ended September 30, 2013, an increase of $161.3 million, or 7%, compared to $2.4 billion for the nine months ended September 30, 2012. The increase was primarily attributable to increases in Total Compensation and Benefits of $209.4 million and Interest Expense of $32.9 million, partially offset by a $71.6 million decrease in General, Administrative and Other. The increase in Total Compensation and Benefits was comprised of a $345.3 million increase in Performance Fee Compensation due to the increase in Performance Fees Revenue and partially offset by a $135.9 million decrease in Compensation due to a decrease in the equity-based amortization charges on our transaction-related awards. The $32.9 million increase in Interest Expense was primarily related to Blackstone s issuance of senior notes during the third quarter of 2012. These increases were partially offset by a $71.6 million decrease in General, Administrative and Other, which was primarily due to decreases in depreciation and amortization and professional expenses.

Other Income (Loss)

Other Income (Loss) Net Gains (Losses) 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 (Loss) 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.

Other Income (Loss) Net Gains (Losses) from Fund Investment Activities was $88.0 million for the three months ended September 30, 2013, an increase of $223.9 million compared to $(136.0) million for the three months ended September 30, 2012. The change was principally driven by an increase in the income related to investments in our consolidated CLO vehicles.

Other Income Net Gains from Fund Investment Activities was $196.1 million for the nine months ended September 30, 2013, a decrease of $204.3 million compared to $400.4 million for the nine months ended September 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.

Provision for Taxes

Blackstone s Provision for Taxes for the three months ended September 30, 2013 and 2012 was $57.5 million and $39.2 million, respectively. This resulted in an effective tax rate of 11.1% and 16.6%, respectively, based on our Income Before Provision for Taxes of $518.4 million and $235.7 million, respectively. The decrease in the effective tax rate resulted mainly from the impact of book equity-based compensation that is not deductible for tax purposes.

Blackstone s Provision for Taxes for the nine months ended September 30, 2013 and 2012 was $164.6 million and $119.3 million, respectively. This resulted in an effective tax rate of 10.5% and 14.4%, respectively, based on our Income Before Provision for Taxes of $1.6 billion and $827.7 million, respectively.

One factor largely contributed to the decrease in the effective tax rate for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012. The amount by which the book equity-based compensation expense exceeded the tax deductible equity-based compensation expense decreased for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012, which resulted in an increase to the income tax provision of $42.5 million and the effective rate of 2.7% for the nine months ended September 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 are 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 (Loss) Net Gains (Losses) from Fund Investment Activities from the Net Income Attributable to The Blackstone Group L.P.

Net Income Attributable to Non-Controlling Interests in Blackstone Holdings is derived from the Income Before Provision for Taxes, excluding the Net Gains (Losses) 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 September 30, 2013 and 2012, the net income before taxes allocated to Blackstone Holdings was 49.2% and 52.8%, respectively. For the nine months ended September 30, 2013 and 2012, the net income before taxes allocated to Blackstone Holdings was 49.5% and 53.6%, respectively. The decreases of 3.6% and 4.1%, respectively, were primarily due to conversions of Blackstone Holdings Partnership Units to Blackstone common units and the vesting of common units.

Operating Metrics

The following tables present certain operating metrics for the three and nine months ended September 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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	Three Months Ended									
	September 30, 2013					September 30, 2012				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
	(Dollars in Thousands)									
Earning ets Under agement										
ance, inning of od	$ 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	$ 157,646,52
ows, including nmitments (a)	7,806,126	2,645,417	3,010,936	3,406,274	16,868,753	1,397,242	2,394,593	1,929,379	4,372,127	10,093,34
flows, uding ributions (b)	(154,935)	(984,250)	(796,783)	(702,919)	(2,638,887)		(46,506)	(221,349)	(374,734)	(642,58
izations (c)	(659,713)	(540,819)		(2,381,486)	(3,582,018)	(62,458)	(379,663)		(717,535)	(1,159,65
Inflows	6,991,478	1,120,348	2,214,153	321,869	10,647,848	1,334,784	1,968,424	1,708,030	3,279,858	8,291,09
ket reciation preciation) (d)	18,404	(39,856)	1,043,116	641,358	1,663,022	11,261	164,739	1,732,332	784,133	2,692,46
ance, End of od (e)	$ 43,645,106	$ 44,715,985	$ 50,829,734	$ 49,458,992	$ 188,649,817	$ 38,505,497	$ 40,609,286	$ 43,601,541	$ 45,913,758	$ 168,630,08
ease	$ 7,009,882	$ 1,080,492	$ 3,257,269	$ 963,227	$ 12,310,870	$ 1,346,045	$ 2,133,163	$ 3,440,362	$ 4,063,991	$ 10,983,56
ease	19%	2%	7%	2%	7%	4%	6%	9%	10%	

	Nine Months Ended									
	September 30, 2013					September 30, 2012				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
	(Dollars in Thousands)									
Earning ets Under agement										
ance, inning of od	$ 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	$ 136,756,75
ows, including nmitments (a)	9,081,365	6,212,742	6,932,613	11,944,271	34,170,991	2,195,722	10,786,538	4,594,192	17,850,096	35,426,54
flows, uding ributions (b)	(154,935)	(1,096,455)	(2,249,226)	(1,556,898)	(5,057,514)		(113,988)	(1,347,517)	(872,010)	(2,333,51
izations (c)	(2,329,967)	(2,204,435)		(7,446,963)	(11,981,365)	(938,933)	(1,437,304)		(2,282,238)	(4,658,47
Inflows	6,596,463	2,911,852	4,683,387	2,940,410	17,132,112	1,256,789	9,235,246	3,246,675	14,695,848	28,434,55
ket reciation preciation) (d)	(1,524)	(127,206)	2,667,556	1,098,439	3,637,265	10,917	137,500	2,535,230	755,124	3,438,77
ance, End of od (e)	$ 43,645,106	$ 44,715,985	$ 50,829,734	$ 49,458,992	$ 188,649,817	$ 38,505,497	$ 40,609,286	$ 43,601,541	$ 45,913,758	$ 168,630,08
ease	$ 6,594,939	$ 2,784,646	$ 7,350,943	$ 4,038,849	$ 20,769,377	$ 1,267,706	$ 9,372,746	$ 5,781,905	$ 15,450,972	$ 31,873,32
ease	18%	7%	17%	9%	12%	3%	30%	15%	51%	2

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	Three Months Ended									
	September 30, 2013					September 30, 2012				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
	(Dollars in Thousands)									
ets Under nagement										
ance, ginning of iod	$ 53,287,294	$ 63,919,906	$ 50,128,028	$ 62,236,513	$ 229,571,741	$ 46,633,552	$ 50,225,950	$ 42,888,946	$ 50,519,383	$ 190,267,831
ows, uding mmitments	10,450,621	4,030,048	2,780,140	3,397,214	20,658,023	1,653,995	2,312,991	1,766,927	4,103,430	9,837,343
flows, uding tributions (b)	(177,018)	(98,639)	(831,496)	(792,022)	(1,899,175)	(42,478)	(136,707)	(242,582)	(388,485)	(810,252
lizations (c)	(2,485,012)	(1,656,685)		(2,598,670)	(6,740,367)	(286,248)	(676,071)		(810,472)	(1,772,791
Inflows	7,788,591	2,274,724	1,948,644	6,522	12,018,481	1,325,269	1,500,213	1,524,345	2,904,473	7,254,300
rket preciation (d)	1,543,928	2,769,825	1,085,502	1,075,411	6,474,666	2,263,491	1,819,860	1,805,327	1,140,763	7,029,441
ance, End of iod (e)	$ 62,619,813	$ 68,964,455	$ 53,162,174	$ 63,318,446	$ 248,064,888	$ 50,222,312	$ 53,546,023	$ 46,218,618	$ 54,564,619	$ 204,551,572
rease	$ 9,332,519	$ 5,044,549	$ 3,034,146	$ 1,081,933	$ 18,493,147	$ 3,588,760	$ 3,320,073	$ 3,329,672	$ 4,045,236	$ 14,283,741
rease	18%	8%	6%	2%	8%	8%	7%	8%	8%	8

	Nine Months Ended									
	September 30, 2013					September 30, 2012				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
	(Dollars in Thousands)									
ets Under nagement										
ance, ginning of iod	$ 51,002,973	$ 56,695,645	$ 46,092,505	$ 56,428,837	$ 210,219,960	$ 45,863,673	$ 42,852,669	$ 40,534,768	$ 36,977,394	$ 166,228,504
ows, uding mmitments	11,958,460	10,052,455	6,639,376	14,641,738	43,292,029	3,591,929	9,004,235	4,463,517	19,919,596	36,979,277
flows, uding tributions (b)	(586,429)	(675,665)	(2,404,941)	(1,729,944)	(5,396,979)	(45,214)	(222,463)	(1,442,993)	(1,457,131)	(3,167,801
lizations (c)	(6,094,321)	(4,921,907)		(8,353,184)	(19,369,412)	(1,503,656)	(2,137,295)		(2,403,963)	(6,044,914
Inflows	5,277,710	4,454,883	4,234,435	4,558,610	18,525,638	2,043,059	6,644,477	3,020,524	16,058,502	27,766,562
rket preciation (d)	6,339,130	7,813,927	2,835,234	2,330,999	19,319,290	2,315,580	4,048,877	2,663,326	1,528,723	10,556,506
ance, End of iod (e)	$ 62,619,813	$ 68,964,455	$ 53,162,174	$ 63,318,446	$ 248,064,888	$ 50,222,312	$ 53,546,023	$ 46,218,618	$ 54,564,619	$ 204,551,572
rease	$ 11,616,840	$ 12,268,810	$ 7,069,669	$ 6,889,609	$ 37,844,928	$ 4,358,639	$ 10,693,354	$ 5,683,850	$ 17,587,225	$ 38,323,068
rease	23%	22%	15%	12%	18%	10%	25%	14%	48%	23

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

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

(c) Realizations represent realizations from the disposition of assets and capital returned to investors from CLOs.

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

(e) Fee-Earning Assets Under Management and Assets Under Management as of September 30, 2013 included $279.4 million and $308.9 million, respectively, from a joint venture in which we are the minority interest holder.

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Fee-Earning Assets Under Management

Fee-Earning Assets Under Management were $188.6 billion at September 30, 2013, an increase of $12.3 billion, or 7%, compared to $176.3 billion at June 30, 2013. The net increase was due to:

- Inflows of $16.9 billion related to (a) $7.8 billion in our Private Equity segment primarily due to the acquisition of Strategic Partners as well as additional capital raised for our Tactical Opportunities investment vehicles, (b) $3.4 billion in our Credit segment primarily from capital raised across our long only platform and launching two new CLOs, (c) $3.0 billion in our Hedge Fund Solutions segment mainly related to the launch of BAAM s first alternative investment-focused mutual fund and growth in its customized and commingled products, and (d) $2.6 billion in our Real Estate segment primarily related to an initial closing of our latest European fund, an additional closing of our first Asia fund and co-investment capital raised.

- Market appreciation of $1.7 billion principally due to solid returns from the BAAM Principal Solutions funds in our Hedge Fund Solutions segment and steady appreciation in certain credit-focused funds in our Credit segment.

Offsetting these increases were:

- Realizations of $3.6 billion driven by (a) $2.4 billion in our Credit segment primarily due to capital returned to CLO investors from CLOs that are post their reinvestment periods, (b) $659.7 million in our Private Equity segment primarily as a result of the dispositions of investments in funds which earn fees based on remaining invested capital, and (c) $540.8 million in our Real Estate segment primarily due to realizations from various investments across the segment.

- Outflows of $2.6 billion primarily attributable to (a) $984.3 million in our Real Estate segment primarily due to the end of BREP Europe III s investment period, (b) $796.8 million in our Hedge Fund Solutions segment due to the liquidity needs of limited partners, and (c) $702.9 million in our Credit segment primarily from our long only platform.

BAAM had net inflows of $479.9 million from October 1 through November 1, 2013.

Fee-Earning Assets Under Management were $188.6 billion at September 30, 2013, an increase of $20.8 billion, or 12%, compared to $167.9 billion at December 31, 2012. The net increase was due to:

- Inflows of $34.2 billion related to (a) $11.9 billion in our Credit segment driven principally from capital raised across our long only platform, new CLO launches and capital invested in our carry funds, (b) $9.1 billion in our Private Equity segment primarily due to the acquisition of Strategic Partners as well as additional capital raised for our Tactical Opportunities investment vehicles, (c) $6.9 billion in our Hedge Fund Solutions segment mainly related to growth in its customized products, the launch of BAAM s first alternative investment-focused mutual fund and growth in commingled products, and (d) $6.2 billion in our Real Estate segment primarily related to an initial closing of our latest European fund, closings of our first Asia fund, the completion of a secondary offering by Blackstone Mortgage Trust (BXMT) and co-investment capital raised.

- Market appreciation of $3.6 billion principally due to solid returns from the BAAM Principal Solutions funds in our Hedge Fund Solutions segment and steady appreciation in certain credit-focused funds in our Credit segment.

Offsetting these increases were:

- Realizations of $12.0 billion driven by (a) $7.4 billion in our Credit segment due to capital returned to CLO investors from CLOs that are post their reinvestment periods and realizations in our carry funds, (b) $2.3 billion in our Private Equity segment primarily as a result of the dispositions of investments in funds which earn fees based on remaining invested capital, and (c) $2.2 billion in our Real Estate segment primarily due to realizations from various investments across the segment.

- Outflows of $5.1 billion primarily attributable to (a) $2.2 billion in our Hedge Fund Solutions segment due to the liquidity needs of limited partners, (b) $1.6 billion in our Credit segment primarily from our long only platform, and (c) $1.1 billion in our Real Estate segment primarily due to the end of BREP Europe III s investment period.

Assets Under Management

Assets Under Management were $248.1 billion at September 30, 2013, an increase of $18.5 billion, or 8%, compared to $229.6 billion at June 30, 2013. The net increase was due to:

- Inflows of $20.7 billion related to (a) $10.5 billion in our Private Equity segment due primarily to the acquisition of Strategic Partners as well as additional capital raised for our Tactical Opportunities investment vehicles, (b) $4.0 billion in our Real Estate segment attributable to an initial closing on our latest European fund, closings of BREDS II and our first Asia funds and co-investment capital raised, (c) $3.4 billion in our Credit segment primarily from capital raised across our long only platform and new fund launches, and (d) $2.8 billion in our Hedge Fund Solutions segment primarily from the launch of BAAM s alternative investment-focused mutual fund and growth from its customized and commingled products.

- Market appreciation of $6.5 billion due to (a) $2.8 billion in our Real Estate segment primarily from our real estate carry funds as a result of strong operating fundamentals across all sectors of the portfolio, (b) $1.5 billion in our Private Equity segment due to performance of our BCP V and BCP IV funds, (c) $1.1 billion in our Hedge Fund Solutions segment driven by solid returns from the BAAM Principal Solutions funds, and (d) $1.1 billion in our Credit segment from steady appreciation in our carry funds and in certain credit-focused funds across our long only platform.

Offsetting these increases were:

- Realizations of $6.7 billion driven by (a) $2.6 billion in our Credit segment due to capital returned to CLO investors from CLOs that are post their reinvestment periods, (b) $2.5 billion in our Private Equity segment due to opportunistic disposition activity through credit markets, public markets and strategic sales, and (c) $1.7 billion in our Real Estate segment primarily due to realizations from various investments across the segment.

- Outflows of $1.9 billion primarily attributable to (a) $831.5 million in our Hedge Fund Solutions segment due to the liquidity needs of limited partners, and (b) $792.0 million in our Credit segment primarily from our long only platform.

Assets Under Management were $248.1 billion at September 30, 2013, an increase of $37.8 billion, or 18%, compared to $210.2 billion at December 31, 2012. The net increase was due to:

- Inflows of $43.3 billion primarily related to (a) $14.6 billion in our Credit segment primarily from capital raised across our long only platform, new CLO launches, new fund launches and additional commitments to our second rescue lending fund, (b) $12.0 billion in our Private Equity segment primarily related to the acquisition of Strategic Partners as well as fundraising for our Tactical Opportunities investment vehicles, (c) $10.1 billion in our Real Estate segment attributable to an initial closing on our latest European fund, closings of BREDS II and our first Asia funds, the completion of a secondary offering by Blackstone Mortgage Trust and co-investment capital raised, and (d) $6.6 billion in our Hedge Fund Solutions segment which was primarily from BAAM s customized products, the launch of its alternative investment-focused mutual fund and its commingled products.

- Market appreciation of $19.3 billion due to (a) $7.8 billion in our Real Estate segment primarily from our real estate carry funds as a result of strong operating fundamentals across all sectors of the portfolio, (b) $6.3 billion in our Private Equity segment due to appreciation of our publicly traded holdings and private investments in the hospitality/leisure sector, (c) $2.8 billion in our Hedge Fund

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Solutions segment due to solid returns from the BAAM Principal Solutions funds, and (d) $2.3 billion in our Credit segment due to steady appreciation in our carry funds, hedge funds and certain credit-focused funds across our long only platform.

Offsetting these increases were:

Realizations of $19.4 billion driven by (a) $8.4 billion in our Credit segment due to capital returned to CLO investors from CLOs that are post their reinvestment periods and realizations in our carry funds, (b) $6.1 billion in our Private Equity segment due to opportunistic disposition activity through credit markets, public markets and strategic sales, and (c) $4.9 billion in our Real Estate segment primarily due to the same reasons noted in Fee-Earning Assets Under Management.

Outflows of $5.4 billion primarily attributable to (a) $2.4 billion in our Hedge Fund Solutions segment due to the liquidity needs of limited partners, (b) $1.7 billion in our Credit segment primarily from our long only platform, and (c) $675.7 million in our Real Estate segment primarily due to the termination of the investment period of certain BREDS drawdown funds and redemptions within the debt strategies hedge funds.

Limited Partner Capital Invested

The following table presents the limited partner capital invested during the respective periods:

	Three Months Ended September 30,		2013 vs. 2012		Nine Months Ended September 30,		2013 vs. 2012	
	2013	**2012**	**$**	**%**	**2013**	**2012**	**$**	**%**
	(Dollars in Thousands)							
Limited Partner Capital Invested								
Private Equity	$ 524,320	1,015,605	(491,285)	-48%	1,550,597	1,761,548	(210,951)	-12%
Real Estate	2,365,224	1,342,811	1,022,413	76%	5,754,667	4,341,474	1,413,193	33%
Hedge Fund Solutions	248,422	196,180	52,242	27%	422,594	200,841	221,753	110%
Credit	240,101	530,845	(290,744)	-55%	1,069,076	1,904,634	(835,558)	-44%
Total	$ 3,378,067	$ 3,085,441	$ 292,626	9%	$ 8,796,934	$ 8,208,497	$ 588,437	7%

Limited Partner Capital Invested was $3.4 billion for the three months ended September 30, 2013, an increase of $292.6 million, or 9%, from $3.1 billion for the three months ended September 30, 2012. Limited Partner Capital Invested was $8.8 billion for the nine months ended September 30, 2013, an increase of $588.4 million, or 7%, compared to $8.2 billion for the nine months ended September 30, 2012. The trend in Limited Partner Capital Invested is a result of finding opportunistic investments that fit our investment philosophy and strategy in each of our segments as well as the relative timing of investment closings within those segments. Our Private Equity segment is deploying capital at a slower rate to that of 2012 as current market conditions are limiting opportunities that fit into the segment s investment objectives. Our Real Estate segment is deploying capital at a faster rate to that of 2012. Our Hedge Fund Solutions segment is investing capital based on the relative investment opportunities from the hedge fund manager seeding platform. In our Credit segment, capital deployed for the nine months ended September 30, 2013 was lower compared to the nine months ended September 30, 2012 due to a more challenging investment environment.

Net Accrued Performance Fees

The following table presents the accrued performance fees, net of performance fee compensation, of the Blackstone Funds as of September 30, 2013 and 2012. Net accrued performance fees presented do not include clawback amounts, if any, which are disclosed in Note 17. Commitments and Contingencies Contingencies

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Contingent Obligations (Clawback) in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements of this filing.

	September 30, 2013	September 30, 2012
	(Dollars in Millions)	
Private Equity		
BCP IV Carried Interest	$ 506	$ 551
BCP VI Carried Interest	15	8
BEP Carried Interest	62	30
Tactical Opportunities Carried Interest	5	2
Strategic Partners V Carried Interest	1	
Total Private Equity (a)	589	591
Real Estate		
BREP V Carried Interest	616	434
BREP VI Carried Interest	857	590
BREP VII Carried Interest	248	44
BREP Int 1 I Carried Interest	2	3
BREP EU III Carried Interest	128	66
BREDS Carried Interest	21	19
BREDS Incentive Fees	2	5
Asia Platform Incentive Fees	16	28
Total Real Estate (a)	1,890	1,189
Hedge Fund Solutions		
Incentive Fees	75	42
Total Hedge Fund Solutions	75	42
Credit		
Carried Interest	143	142
Incentive Fees	72	85
Total Credit	215	227
Total Blackstone		
Carried Interest	2,604	1,889
Incentive Fees	165	160
Net Accrued Performance Fees	$ 2,769	$ 2,049

(a) Private Equity and Real Estate include Co-Investments.

Investment Record

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

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The following table presents the investment record of our significant drawdown funds from inception through September 30, 2013:

Fund (Investment Period)	Committed Capital	Available Capital (a)	Unrealized Investments			Realized Investments		Total Investments		Net IRR (d)	
			Value	MOIC (b)	% Public (c)	Value	MOIC (b)	Value	MOIC (b)	Realized	Total
			(Dollars in Thousands, Except Where Noted)								
Private Equity											
BCP I (Oct 1987 / Oct 1993)	$ 859,081	$	$	N/A		$ 1,741,738	2.6x	$ 1,741,738	2.6x	19%	19%
BCP II (Oct 1993 / Aug 1997)	1,361,100			N/A		3,256,819	2.5x	3,256,819	2.5x	32%	32%
BCP III (Aug 1997 / Nov 2002)	3,967,422			N/A		9,184,688	2.3x	9,184,688	2.3x	14%	14%
BCOM (Jun 2000 / Jun 2006)	2,137,330	199,298	236,534	0.8x	12%	2,594,278	1.4x	2,830,812	1.3x	8%	6%
BCP IV (Nov 2002 / Dec 2005)	6,773,138	239,535	4,923,637	2.1x	39%	15,921,587	3.1x	20,845,224	2.8x	50%	37%
BCP V (Dec 2005 / Jan 2011)	21,035,590	1,547,819	20,733,168	1.4x	31%	6,393,995	1.3x	27,127,163	1.4x	4%	5%
BCP VI (Jan 2011 / Jan 2017)	15,174,607	10,693,266	4,208,180	1.2x	21%	376,709	1.7x	4,584,889	1.3x	45%	8%
BEP (Aug 2011 / Aug 2017)	2,429,415	1,497,114	1,027,967	2.2x	48%	208,415	1.4x	1,236,382	2.0x	19%	57%
Total Core Private Equity	53,737,683	14,177,032	31,129,486	1.4x	31%	39,678,229	2.2x	70,807,715	1.8x	21%	15%
Tactical Opportunities	3,523,679	2,882,867	731,033	1.1x	7%	110,534	1.1x	841,567	1.1x	18%	13%
Strategic Partners	12,467,267	2,651,187	6,441,264	1.4x	N/M	8,836,356	1.4x	15,277,620	1.4x	N/A	14%
Other Funds and Co-Invest (e)	1,130,264	149,421	449,991	0.6x	60%	20,890	1.0x	470,881	0.6x	N/M	N/M
Total Private Equity	$ 70,858,893	$ 19,860,507	$ 38,751,774	1.4x	31%	$ 48,646,009	2.0x	$ 87,397,783	1.7x	21%	15%
Real Estate											
Dollar											
Pre-BREP	$ 140,714	$	$	N/A		$ 345,190	2.5x	$ 345,190	2.5x	33%	33%
BREP I (Sep 1994 / Oct 1996)	380,708			N/A		1,327,708	2.8x	1,327,708	2.8x	40%	40%
BREP II (Oct 1996 / Mar 1999)	1,198,339			N/A		2,531,613	2.1x	2,531,613	2.1x	19%	19%
BREP III (Apr 1999 / Apr 2003)	1,522,708		2,161	0.1x		3,325,133	2.4x	3,327,294	2.4x	22%	21%
BREP IV (Apr 2003 / Dec 2005)	2,198,694		1,324,589	0.9x		3,019,302	2.4x	4,343,891	1.6x	72%	14%
BREP V (Dec 2005 / Feb 2007)	5,538,579	243,946	7,916,980	1.8x		2,415,921	1.7x	10,332,901	1.8x	41%	10%
BREP VI (Feb 2007 / Aug 2011)	11,056,740	679,208	16,124,116	1.7x	1%	2,996,023	2.1x	19,120,139	1.8x	32%	11%
BREP VII (Aug 2011 / Feb 2017)	13,403,431	7,144,655	8,700,115	1.4x		1,427,799	1.6x	10,127,914	1.4x	44%	30%
Total Global Real Estate Funds	35,439,913	8,067,809	34,067,961	1.6x	1%	17,388,689	2.1x	51,456,650	1.7x	28%	16%
Euro											
BREP Int 1 (Jan 2001 / Sep 2005)	824,172		104,405	1.2x		1,235,480	2.2x	1,339,885	2.0x	25%	23%
	1,627,954	80,575	1,271,454	1.1x		198,004	1.2x	1,469,458	1.1x	3%	

BREP Int l II (Sep 2005 / Jun 2008)											
BREP Europe III (Jun 2008 / Dec 2013)	3,203,646	676,744	3,673,034	1.4x		179,011	1.4x	3,852,045	1.4x	20%	17%
Total Euro Real Estate Funds	5,655,772	757,319	5,048,893	1.3x		1,612,495	1.9x	6,661,388	1.4x	24%	9%
BREP Co-Investment (f)	5,160,715		7,167,351	1.5x		683,569	1.5x	7,850,920	1.5x	12%	13%
BREP Asia (Jun 2013 / Dec 2017)	1,447,326	1,215,732	275,332	1.1x			N/A	275,332	1.1x	N/A	207%
Total Real Estate	$ 49,179,915	$ 10,308,193	$ 48,289,209	1.5x	0%	$ 20,107,182	2.1x	$ 68,396,391	1.6x	27%	15%
BREDS I	$ 2,838,485	$ 482,622	$ 2,085,338	1.4x		$ 2,161,553	1.3x	$ 4,246,891	1.3x	17%	13%
BREDS II	3,332,777	2,691,799	655,406	1.0x			N/A	655,406	1.0x	N/A	N/M
Total BREDS (g)	$ 6,171,262	$ 3,174,421	$ 2,740,744	N/M		$ 2,161,553	N/M	$ 4,902,297	N/M	N/M	N/M
Credit (h)											
Mezzanine	$ 6,120,000	$ 3,067,259	$ 3,043,168	1.3x		$ 3,662,048	1.6x	$ 6,705,216	1.5x	N/A	19%
Rescue Lending	8,378,143	5,386,524	4,031,530	1.4x		1,456,572	1.1x	5,488,102	1.3x	N/A	15%
Total Credit	$ 14,498,143	$ 8,453,783	$ 7,074,698	1.4x		$ 5,118,620	1.4x	$ 12,193,318	1.4x		

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

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N/M Not meaningful.
N/A Not applicable.
(a) Available Capital represents total investable capital commitments, including side-by-side, adjusted for certain expenses and expired or recallable capital, less invested capital. This amount is not reduced by outstanding commitments to investments.
(b) Multiple of Invested Capital (MOIC) represents carrying value, before management fees, expenses and Carried Interest, divided by invested capital.
(c) Strategic Partners is excluded from the total percent of unrealized value in public companies due to the nature of the investments made from its funds.
(d) Net Internal Rate of Return (IRR) represents the annualized inception to September 30, 2013 IRR on total invested capital based on realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest.
(e) Returns for Other Funds and Co-Invest are not meaningful as these funds have no or little realizations.
(f) BREP Co-Investment represents co-investment capital raised for various BREP investments. The Net IRR reflected is calculated by aggregating each co-investment s realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest.
(g) Excludes Capital Trust drawdown funds. Returns and MOICs for Total BREDS are not applicable or not meaningful as BREDS II commenced its investment period in May 2013.
(h) The Total Investments MOIC for Mezzanine and Rescue Lending Funds, excluding recycled capital during the investment period, was 1.9x and 1.5x, respectively.

Segment Analysis

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

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

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Private Equity

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

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	2013 vs. 2012 $	2013 vs. 2012 %	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012	2013 vs. 2012 $	2013 vs. 2012 %
	(Dollars in Thousands)							
Segment Revenues								
Management Fees, Net								
Base Management Fees	$ 95,281	$ 86,136	$ 9,145	11%	$ 268,148	$ 259,400	$ 8,748	3%
Transaction and Other Fees, Net	16,052	25,693	(9,641)	-38%	78,853	58,741	20,112	34%
Management Fee Offsets	(2,080)	(767)	(1,313)	-171%	(4,510)	(5,221)	711	14%
Total Management Fees, Net	109,253	111,062	(1,809)	-2%	342,491	312,920	29,571	9%
Performance Fees								
Realized								
Carried Interest	85,121	31,592	53,529	169%	228,912	64,306	164,606	256%
Unrealized								
Carried Interest	(86,300)	128,746	(215,046)	N/M	12,672	74,904	(62,232)	-83%
Total Performance Fees	(1,179)	160,338	(161,517)	N/M	241,584	139,210	102,374	74%
Investment Income								
Realized	11,495	7,189	4,306	60%	57,243	14,905	42,338	284%
Unrealized	23,621	43,267	(19,646)	-45%	76,420	31,399	45,021	143%
Total Investment Income	35,116	50,456	(15,340)	-30%	133,663	46,304	87,359	189%
Interest and Dividend Revenue	5,231	3,413	1,818	53%	11,466	8,947	2,519	28%
Other	1,521	1,650	(129)	-8%	2,311	1,997	314	16%
Total Revenues	149,942	326,919	(176,977)	-54%	731,515	509,378	222,137	44%
Expenses								
Compensation and Benefits								
Compensation	55,800	62,424	(6,624)	-11%	179,750	168,746	11,004	7%
Performance Fee Compensation								
Realized								
Carried Interest	19,824	1,048	18,776	N/M	36,947	2,172	34,775	N/M
Unrealized								
Carried Interest	(36,198)	43,228	(79,426)	N/M	68,532	33,917	34,615	102%
Total Compensation and Benefits	39,426	106,700	(67,274)	-63%	285,229	204,835	80,394	39%
Other Operating Expenses	30,024	30,944	(920)	-3%	91,370	90,346	1,024	1%
Total Expenses	69,450	137,644	(68,194)	-50%	376,599	295,181	81,418	28%
Economic Income	$ 80,492	$ 189,275	$ (108,783)	-57%	$ 354,916	$ 214,197	$ 140,719	66%

N/M Not meaningful.

Revenues

Revenues were $149.9 million for the three months ended September 30, 2013, a decrease of $177.0 million compared to $326.9 million for the three months ended September 30, 2012. The decrease in revenues was primarily attributable to decreases in Performance Fees and Investment Income of $161.5 million and $15.3 million, respectively.

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Performance Fees, which are determined on a fund by fund basis, were $(1.2) million for the three months ended September 30, 2013, a decrease of $161.5 million compared to $160.3 million for the three months ended September 30, 2012, as net returns in our BCP VI and BEP funds were lower than the returns in the comparative period when both funds generated significant appreciation on new investments. Realized performance fees increased $53.5 million from $31.6 million for the three months ended September 30, 2012 to $85.1 million during the third quarter of 2013 principally due to the final disposition of BCP IV s publicly held investment in TRW Automotive.

Investment Income was $35.1 million for the three months ended September 30, 2013, a decrease of $15.3 million compared to $50.5 million for the three months ended September 30, 2012, despite higher net performance in our BCP V and BCP IV funds as strong returns generated by our BCP VI and BEP funds in the prior period outpaced the current quarter performance. Realized investment income of $11.5 million for the three months ended September 30, 2013 was driven by strategic, public market and capital market transactions. Appreciation of 4.2% during the current quarter across all funds was principally from our private investments in the hospitality/leisure and healthcare sectors.

Revenues were $731.5 million for the nine months ended September 30, 2013, an increase of $222.1 million compared to $509.4 million for the nine months ended September 30, 2012. The increase in revenues was attributable to increases in Performance Fees, Investment Income and Total Management Fees of $102.4 million, $87.4 million and $29.6 million, respectively.

Performance Fees, which are determined on a fund by fund basis, were $241.6 million for the nine months ended September 30, 2013, an increase of $102.4 million, compared to $139.2 million for the nine months ended September 30, 2012, principally due to performance in our BCP IV and BEP funds, which had net returns of 12% and 24%, respectively. Realized performance fees drove the entire increase as the funds had significant realization activity including secondary sales from our publicly traded portfolio in TRW, Team Health, TDC and Kosmos.

Investment Income was $133.7 million for the nine months ended September 30, 2013, an increase of $87.4 million, compared to $46.3 million for the nine months ended September 30, 2012, driven by returns across our funds. The portfolio benefited from strong performance of our public holdings, including the successful initial public offerings of Pinnacle Foods during the first quarter of 2013 and SeaWorld during the second quarter of 2013, while our private portfolio benefited from investments in the hospitality/leisure sector.

Total Management Fees were $342.5 million for the nine months ended September 30, 2013, an increase of $29.6 million compared to $312.9 million for the nine months ended September 30, 2012, driven primarily by increases in Transaction and Other Fees and Base Management Fees. Transaction and Other Fees were $78.9 million for the nine months ended September 30, 2013, an increase of $20.1 million compared to $58.7 million for the nine months ended September 30, 2012, principally as a result of one time fees earned from the termination of monitoring fee agreements related to the completion of the Pinnacle Foods and SeaWorld initial public offerings. Base Management Fees were $268.1 million for the nine months ended September 30, 2013, an increase of $8.7 million compared to $259.4 million for the nine months ended September 30, 2012, primarily due to the addition of the Strategic Partners secondary private fund of funds business that closed during the beginning of the current quarter as well as the increase in funds raised for our Tactical Opportunities investment vehicles.

Expenses

Expenses were $69.5 million for the three months ended September 30, 2013, a decrease of $68.2 million, compared to $137.6 million for the three months ended September 30, 2012. The decrease was primarily attributable to decreases of $60.7 million in Performance Fee Compensation and $6.6 million in Compensation. Performance Fee Compensation decreased as a result of the decrease in Performance Fees Revenue. Compensation decreased primarily due to a decrease in revenues, as a portion of compensation is driven by the performance of the segment.

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Expenses were $376.6 million for the nine months ended September 30, 2013, an increase of $81.4 million compared to $295.2 million for the nine months ended September 30, 2012. The increase was primarily attributable to increases of $69.4 million in Performance Fee Compensation and $11.0 million in Compensation. Performance Fee Compensation increased as a result of the increase in Performance Fees Revenue. Compensation increased primarily due to an increase in headcount to support the growth of the business.

Fund Returns

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

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

	Three Months Ended September 30,				**Nine Months Ended September 30,**				**September 30, 2013 Inception to Date**			
	2013		**2012**		**2013**		**2012**		**Realized**		**Total**	
Fund (a)	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
BCP IV	9%	7%	9%	8%	15%	12%	7%	7%	66%	50%	50%	37%
BCP V	5%	4%	3%	3%	22%	21%	4%	4%	6%	4%	6%	5%
BCP VI	-1%	-0%	28%	28%	8%	4%	30%	22%	51%	45%	18%	8%
BEP	-4%	-3%	67%	64%	29%	24%	86%	76%	22%	19%	65%	57%
Tactical Opportunities	3%	2%	N/M	N/M	13%	8%	N/M	N/M	20%	18%	19%	13%

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

N/M Not meaningful.

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

The core Private Equity segment has three contributed funds with closed investment periods: BCP IV, BCP V and BCOM. As of September 30, 2013, BCP IV was above its Carried Interest threshold (i.e., the preferred return payable to its limited partners before the general partner is eligible to receive Carried Interest) and would still be above its Carried Interest threshold even if all remaining investments were valued at zero. BCP V is currently below its Carried Interest threshold. BCOM is currently below its Carried Interest threshold but has generated inception to date positive returns. We are entitled to retain previously realized Carried Interest up to 20% of BCOM s net gains. As a result, Performance Fees are recognized from BCOM on current period gains and losses.

The following table presents the Carried Interest status of our private equity funds out of their investment period which are currently not generating performance fees as of September 30, 2013:

	Gain to Cross Carried Interest Threshold (a)	
Funds Out of the Investment Period	**Amount (Dollars in Millions)**	**% Change in Total Enterprise Value (b)**
BCP V (Dec 2005 / Jan 2011)	$ 3,234	7%

(a) The general partner of each fund is allocated Carried Interest when the annualized returns, net of management fees and expenses, exceed the preferred return as dictated by the fund agreements. The preferred return is calculated for each limited partner individually. The Gain to Cross Carried Interest Threshold represents the increase in equity at the fund level (excluding our side-by-side investments) that is

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required for the general partner to begin accruing Carried Interest, assuming the gain is earned pro rata across the fund s investments and is achieved at the reporting date.

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

Real Estate

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

	Three Months Ended September 30,		2013 vs. 2012		Nine Months Ended September 30,		2013 vs. 2012	
	2013	2012	$	%	2013	2012	$	%
	(Dollars in Thousands)							
Segment Revenues								
Management Fees, Net								
Base Management Fees	$ 136,721	$ 135,659	$ 1,062	1%	$ 412,067	$ 411,278	$ 789	0%
Transaction and Other Fees, Net	19,205	14,937	4,268	29%	47,358	54,500	(7,142)	-13%
Management Fee Offsets	(2,385)	(6,034)	3,649	60%	(15,983)	(20,018)	4,035	20%
Total Management Fees, Net	153,541	144,562	8,979	6%	443,442	445,760	(2,318)	-1%
Performance Fees								
Realized								
Carried Interest	93,878	51,845	42,033	81%	306,132	74,001	232,131	314%
Incentive Fees	3,737	4,879	(1,142)	-23%	37,931	12,644	25,287	200%
Unrealized								
Carried Interest	340,406	207,695	132,711	64%	880,454	573,705	306,749	53%
Incentive Fees	2,481	6,150	(3,669)	-60%	(27,398)	12,538	(39,936)	N/M
Total Performance Fees	440,502	270,569	169,933	63%	1,197,119	672,888	524,231	78%
Investment Income								
Realized	928	10,324	(9,396)	-91%	29,039	27,203	1,836	7%
Unrealized	57,656	33,676	23,980	71%	148,595	74,532	74,063	99%
Total Investment Income	58,584	44,000	14,584	33%	177,634	101,735	75,899	75%
Interest and Dividend Revenue	6,060	3,581	2,479	69%	14,754	9,410	5,344	57%
Other	2,113	1,941	172	9%	1,706	642	1,064	166%
Total Revenues	660,800	464,653	196,147	42%	1,834,655	1,230,435	604,220	49%
Expenses								
Compensation and Benefits								
Compensation	75,346	71,456	3,890	5%	218,597	216,921	1,676	1%
Performance Fee Compensation								
Realized								
Carried Interest	38,942	19,822	19,120	96%	119,810	27,300	92,510	339%
Incentive Fees	1,919	2,570	(651)	-25%	19,376	6,443	12,933	201%
Unrealized								
Carried Interest	99,323	47,940	51,383	107%	266,984	133,892	133,092	99%
Incentive Fees	615	2,876	(2,261)	-79%	(14,680)	6,015	(20,695)	N/M
Total Compensation and Benefits	216,145	144,664	71,481	49%	610,087	390,571	219,516	56%
Other Operating Expenses	30,614	31,284	(670)	-2%	86,693	86,768	(75)	-0%
Total Expenses	246,759	175,948	70,811	40%	696,780	477,339	219,441	46%

Economic Income	$ 414,041	$ 288,705	$ 125,336	43%	$ 1,137,875	$ 753,096	$ 384,779	51%

N/M Not meaningful.

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Revenues

Revenues were $660.8 million for the three months ended September 30, 2013, an increase of $196.1 million compared to $464.7 million for the three months ended September 30, 2012. The increase in revenues was primarily attributable to increases of $169.9 million in Performance Fees, $14.6 million in Investment Income and $9.0 million in Total Management Fees.

Performance Fees, which are determined on a fund by fund basis, were $440.5 million for the three months ended September 30, 2013, an increase of $169.9 million compared to $270.6 million for the three months ended September 30, 2012. Performance Fees continued to benefit from the strong performance of our Real Estate carry funds and were primarily driven by BREP V, VI and VII. For the three months ended September 30, 2013, the carrying value of assets for Blackstone s contributed BREP funds, including fee-paying co-investments, increased 5.8% driven by strong operating fundamentals across all sectors of the portfolio. Our BREDS drawdown and real estate hedge funds appreciated 3.2% and 2.5%, respectively.

Investment Income was $58.6 million for the three months ended September 30, 2013, an increase of $14.6 million compared to $44.0 million for the three months ended September 30, 2012. The increase in Investment Income was primarily driven by the year over year net increase in the appreciation of investments across our global Real Estate funds.

Total Management Fees were $153.5 million for the three months ended September 30, 2013, an increase of $9.0 million compared to $144.6 million for the three months ended September 30, 2012, driven primarily by an increase in Transaction and Other Fees and a decrease in Management Fee Offsets. Transaction and Other Fees were $19.2 million for the three months ended September 30, 2013, an increase of $4.3 million compared to $14.9 million for the three months ended September 30, 2012. The increase in Transaction and Other Fees was primarily related to an increase in the volume of completed transactions. Management Fee Offsets represent reductions of management fees payable by our limited partners in BREP VII based on the amount they reimbursed Blackstone for placement fees.

Revenues were $1.8 billion for the nine months ended September 30, 2013, an increase of $604.2 million compared to $1.2 billion for the nine months ended September 30, 2012. The increase in revenues was primarily attributable to an increase of $524.2 million in Performance Fees as well as a $75.9 million increase in Investment Income.

Performance Fees, which are determined on a fund by fund basis, were $1.2 billion for the nine months ended September 30, 2013, an increase of $524.2 million compared to $672.9 million for the nine months ended September 30, 2012. Performance Fees continued to benefit from the strong performance of our BREP carry funds and were primarily driven by BREP V, VI, VII and BREP Europe III. For the nine months ended September 30, 2013, the carrying value of assets for Blackstone s contributed Real Estate funds, including fee-paying co-investments, increased 17.9% driven by strong operating fundamentals across all sectors of the portfolio. Our BREDS drawdown and real estate hedge funds appreciated 8.4% and 7.3%, respectively.

Investment Income was $177.6 million for the nine months ended September 30, 2013, an increase of $75.9 million compared to $101.7 million for the nine months ended September 30, 2012. The increase in Investment Income was primarily driven by the year over year net increase in the appreciation of investments across our global Real Estate funds.

Expenses

Expenses were $246.8 million for the three months ended September 30, 2013, an increase of $70.8 million, compared to $175.9 million for the three months ended September 30, 2012. The increase was primarily attributable to a $67.6 million increase in Performance Fee Compensation as a result of the increase in Performance Fees Revenue.

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Expenses were $696.8 million for the nine months ended September 30, 2013, an increase of $219.4 million, compared to $477.3 million for the nine months ended September 30, 2012. The increase was primarily attributable to an increase in Performance Fee Compensation of $217.8 million as a result of the increase in Performance Fees Revenue.

Fund Returns

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

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

	Three Months Ended September 30,				**Nine Months Ended September 30,**				**September 30, 2013 Inception to Date**			
	2013		**2012**		**2013**		**2012**		**Realized**		**Total**	
Fund (a)	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
BREP International (b)			2%	1%			14%	10%	35%	25%	33%	23%
BREP IV	3%	2%	0%	0%	15%	11%	7%	4%	106%	72%	24%	14%
BREP V	5%	4%	5%	4%	14%	11%	15%	12%	64%	41%	13%	10%
BREP International II (b)	4%	3%	-1%	-1%	14%	13%	-3%	-4%	8%	3%	1%	-0%
BREP VI	6%	5%	4%	3%	19%	15%	11%	8%	42%	32%	15%	11%
BREP Europe III (b)	5%	4%	5%	3%	16%	12%	16%	11%	33%	20%	33%	17%
BREP VII	8%	6%	10%	7%	30%	21%	42%	25%	66%	44%	45%	30%
BREP Asia	N/M	N/M	N/A	N/A	N/M	N/M	N/A	N/A	N/A	N/A	344%	207%
BREDS I	3%	2%	5%	4%	11%	9%	15%	12%	20%	17%	17%	13%
BSSF I	3%	2%	7%	5%	9%	7%	17%	13%	N/A	N/A	15%	11%
CMBS	2%	2%	6%	5%	7%	4%	15%	11%	N/A	N/A	17%	12%
BREP Co-Investment (c)	6%	6%	4%	4%	20%	19%	10%	8%	24%	22%	16%	14%

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

N/A Not applicable.
N/M Not meaningful.
(a) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and performance fee allocations.
(b) Euro-based net internal rates of return.
(c) Excludes fully realized co-investments prior to Blackstone s initial public offering.

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The following table presents the Carried Interest status of our real estate carry funds with expired investment periods which are currently not generating performance fees as of September 30, 2013:

	Gain to Cross Carried Interest Threshold (a)	
Fully Invested Funds	Amount	% Change in Total Enterprise Value (b)
	(Amounts in Millions)	
BREP Int l II (Sep 2005 / Jun 2008)	1,009	25%

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

(b) Total Enterprise Value is the respective fund s pro rata ownership of the privately held portfolio companies Enterprise Value.

The Real Estate segment has three funds in their investment period, which were above their respective Carried Interest thresholds as of September 30, 2013: BREP VII and two funds within BREDS I.

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Hedge Fund Solutions

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

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	2013 vs. 2012 $	2013 vs. 2012 %	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012	2013 vs. 2012 $	2013 vs. 2012 %
	(Dollars in Thousands)							
Segment Revenues								
Management Fees, Net								
Base Management Fees	$ 103,392	$ 87,334	$ 16,058	18%	$ 296,296	$ 253,433	$ 42,863	17%
Transaction and Other Fees, Net	295	4	291	N/M	360	161	199	124%
Management Fee Offsets	(1,200)	(382)	(818)	-214%	(2,238)	(1,092)	(1,146)	-105%
Total Management Fees, Net	102,487	86,956	15,531	18%	294,418	252,502	41,916	17%
Performance Fees								
Realized Incentive Fees	5,320	2,637	2,683	102%	32,874	7,110	25,764	362%
Unrealized Incentive Fees	29,208	36,635	(7,427)	-20%	105,698	48,841	56,857	116%
Total Performance Fees	34,528	39,272	(4,744)	-12%	138,572	55,951	82,621	148%
Investment Income (Loss)								
Realized	(598)	637	(1,235)	N/M	13,922	2,069	11,853	573%
Unrealized	6,439	5,199	1,240	24%	(1,702)	9,934	(11,636)	N/M
Total Investment Income	5,841	5,836	5	0%	12,220	12,003	217	2%
Interest and Dividend Revenue	2,523	540	1,983	367%	5,617	1,421	4,196	295%
Other	595	315	280	89%	426	215	211	98%
Total Revenues	145,974	132,919	13,055	10%	451,253	322,092	129,161	40%
Expenses								
Compensation and Benefits								
Compensation	37,611	28,826	8,785	30%	108,323	91,618	16,705	18%
Performance Fee Compensation								
Realized Incentive Fees	1,954	1,062	892	84%	12,092	2,095	9,997	477%
Unrealized Incentive Fees	10,177	8,062	2,115	26%	37,679	12,536	25,143	201%
Total Compensation and Benefits	49,742	37,950	11,792	31%	158,094	106,249	51,845	49%
Other Operating Expenses	19,575	12,878	6,697	52%	51,269	41,318	9,951	24%
Total Expenses	69,317	50,828	18,489	36%	209,363	147,567	61,796	42%
Economic Income	$ 76,657	$ 82,091	$ (5,434)	-7%	$ 241,890	$ 174,525	$ 67,365	39%

N/M Not meaningful.

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Revenues

Revenues were $146.0 million for the three months ended September 30, 2013, an increase of $13.1 million compared to $132.9 million for the three months ended September 30, 2012. The increase in revenues was primarily attributable to an increase of $15.5 million in Total Management Fees partially offset by a decrease of $4.7 million in Performance Fees.

Total Management Fees were $102.5 million for the three months ended September 30, 2013, an increase of $15.5 million compared to $87.0 million for the three months ended September 30, 2012, primarily due to an increase in Base Management Fees. Base Management Fees were $103.4 million for the three months ended September 30, 2013, an increase of $16.1 million compared to $87.3 million for the three months ended September 30, 2012. This increase was driven by an increase in Fee-Earning Assets Under Management of 17% from the prior year period, which was from net inflows and market appreciation.

Performance Fees were $34.5 million for the three months ended September 30, 2013, a decrease of $4.7 million compared to $39.3 million for the three months ended September 30, 2012. The decrease was primarily due to lower returns from the BAAM Principal Solutions funds. The net returns of the underlying assets for Blackstone s Hedge Fund Solutions funds were 1.7% during the three months ended September 30, 2013.

Revenues were $451.3 million for the nine months ended September 30, 2013, an increase of $129.2 million compared to $322.1 million for the nine months ended September 30, 2012. The increase in revenues was primarily attributable to an increase of $82.6 million in Performance Fees and an increase of $41.9 million in Total Management Fees.

Performance Fees were $138.6 million for the nine months ended September 30, 2013, an increase of $82.6 million compared to $56.0 million for the nine months ended September 30, 2012. This was primarily due to an increase in Fee-Earning Assets Under Management above their respective high water marks and/or hurdle, and therefore eligible for performance fees. The net returns of the underlying assets for Blackstone s Hedge Fund Solutions funds were 7.4% during the nine months ended September 30, 2013.

Total Management Fees were $294.4 million for the nine months ended September 30, 2013, an increase of $41.9 million compared to $252.5 million for the nine months ended September 30, 2012, primarily due to an increase in Base Management Fees. Base Management Fees were $296.3 million for the nine months ended September 30, 2013, an increase of $42.9 million compared to $253.4 million for the nine months ended September 30, 2012. This was driven by an increase in Fee-Earning Assets Under Management of 17% from the prior year period, which was from net inflows and market appreciation.

Expenses

Expenses were $69.3 million for the three months ended September 30, 2013, an increase of $18.5 million compared to the three months ended September 30, 2012. The increase was primarily attributable to an $8.8 million increase in Compensation and a $6.7 million increase in Other Operating Expenses. Compensation was $37.6 million for the three months ended September 30, 2013, an increase of $8.8 million, compared to $28.8 million for the three months ended September 30, 2012, primarily due to an increase in headcount to support the growth of the business. Other Operating Expenses increased $6.7 million to $19.6 million for the three months ended September 30, 2013, compared to $12.9 million for the three months ended September 30, 2012, primarily resulting from increases in interest expense allocated to the segment, professional fees and other expenses.

Expenses were $209.4 million for the nine months ended September 30, 2013, an increase of $61.8 million compared to the nine months ended September 30, 2012. The increase was attributable to a $35.1 million increase in Performance Fee Compensation, a $16.7 million increase in Compensation and a $10.0 million increase in Other Operating Expenses. Performance Fee Compensation was $49.8 million for the nine months ended September 30, 2013, an increase of $35.1 million, compared to $14.6 million for the nine months ended September 30, 2013, due to the increase in Performance Fees Revenue. Compensation was $108.3 million for the nine months ended September 30, 2013, an increase of $16.7 million, compared to $91.6 million for the prior year period, primarily due to an increase in headcount to support the growth of the business. Other Operating Expenses were $51.3 million for the nine months ended September 30, 2013, an increase of $10.0 million, compared to $41.3 million for the nine months ended September 30, 2012, primarily resulting from increases in interest expense allocated to the segment, professional fees and other expenses.

Operating Metrics

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

	Fee-Earning Assets Under Management Eligible for Incentive Fees		Estimated % Above High Water Mark and/or Hurdle (a)	
	As of September 30,		As of September 30,	
	2013	2012	2013	2012
	(Dollars in Thousands)			
BAAM Managed Funds (b)	$ 27,365,773	$ 24,063,577	97%	77%

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

(b) For the BAAM managed funds, at September 30, 2013 the incremental appreciation needed for the 3% of Fee-Earning Assets Under Management below their respective High Water Marks and/or Hurdle to reach their respective High Water Marks and/or Hurdle was $37.5 million, a decrease of $324.3 million, or 89.6%, compared to $361.8 million at September 30, 2012. Of the Fee-Earning Assets Under Management below their respective High Water Marks and/or Hurdle as of September 30, 2013, 70% were within 5% of reaching their respective High Water Mark and/or Hurdle.

Composite Returns

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

The following table presents the return information of the BAAM Managed Funds, BAAM Principal Solutions Composite:

	Three Months Ended September 30,				Nine Months Ended September 30,				Average Annual Returns (a) Periods Ended September 30, 2013							
	2013		2012		2013		2012		One Year		Three Year		Five Year		Historical	
Composite	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
BAAM Managed Funds, BAAM Principal Solutions Composite (b)	2%	2%	4%	3%	8%	7%	7%	6%	11%	10%	7%	6%	6%	5%	8%	7%

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

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

(b) BAAM s Principal Solutions Composite, formerly known as BAAM s Core Funds Composite, covers the period from January 2000 to present, although BAAM s inception date is September 1990. BAAM s Principal Solutions Composite does not include BAAM s long-only equity, long-biased commodities, seed, strategic opportunities (external investments) and advisory platforms.

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Credit

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

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	2013 vs. 2012 $	2013 vs. 2012 %	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012	2013 vs. 2012 $	2013 vs. 2012 %
	(Dollars in Thousands)							
Segment Revenues								
Management Fees, Net								
Base Management Fees	$ 101,900	$ 88,959	$ 12,941	15%	$ 295,204	$ 250,827	$ 44,377	18%
Transaction and Other Fees, Net	7,058	4,486	2,572	57%	20,434	19,395	1,039	5%
Management Fee Offsets	(2,606)	(1,271)	(1,335)	-105%	(5,737)	(3,146)	(2,591)	-82%
Total Management Fees, Net	106,352	92,174	14,178	15%	309,901	267,076	42,825	16%
Performance Fees								
Realized								
Carried Interest	3,655	328	3,327	N/M	125,068	14,947	110,121	737%
Incentive Fees	22,181	4,104	18,077	440%	60,027	8,837	51,190	579%
Unrealized								
Carried Interest	35,946	67,024	(31,078)	-46%	30,979	137,942	(106,963)	-78%
Incentive Fees	9,303	61,364	(52,061)	-85%	74,805	93,817	(19,012)	-20%
Total Performance Fees	71,085	132,820	(61,735)	-46%	290,879	255,543	35,336	14%
Investment Income (Loss)								
Realized	496	6,697	(6,201)	-93%	4,725	13,018	(8,293)	-64%
Unrealized	(1,042)	(736)	(306)	-42%	4,432	(681)	5,113	N/M
Total Investment Income (Loss)	(546)	5,961	(6,507)	N/M	9,157	12,337	(3,180)	-26%
Interest and Dividend Revenue	5,288	2,673	2,615	98%	13,906	6,850	7,056	103%
Other	(357)	(678)	321	47%	408	(1,703)	2,111	N/M
Total Revenues	181,822	232,950	(51,128)	-22%	624,251	540,103	84,148	16%
Expenses								
Compensation and Benefits								
Compensation	53,250	50,236	3,014	6%	154,712	130,224	24,488	19%
Performance Fee Compensation								
Realized								
Carried Interest	1,603	1,153	450	39%	68,959	8,388	60,571	722%
Incentive Fees	10,726	825	9,901	N/M	28,653	5,746	22,907	399%
Unrealized								
Carried Interest	19,216	37,695	(18,479)	-49%	15,121	82,412	(67,291)	-82%
Incentive Fees	292	33,316	(33,024)	-99%	35,647	28,886	6,761	23%
Total Compensation and Benefits	85,087	123,225	(38,138)	-31%	303,092	255,656	47,436	19%
Other Operating Expenses	23,451	33,527	(10,076)	-30%	67,374	66,372	1,002	2%
Total Expenses	108,538	156,752	(48,214)	-31%	370,466	322,028	48,438	15%
Economic Income	$ 73,284	$ 76,198	$ (2,914)	-4%	$ 253,785	$ 218,075	$ 35,710	16%

N/M Not meaningful.

Revenues

Revenues were $181.8 million for the three months ended September 30, 2013, a decrease of $51.1 million compared to the three months ended September 30, 2012. This change was primarily attributable to a $61.7 million decrease in Performance Fees reflecting a slower pace of market appreciation and a $6.5 million decrease in Investment Income, partially offset by a $14.2 million increase in Total Management Fees.

Performance Fees were $71.1 million for the three months ended September 30, 2013, a decrease of $61.7 million compared to $132.8 million for the three months ended September 30, 2012. This change was primarily attributable to a lower rate of appreciation in fund performance. The net returns of Blackstone s Credit segment funds were 0.9% for the hedge funds, 1.7% for the mezzanine funds and 4.3% for the rescue lending funds for the three months ended September 30, 2013.

Investment Income (Loss) was $(0.5) million for the three months ended September 30, 2013, a decrease of $6.5 million compared to $6.0 million for the three months ended September 30, 2012. The decrease was primarily due to a lower rate of appreciation in investments of which Blackstone owns a share.

Total Management Fees were $106.4 million for the three months ended September 30, 2013, an increase of $14.2 million compared to $92.2 million for the three months ended September 30, 2012. This change was primarily attributable to an increase of $12.9 million in Base Management Fees driven by greater Fee-Earning Assets Under Management resulting from net inflows and new product launches.

Revenues were $624.3 million for the nine months ended September 30, 2013, an increase of $84.1 million compared to $540.1 million for the nine months ended September 30, 2012. This change was primarily attributable to increases of $42.8 million in Total Management Fees and $35.3 million in Performance Fees.

Total Management Fees were $309.9 million for the nine months ended September 30, 2013, an increase of $42.8 million compared to $267.1 million for the nine months ended September 30, 2012. This change was primarily attributable to an increase of $44.4 million in Base Management Fees resulting from the growth in our Fee-Earning Assets Under Management.

Performance Fees were $290.9 million for the nine months ended September 30, 2013, an increase of $35.3 million compared to the prior year period. This change was primarily attributable to a higher rate of appreciation in our funds driven by favorable credit markets and strong underlying company performance in the portfolios of our carry funds. The net returns of Blackstone s Credit segment funds were 10.6% for the hedge funds, 14.5% for the mezzanine funds and 13.5% for the rescue lending funds for the nine months ended September 30, 2013.

Expenses

Expenses were $108.5 million for the three months ended September 30, 2013, a decrease of $48.2 million compared to $156.8 million for the three months ended September 30, 2012. The decrease in expenses was primarily attributable to a decrease of $41.2 million in Performance Fee Compensation due to the decrease in Performance Fees Revenue and a decrease of $10.1 million in Other Operating Expenses primarily attributable to lower professional fees partially offset by an increase in interest expense allocated to the segment.

Expenses were $370.5 million for the nine months ended September 30, 2013, an increase of $48.4 million compared to $322.0 million for the nine months ended September 30, 2012. The increase in expenses was primarily attributable to increases of $24.5 million in Compensation due to an increase in headcount to support the growth of the business and $22.9 million in Performance Fee Compensation due to the increase in Performance Fees Revenue.

Fund Returns

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

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

	Three Months Ended September 30,				Nine Months Ended September 30,				Average Annual Returns (a) Periods Ended September 30, 2013							
	2013		2012		2013		2012		One Year		Three Year		Five Year		Historical	
Fund	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Flagship Hedge Funds (b)	2%	1%	8%	6%	14%	11%	12%	9%	20%	15%	16%	12%	13%	9%	13%	9%

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

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

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

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

	Three Months Ended September 30,				Nine Months Ended September 30,				September 30, 2013 Inception to Date	
	2013		2012		2013		2012			
Fund (a)	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Mezzanine Funds (b)	3%	2%	10%	8%	20%	14%	24%	18%	26%	19%
Rescue Lending Funds (c)	6%	4%	6%	5%	17%	14%	17%	12%	22%	15%

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

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

(b) The Mezzanine Funds returns represent the weighted-average return for the U.S. domestic and offshore funds, as applicable, for the significant mezzanine funds. The inception to date return is from July 16, 2007, which is before Blackstone s acquisition of GSO in March 2008.

(c) The Rescue Lending Funds returns represent the weighted-average return for the U.S. domestic and offshore funds included in this return. The inception to date returns are from September 29, 2009, which is when the funds commenced investing.

As of September 30, 2013, the significant Credit drawdown funds were above their respective Carried Interest thresholds.

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Financial Advisory

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

	Three Months Ended September 30,		2013 vs. 2012		Nine Months Ended September 30,		2013 vs. 2012	
	2013	2012	$	%	2013	2012	$	%
	(Dollars in Thousands)							
Segment Revenues								
Advisory Fees	$ 83,602	$ 59,951	$ 23,651	39%	$ 271,356	$ 229,169	$ 42,187	18%
Transaction and Other Fees, Net	196	6	190	N/M	239	253	(14)	-6%
Total Advisory and Transaction Fees	83,798	59,957	23,841	40%	271,595	229,422	42,173	18%
Investment Income (Loss)								
Realized	(829)	251	(1,080)	N/M	(741)	755	(1,496)	N/M
Unrealized	1,006	928	78	8%	(871)	1,440	(2,311)	N/M
Total Investment Income (Loss)	177	1,179	(1,002)	-85%	(1,612)	2,195	(3,807)	N/M
Interest and Dividend Revenue	2,437	1,797	640	36%	5,799	5,112	687	13%
Other	836	(751)	1,587	N/M	836	(709)	1,545	N/M
Total Revenues	87,248	62,182	25,066	40%	276,618	236,020	40,598	17%
Expenses								
Compensation and Benefits								
Compensation	57,491	46,619	10,872	23%	191,570	175,708	15,862	9%
Other Operating Expenses	19,208	18,823	385	2%	60,762	65,211	(4,449)	-7%
Total Expenses	76,699	65,442	11,257	17%	252,332	240,919	11,413	5%
Economic Income (Loss)	$ 10,549	$ (3,260)	$ 13,809	N/M	$ 24,286	$ (4,899)	$ 29,185	N/M

N/M Not meaningful.

Revenues

Revenues were $87.2 million for the three months ended September 30, 2013, an increase of $25.1 million, or 40%, compared to $62.2 million for the three months ended September 30, 2012. The increase in revenues was driven by increases in our restructuring and reorganization and fund placement businesses. The increase in Blackstone s restructuring and reorganization business was driven by an increase in the number and size of transactions compared to the prior year period. The increase in fees earned by Blackstone s fund placement business was due primarily to an increase in the number of transactions that closed during the period. Blackstone Advisory Partners business increased modestly due to a higher amount of transaction fees recorded relative to the prior year period.

Revenues were $276.6 million for the nine months ended September 30, 2013, an increase of $40.6 million, or 17%, compared to $236.0 million for the nine months ended September 30, 2012. The increase in revenues was driven primarily by increases in Blackstone s restructuring and reorganization, capital markets and fund placement businesses, partially offset by a decrease in Blackstone Advisory Partners business. The increase in Blackstone s restructuring and reorganization business was primarily driven by an increase in the number and size of transactions compared to the prior year period. Blackstone s capital markets business was formed in late 2012. During the nine months ended September 30, 2013, Blackstone s capital markets business acted as underwriter or arranger for thirteen deals. The increase in fees earned by Blackstone s fund placement business was due primarily to an increase in the number of transactions that closed during the period. Blackstone Advisory Partners experienced a decrease in revenues related to the overall decline in the mergers and acquisitions market.

Expenses

Expenses were $76.7 million for the three months ended September 30, 2013, an increase of $11.3 million, or 17%, compared to $65.4 million for the three months ended September 30, 2012. Compensation increased $10.9 million compared to $46.6 million for the three months ended September 30, 2012, principally due to an overall increase in total fee revenue across the segment. Compensation expense for these businesses is related to their financial performance. Other Operating Expenses were relatively flat compared to the prior year period.

Expenses were $252.3 million for the nine months ended September 30, 2013, an increase of $11.4 million, or 5%, compared to $240.9 million for the nine months ended September 30, 2012. Compensation increased $15.9 million compared to $175.7 million for the nine months ended September 30, 2012, principally due to an overall increase in total fee revenue across the segment. Compensation expense for these businesses is related to their financial performance. Other Operating Expenses decreased $4.4 million over the nine months ended September 30, 2013, principally due to decreases in business development, bad debt and other expenses.

Liquidity and Capital Resources

General

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

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

Total assets were $28.0 billion as of September 30, 2013, a decrease of $896.7 million from December 31, 2012. The decrease in total assets was primarily attributable to a $695.9 million decrease in Investments due to the deconsolidation of certain CLO vehicles and partially offset by overall investment appreciation between December 31, 2012 and September 30, 2013. Total liabilities were $15.5 billion as of September 30, 2013, a decrease of $2.2 billion from December 31, 2012. The decrease in total liabilities was primarily due to a decrease in Loans Payable of $2.2 billion resulting from the deconsolidation of certain CLO vehicles and loan repayments.

For the three months ended September 30, 2013, we had Total Fee Related Revenues of $581.0 million and related expenses of $402.4 million, generating Fee Related Earnings of $178.6 million and Distributable Earnings of $312.7 million. For the nine months ended September 30, 2013, we had Total Fee Related Revenues of $1.7 billion and related expenses of $1.2 billion, generating Fee Related Earnings of $484.8 million and Distributable Earnings of $1.0 billion.

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Sources of Liquidity

We have multiple sources of liquidity to meet our capital needs, including annual cash flows, accumulated earnings in the businesses, investments in our own Treasury and liquid funds and access to our debt capacity, including our $1.1 billion committed revolving credit facility and the proceeds from our 2009, 2010 and 2012 issuances of senior notes. As of September 30, 2013, we had $888.9 million in cash and cash equivalents, $1.1 billion invested in Blackstone s Treasury Cash Management Strategies, $151.1 million invested in liquid Blackstone Funds, $2.3 billion invested in illiquid Blackstone Funds and $172.1 million in other investments, against $1.6 billion in borrowings from our bond issuances, and no borrowings outstanding under our revolving credit facility.

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

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

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The following table calculates Blackstone s Fee Related Earnings, Distributable Earnings and Economic Net Income:

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(Dollars in Thousands)			
Base Management Fees (a)	$ 437,294	$ 398,088	$ 1,271,715	$ 1,174,938
Advisory Fees (a)	83,602	59,951	271,356	229,169
Transaction and Other Fees, Net (a)	42,806	45,126	147,244	133,050
Management Fee Offsets (a)	(8,271)	(8,454)	(28,468)	(29,477)
Interest Income and Other Revenue (b)	25,535	27,358	33,336	53,261
Compensation (a)	(279,498)	(259,561)	(852,952)	(783,217)
Other Operating Expenses (a)	(122,872)	(127,456)	(357,468)	(350,015)
Fee Related Earnings	178,596	135,052	484,763	427,709
Net Realized Incentive Fees (b)	16,639	7,163	70,711	14,307
Net Realized Carried Interest (b)	122,285	61,742	434,396	115,394
Net Realized Investment Income (b)	18,164	16,847	108,509	42,522
Taxes and Related Payables (c)	(31,756)	(31,169)	(88,124)	(59,772)
Equity-Based Compensation (d)	8,745	6,813	31,815	21,468
Distributable Earnings	312,673	196,448	1,042,070	561,628
Net Unrealized Incentive Fees (b)	29,908	59,895	94,459	107,759
Net Unrealized Carried Interest (b)	207,711	274,602	573,468	536,330
Net Unrealized Investment Income (b)	81,720	77,708	246,446	110,973
Add Back: Related Payables (e)	16,964	19,912	47,149	30,096
Less: Equity-Based Compensation (d)	(8,745)	(6,813)	(31,815)	(21,468)
Economic Net Income	$ 640,231	$ 621,752	$ 1,971,777	$ 1,325,318

(a) Represents the total segment amounts of the respective captions.
(b) Detail on this amount is included in the table below.
(c) Represents the current tax provision calculated on Income Before Provision for Taxes and the Payable Under Tax Receivable Agreement.
(d) Represents equity-based award expense included in Economic Income.
(e) Represents tax-related payables including the Payable Under Tax Receivable Agreement.

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The following calculates the components of Fee Related Earnings, Distributable Earnings and Economic Net Income in the above table identified by note (b):

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(Dollars in Thousands)			
Interest Income and Dividend Revenue (a)	$ 21,539	$ 12,004	$ 51,542	$ 31,740
Other Revenue (a)	4,708	2,477	5,687	442
Investment Income (Loss) Blackstone s Treasury Cash Management Strategies (b)	(712)	12,877	(23,893)	21,079
Interest Income and Other Revenue	$ 25,535	$ 27,358	$ 33,336	$ 53,261
Realized Incentive Fees (a)	31,238	11,620	130,832	28,591
Less: Realized Incentive Fee Compensation (a)	(14,599)	(4,457)	(60,121)	(14,284)
Net Realized Incentive Fees	$ 16,639	$ 7,163	$ 70,711	$ 14,307
Realized Carried Interest (a)	$ 182,654	$ 83,765	$ 660,112	$ 153,254
Less: Realized Carried Interest Compensation (a)	(60,369)	(22,023)	(225,716)	(37,860)
Net Realized Carried Interest	$ 122,285	$ 61,742	$ 434,396	$ 115,394
Realized Investment Income (a)	$ 11,492	$ 25,098	$ 104,188	$ 57,950
Adjustment Related to Realized Investment Income (Loss) Blackstone s Treasury Cash Management Strategies (c)	6,672	(8,251)	4,321	(15,428)
Net Realized Investment Income	$ 18,164	$ 16,847	$ 108,509	$ 42,522
Unrealized Incentive Fees (a)	$ 40,992	$ 104,149	$ 153,105	$ 155,196
Less: Unrealized Incentive Fee Compensation (a)	(11,084)	(44,254)	(58,646)	(47,437)
Net Unrealized Incentive Fees	$ 29,908	$ 59,895	$ 94,459	$ 107,759
Unrealized Carried Interest (a)	$ 290,052	$ 403,465	$ 924,105	$ 786,551
Less: Unrealized Carried Interest Compensation (a)	(82,341)	(128,863)	(350,637)	(250,221)
Net Unrealized Carried Interest	$ 207,711	$ 274,602	$ 573,468	$ 536,330
Unrealized Investment Income (a)	$ 87,680	$ 82,334	$ 226,874	$ 116,624
Less: Investment Income (Loss) Blackstone s Treasury Cash Management Strategies (b)	712	(12,877)	23,893	(21,079)
Less: Adjustment Related to Realized Investment Income (Loss) Blackstone s Treasury Cash Management Strategies (c)	(6,672)	8,251	(4,321)	15,428
Net Unrealized Investment Income	$ 81,720	$ 77,708	$ 246,446	$ 110,973

(a) Represents the total segment amounts of the respective captions.
(b) Represents the inclusion of Investment Income (Loss) from Blackstone s Treasury Cash Management Strategies.

(c) Represents the elimination of Realized Investment Income (Loss) attributable to Blackstone s Treasury Cash Management Strategies, which is a component of both Fee Related Earnings and Realized Investment Income (Loss).

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The following table is a reconciliation of Net Income Attributable to The Blackstone Group L.P. to Economic Income, of Economic Income to Economic Net Income, of Economic Net Income to Fee Related Earnings, of Fee Related Earnings to Distributable Earnings and of Distributable Earnings to Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in Thousands)			
Net Income Attributable to The Blackstone Group L.P.	$ 171,164	$ 128,824	$ 549,947	$ 112,185
Net Income Attributable to Non-Controlling Interests in Blackstone Holdings	208,332	183,431	664,556	237,809
Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities	30,231	(157,607)	48,723	279,970
Net Income Attributable to Redeemable Non- Controlling Interests in Consolidated Entities	51,188	41,854	135,870	78,447
Net Income	460,915	196,502	1,399,096	708,411
Provision for Taxes	57,477	39,237	164,552	119,327
Income Before Provision for Taxes	518,392	235,739	1,563,648	827,738
IPO and Acquisition-Related Charges (a)	190,525	248,179	556,193	762,012
Amortization of Intangibles (b)	27,525	33,338	77,504	123,661
(Income) Loss Associated with Non-Controlling Interests in (Income) Loss of Consolidated Entities (c)	(81,419)	115,753	(184,593)	(358,417)
Economic Income	655,023	633,009	2,012,752	1,354,994
Taxes (d)	(14,792)	(11,257)	(40,975)	(29,676)
Economic Net Income	640,231	621,752	1,971,777	1,325,318
Taxes (d)	14,792	11,257	40,975	29,676
Performance Fee Adjustment (e)	(544,936)	(602,999)	(1,868,154)	(1,123,592)
Investment Income Adjustment (f)	(99,172)	(107,432)	(331,062)	(174,574)
Investment Income (Loss) Blackstone s Treasury Cash Management Strategies (g)	(712)	12,877	(23,893)	21,079
Performance Fee Compensation and Benefits Adjustment (h)	168,393	199,597	695,120	349,802
Fee Related Earnings	178,596	135,052	484,763	427,709
Realized Performance Fees (i)	138,924	68,905	505,107	129,701
Realized Investment Income (j)	11,492	25,098	104,188	57,950
Adjustment Related to Realized Investment Income (Loss) Blackstone s Treasury Cash Management Strategies (k)	6,672	(8,251)	4,321	(15,428)
Taxes and Related Payables Including Payable Under Tax Receivable Agreement (l)	(31,756)	(31,169)	(88,124)	(59,772)
Equity-Based Compensation (m)	8,745	6,813	31,815	21,468
Distributable Earnings	312,673	196,448	1,042,070	561,628
Interest	25,268	18,163	77,297	44,567
Taxes and Related Payables Including Payable Under Tax Receivable Agreement (l)	31,756	31,169	88,124	59,772
Depreciation and Amortization	8,956	8,895	26,715	29,554
Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization	$ 378,653	$ 254,675	$ 1,234,206	$ 695,521

(a) The adjustment adds back to Income Before Provision for Taxes amounts for Transaction-Related Charges which include principally equity-based compensation charges associated with Blackstone s initial public offering and long-term retention programs outside of annual deferred compensation and other corporate actions.

(b) This adjustment adds back to Income Before Provision for Taxes amounts for the Amortization of Intangibles which are associated with Blackstone s initial public offering and other corporate actions.

(c) This adjustment adds back to Income Before Provision for Taxes the amount of (Income) Loss Associated with Non-Controlling Interests in (Income) Loss of Consolidated Entities and includes the amount of Management Fee Revenues associated with Consolidated CLO Entities.

(d) Taxes represent the current tax provision calculated on Income Before Provision for Taxes.

(e) This adjustment removes from EI the total segment amount of Performance Fees.

(f) This adjustment removes from EI the total segment amount of Investment Income (Loss).

(g) This adjustment represents the realized and unrealized gain on Blackstone s Treasury Cash Management Strategies which are a component of Investment Income (Loss) but included in Fee Related Earnings.

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

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

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

(k) Represents the elimination of Realized Investment Income (Loss) attributable to Blackstone s Treasury Cash Management Strategies which is a component of both Fee Related Earnings and Realized Investment Income (Loss).

(l) Taxes and Related Payables Including Payable Under Tax Receivable Agreement represent the current tax provision calculated on Income Before Provision for Taxes and the Payable Under Tax Receivable Agreement.

(m) Represents equity-based award expense included in Economic Income.

Liquidity Needs

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

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commitments to our funds, the funds we invest in and our investment strategies as of September 30, 2013 consisted of the following:

Fund	Original Commitment	Remaining Commitment
	(Dollars in Thousands)	
Private Equity		
BCP VI	$ 719,718	$ 554,798
BCP V	629,356	71,387
BEP	50,000	40,024
Tactical Opportunities	69,820	56,619
Other (a)	215,221	17,559
Real Estate		
BREP VII	300,000	152,777
BREP VI	750,000	45,649
BREP Europe III	100,000	20,688
BREP Europe IV	100,000	100,000
BREP Asia	50,000	38,196
BREDS II	50,000	38,460
CT Opportunity Partners I	25,000	15,381
Other (a)	138,288	11,626
Hedge Fund Solutions		
Strategic Alliance II	50,000	16,936
Strategic Alliance	50,000	2,033
Credit		
Capital Opportunities Fund II L.P. (COF II)	120,000	97,458
GSO Capital Solutions II	125,000	125,000
Blackstone/GSO Capital Solutions	50,000	9,684
Blackstone Credit Liquidity Partners	32,244	3,192
BMezz II	17,692	3,085
Other (a)	32,238	19,560
Other		
Treasury	256,535	100,523
Total	$ 3,931,112	$ 1,540,635

(a) Represents capital commitments to a number of other funds in each respective segment.

For some of the general partner commitments shown in the table above, we require our senior managing directors and certain other professionals to fund a portion of the commitment even though the ultimate obligation to fund the aggregate commitment is ours pursuant to the governing agreements of the respective funds. The amounts of the aggregate applicable general partner original commitment shown in the table above are for each fund as follows: BCP VI $250 million, Tactical Opportunities $11 million, BREP VII $100 million, BREP VI $150 million, BREP Europe III $35 million, BREP Europe IV $33 million, BREP Asia $17 million, BREDS II $17 million and COF II $110 million. In addition, certain senior managing directors and other professionals are required to fund a de minimis amount of the commitment in the other private equity, real estate and credit-focused carry funds. We expect our commitments to be drawn down over time and to be funded by available cash and cash generated from operations and realizations. Taking into account prevailing market conditions and both the liquidity and cash or liquid investment balances, we believe that the sources of liquidity described below will be more than sufficient to fund our working capital requirements.

Blackstone, through indirect subsidiaries, has a $1.1 billion unsecured revolving credit facility (the Credit Facility) with Citibank, N.A., as Administrative Agent with a maturity date of July 13, 2017. Borrowings may

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also be made in U.K. sterling or euros, in each case subject to certain sub-limits. The Credit Facility contains customary representations, covenants and events of default. Financial covenants consist of a maximum net leverage ratio and a requirement to keep a minimum amount of fee generating assets under management, each tested quarterly.

In August 2009, Blackstone Holdings Finance Co. L.L.C. issued $600 million in aggregate principal amount of 6.625% Senior Notes which will mature on August 15, 2019, unless earlier redeemed or repurchased. In September 2010, Blackstone Holdings Finance Co. L.L.C. issued $400 million in aggregate principal amount of 5.875% Senior Notes which will mature on March 15, 2021, unless earlier redeemed or repurchased. In August 2012, Blackstone Holdings Finance Co. L.L.C. issued $400 million in aggregate principal amount of 4.75% Senior Notes which will mature on February 15, 2023 and $250 million in aggregate principal amount of 6.25% Senior Notes which will mature on August 15, 2042. (These issuances of Senior Notes are collectively referred to as the Notes .) The Notes are unsecured and unsubordinated obligations of Blackstone Holdings Finance Co. L.L.C. and are fully and unconditionally guaranteed, jointly and severally, by The Blackstone Group L.P. and each of the Blackstone Holdings Partnerships. The Notes contain customary covenants and financial restrictions that, among other things, limit Blackstone Holdings Finance Co. L.L.C. and the guarantors ability, subject to certain exceptions, to incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The Notes also contain customary events of default. All or a portion of the Notes may be redeemed at our option, in whole or in part, at any time and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the Notes. If a change of control repurchase event occurs, the Notes are subject to repurchase at the repurchase price as set forth in the Notes.

In January 2008, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to $500 million of our common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. This unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date. During the three months ended September 30, 2013, no units were repurchased. As of September 30, 2013, the amount remaining under this program available for repurchases was $335.8 million.

Distributions

Distributable Earnings, which is derived from Blackstone s 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 is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. 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 Related Payables Including the Payable Under Tax Receivable Agreement.

Our current intention is to distribute to common unitholders each quarter substantially all of our Net Cash Available for Distribution to Common Unitholders, subject to a base quarterly distribution of $0.12 per unit. Net Cash Available for Distribution to Common Unitholders is The Blackstone Group L.P. s share of Distributable Earnings, less realized investment gains and returns of capital from investments and acquisitions, in excess of amounts determined by Blackstone s general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its business and funds, to comply with applicable law, any of its debt instruments or other agreements, or to provide for future cash requirements such as tax-related payments, clawback obligations and distributions to unitholders for any ensuing quarter.

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In circumstances in which the Net Cash Available for Distribution to Common Unitholders for a quarter falls short of the amount necessary to support the base distribution of $0.12 per unit, Blackstone intends to correspondingly reduce subsequent quarterly distributions below the amounts supported by the Net Cash Available for Distribution to Common Unitholders by the amount of the shortfall, but not below $0.12 per unit.

All of the foregoing is subject to the qualification that the declaration and payment of any distributions are at the sole discretion of our general partner and our general partner may change our distribution policy at any time, including, without limitation, to reduce the quarterly distribution payable to our common unitholders to less than $0.12 per unit or even to eliminate such distributions entirely.

Because the subsidiaries of The Blackstone Group L.P. must pay taxes and make payments under the tax receivable agreements, the amounts ultimately distributed by The Blackstone Group L.P. to its common unitholders in respect of each fiscal year are expected to be less, on a per unit basis, than the amounts distributed by the Blackstone Holdings Partnerships to the Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships in respect of their Blackstone Holdings Partnership Units.

Leverage

We may under certain circumstances use leverage opportunistically and over time to create the most efficient capital structure for Blackstone and our public common unitholders. In addition to the borrowings from our bond issuances and our revolving credit facility, our Treasury Cash Management Strategies may use reverse repurchase agreements, repurchase agreements and securities sold, not yet purchased. All of these positions are held in a separately managed portfolio. Reverse repurchase agreements are entered into primarily to take advantage of opportunistic yields otherwise absent in the overnight markets and also to use the collateral received to cover securities sold, not yet purchased. Repurchase agreements are entered into primarily to opportunistically yield higher spreads on purchased securities. The balances held in these financial instruments fluctuate based on Blackstone s liquidity needs, market conditions and investment risk profiles. The following table presents information regarding these financial instruments:

	Reverse Repurchase Agreements	Repurchase Agreements	Securities Sold, Not Yet Purchased
		(Dollars in Millions)	
Balance, September 30, 2013	$ 96.0	$ 68.5	$ 101.6
Balance, December 31, 2012	248.0	142.3	226.4
Nine Months Ended September 30, 2013			
Average Daily Balance	169.4	93.8	149.6
Maximum Daily Balance	290.9	271.9	276.6

Our private equity funds, real estate funds and funds of hedge funds have not historically utilized substantial leverage at the fund level other than for (a) short-term borrowings between the date of an investment and the receipt of capital from the investing fund s investors, and (b) long-term borrowings for certain investments in aggregate amounts which are generally 2% to 20% of the capital commitments of the respective fund. Our carry funds make direct or indirect investments in companies that utilize leverage in their capital structure. The degree of leverage employed varies among portfolio companies.

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

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Contractual Obligations, Commitments and Contingencies

The following table sets forth information relating to our contractual obligations as of September 30, 2013 on a consolidated basis and on a basis deconsolidating the Blackstone Funds:

Contractual Obligations	October 1, 2013 to December 31, 2013	2014 2015	2016 2017	Thereafter	Total
			(Dollars in Thousands)		
Operating Lease Obligations (a)	$ 17,630	$ 128,390	$ 106,104	$ 179,021	$ 431,145
Purchase Obligations	6,285	17,090	1,134		24,509
Blackstone Issued Notes and Revolving Credit Facility (b)				1,635,000	1,635,000
Interest on Blackstone Issued Notes and Revolving Credit Facility (c)	24,222	193,762	193,762	620,515	1,032,261
Blackstone Operating Entities Loan and Credit Facilities Payable (d)	297	5,040			5,337
Interest on Blackstone Operating Entities Loan and Credit Facilities Payable (e)	13	26			39
Blackstone Funds and CLO Vehicles Debt Obligations Payable (f)	9,859	3,993		10,214,357	10,228,209
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (g)	32,860	262,281	262,214	443,290	1,000,645
Blackstone Funds Capital Commitments to Investee Funds (h)	73,444				73,444
Due to Certain Non-Controlling Interest Holders in Connection with Tax Receivable Agreements (i)		167,977	139,632	974,449	1,282,058
Unrecognized Tax Benefits, Including Interest and Penalties (j)	912	481			1,393
Blackstone Operating Entities Capital Commitments to Blackstone Funds and Other (k)	1,540,635				1,540,635
Consolidated Contractual Obligations	1,706,157	779,040	702,846	14,066,632	17,254,675
Blackstone Funds and CLO Vehicles Debt Obligations Payable (f)	(9,859)	(3,993)		(10,214,357)	(10,228,209)
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (g)	(32,860)	(262,281)	(262,214)	(443,290)	(1,000,645)
Blackstone Funds Capital Commitments to Investee Funds (h)	(73,444)				(73,444)
Blackstone Operating Entities Contractual Obligations	$ 1,589,994	$ 512,766	$ 440,632	$ 3,408,985	$ 5,952,377

(a) We lease our primary office space under agreements that expire through 2032. In connection with certain lease agreements, we are responsible for escalation payments. The contractual obligation table above includes only guaranteed minimum lease payments for such leases and does not project potential escalation or other lease-related payments. These leases are classified as operating leases for financial statement purposes and as such are not recorded as liabilities on the Condensed Consolidated Statements of Financial Condition. The amounts are presented net of contractual sublease commitments.

(b) Represents the principal amount due on the senior notes we issued. As of September 30, 2013, we had no outstanding borrowings under our revolver.

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(c) Represents interest to be paid over the maturity of our senior notes and borrowings under our revolving credit facility which has been calculated assuming no pre-payments are made and debt is held until its final maturity date. These amounts exclude commitment fees for unutilized borrowings under our revolver.
(d) Represents borrowings for a capital asset facility.
(e) Represents interest to be paid over the maturity of the related debt obligation which has been calculated assuming no pre-payments are made and debt is held until its final maturity date. The future interest payments are calculated using variable rates in effect as of September 30, 2013, at spreads to market rates pursuant to the financing agreements, and range from 1.03% to 1.36%.
(f) These obligations are those of the Blackstone Funds including the consolidated CLO vehicles.
(g) Represents interest to be paid over the maturity of the related consolidated Blackstone Funds and CLO vehicles debt obligations which has been calculated assuming no pre-payments will be made and debt will be held until its final maturity date. The future interest payments are calculated using variable rates in effect as of September 30, 2013, at spreads to market rates pursuant to the financing agreements, and range from 0.42% to 10.91%. The majority of the borrowings are due on demand and for purposes of this schedule are assumed to mature within one year. Interest on the majority of these borrowings rolls over into the principal balance at each reset date.
(h) These obligations represent commitments of the consolidated Blackstone Funds to make capital contributions to investee funds and portfolio companies. These amounts are generally due on demand and are therefore presented in the less than one year category.
(i) Represents obligations by the Partnership s corporate subsidiary to make payments under the Tax Receivable Agreements to certain non-controlling interest holders for the tax savings realized from the taxable purchases of their interests in connection with the reorganization at the time of Blackstone s initial public offering in 2007 and subsequent purchases. The obligation represents the amount of the payments currently expected to be made, which are dependent on the tax savings actually realized as determined annually without discounting for the timing of the payments. As required by GAAP, the amount of the obligation included in the Condensed Consolidated Financial Statements and shown in Note 16. Related Party Transactions (see Part I. Item 1. Financial Statements) differs to reflect the net present value of the payments due to certain non-controlling interest holders.
(j) The total represents gross unrecognized tax benefits of $0.6 million and interest and penalties of $0.8 million. In addition, Blackstone is not able to make a reasonably reliable estimate of the timing of payments in individual years in connection with gross unrecognized benefits of $33.0 million and interest of $5.1 million; therefore, such amounts are not included in the above contractual obligations table.
(k) These obligations represent commitments by us to provide general partner capital funding to the Blackstone Funds, limited partner capital funding to other funds and Blackstone principal investment commitments. These amounts are generally due on demand and are therefore presented in the less than one year category; however, a substantial amount of the capital commitments are expected to be called over the next three years. We expect to continue to make these general partner capital commitments as we raise additional amounts for our investment funds over time.

Guarantees

Blackstone and certain of its consolidated funds provide financial guarantees. The amounts and nature of these guarantees are described in Note 17. Commitments and Contingencies Contingencies Guarantees in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements of this filing.

Indemnifications

In many of its service contracts, Blackstone agrees to indemnify the third party service provider under certain circumstances. The terms of the indemnities vary from contract to contract and the amount of indemnification liability, if any, cannot be determined and has not been included in the table above or recorded in our Condensed Consolidated Financial Statements as of September 30, 2013.

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Clawback Obligations

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

The actual clawback liability, however, generally does not become realized until the end of a fund s life except for certain Blackstone real estate 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.

As of September 30, 2013, the clawback obligations were $157.7 million, of which $98.6 million related to Blackstone Holdings and $59.1 million related to current and former Blackstone personnel. (See Note 16. Related Party Transactions and Note 17. Commitments and Contingencies in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements of this filing.)

Critical Accounting Policies

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

Principles of Consolidation

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

In addition, the Partnership consolidates all variable interest entities (VIE) in which it is the primary beneficiary. An enterprise is determined to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a 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 determine (a) 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:

The entity has all of the attributes of an investment company as defined in the American Institute of Certified Public Accountants Accounting and Auditing Guide, *Investment Companies* (Investment

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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,

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

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 as discussed in Note 2. Summary of Significant Accounting Policies in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements , 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 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 VIEs that can only be used to settle obligations of the consolidated VIE and liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of Blackstone are presented in a separate section in the Condensed Consolidated Statements of Financial Condition.

Revenue Recognition

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other. Please refer to Part I. Item 1. Business Incentive Arrangements / Fee Structure in our 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. The range of management fee rates and the calculation base from which they are earned, generally, are as follows:

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

0.30% to 1.75% of committed capital or invested capital during the investment period,

0.65% to 1.75% of invested capital or investment fair value subsequent to the investment period for private equity and real estate funds, and

1.00% to 1.50% of invested capital or net asset value for certain credit-focused funds.

On credit-focused funds structured like hedge funds:

1.50% to 2.00% of net asset value.

On credit-focused separately managed accounts:

0.35% to 1.00% of net asset value.

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

0.50% to 1.25% of net asset value.

On CLO vehicles:

0.40% to 1.25% of total assets.

On credit-focused registered and non-registered investment companies:

0.50% to 1.50% of fund assets or net asset value.

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 results. As such, the accrual for potential repayment of previously received Carried Interest, 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

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

Compensation and Benefits Compensation Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees 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

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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.

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.

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.

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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 Used in Fair Value Hedging Strategies 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 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 EBITDA multiple. 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 its valuation policies.

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 in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements of this filing.

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.

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.

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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 (Losses) from Fund Investment Activities in the Condensed Consolidated Statements of Operations. Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price).

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

For certain instruments, the Partnership has elected the fair value option. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. The Partnership has applied the fair value option for certain loans and receivables and certain investments in private debt 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. 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 (Losses) 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.

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

Intangibles and Goodwill

Blackstone s intangible assets consist of contractual rights to earn future fee income, including management and advisory fees, Incentive Fees and Carried Interest. Identifiable finite-lived intangible assets are amortized on a straight line basis over their estimated useful lives, ranging from 3 to 20 years, reflecting the contractual lives of such assets. Amortization expense is included within General, Administrative and Other in the accompanying Condensed Consolidated Statements of Operations. The Partnership does not hold any indefinite-lived intangible assets. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Goodwill comprises goodwill arising from the contribution and reorganization of the Partnership s predecessor entities in 2007 immediately prior to its IPO, the acquisition of GSO in 2008 and the acquisition of Strategic Partners in 2013.

The carrying value of goodwill was $1.8 billion as of September 30, 2013 and $1.7 billion as of December 31, 2012. Goodwill is reviewed for impairment at least annually, and more frequently if circumstances indicate impairment may have occurred. As of September 30, 2013 and December 31, 2012, we evaluated that it was not more likely than not that the fair value of the Partnership s operating segments was less than their respective carrying values.

We test goodwill for impairment at the operating segment level (the same as our segments). Management has organized the firm into five operating segments. All of the components in each segment have similar economic characteristics and management makes key operating decisions based on the performance of each segment. Therefore, we believe that operating segment is the appropriate reporting level for testing the impairment of goodwill. Blackstone performed a qualitative assessment as of September 30, 2013 and December 31, 2012 to determine if it was more likely than not that the fair value of its operating segments was less than their respective carrying values.

Off-Balance Sheet Arrangements

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

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

Note 6. Derivative Financial Instruments ,

Note 9. Variable Interest Entities , and

Note 17. Commitments and Contingencies Commitments Investment Commitments and Contingencies Guarantees .

Recent Accounting Developments

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

The investment process of our carry funds involves a detailed analysis of potential investments, and asset management teams are assigned to oversee the operations, strategic development, financing and capital deployment decisions of each portfolio investment. Key investment decisions are subject to approval by the applicable investment committee, which is comprised of Blackstone senior managing directors and senior management.

In our capacity as adviser to certain funds in our Hedge Fund Solutions and Credit segments, we continuously monitor a variety of markets for attractive trading opportunities, applying a number of traditional and customized risk management metrics to analyze risk related to specific assets or portfolios. In addition, we perform extensive credit and cash-flow analyses of borrowers, credit-based assets and underlying hedge fund managers, and have extensive asset management teams that monitor covenant compliance by, and relevant financial data of, borrowers and other obligors, asset pool performance statistics, tracking of cash payments relating to investments and ongoing analysis of the credit status of investments.

Effect on Fund Management Fees

Our management fees are based on (a) third parties capital commitments to a Blackstone Fund, (b) third parties capital invested in a Blackstone Fund or (c) the net asset value, or NAV, of a Blackstone Fund, as described in our Condensed Consolidated Financial Statements. Management fees will only be directly affected by short-term changes in market conditions to the extent they are based on NAV or represent permanent impairments of value. These management fees will be increased (or reduced) in direct proportion to the effect of changes in the market value of our investments in the related funds. The proportion of our management fees that are based on NAV is dependent on the number and types of Blackstone Funds in existence and the current stage of each fund s life cycle. For the nine months ended September 30, 2013 and September 30, 2012, the approximate percentages of our fund management fees based on the NAV of the applicable funds or separately managed accounts, were as follows:

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Fund Management Fees Based on the NAV of the Applicable Funds or Separately Managed Accounts	30%	28%

Market Risk

The Blackstone Funds hold investments which are reported at fair value. Based on the fair value as of September 30, 2013 and September 30, 2012, we estimate that a 10% decline in fair value of the investments

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would result in the following declines in Management Fees, Performance Fees, Net of Related Compensation Expense and Investment Income:

	September 30, 2013			September 30, 2012		
	Management Fees (a)	Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)	Management Fees (a)	Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)
	(Dollars in Thousands)					
10% Decline in Fair Value of the Investments	$ 65,099	$ 861,713	$ 284,991	$ 49,556	$ 1,215,826	$ 249,826

(a) Represents the annualized effect of the 10% decline.
(b) Represents the reporting date effect of the 10% decline.

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

	September 30, 2013	
	Total Assets Under Management, Excluding Undrawn Capital Commitments and the Amount of Capital Raised for CLOs (Dollars in Thousands)	Percentage Amount Classified as Level III Investments
Private Equity	$ 40,553,752	71%
Real Estate	54,054,837	98%
Hedge Fund Solutions	52,302,553	73%
Credit	31,191,317	44%

The fair value of our investments and securities can vary significantly based on a number of factors that take into consideration the diversity of the Blackstone Funds investment portfolio and on a number of factors and inputs such as similar transactions, financial metrics, and industry comparatives, among others. (See Part I, Item 1A. Risk Factors in our 2012 Annual Report on Form 10-K. Also see Part I, Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Investments, at Fair Value.) We believe these fair value amounts should be utilized with caution as our intent and strategy is to hold investments and securities until prevailing market conditions are beneficial for investment sales.

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

Exchange Rate Risk

The Blackstone Funds hold investments that are denominated in non-U.S. dollar currencies that may be affected by movements in the rate of exchange between the U.S. dollar and non-U.S. dollar currencies. Additionally, a portion of our management fees are denominated in non-U.S. dollar currencies. We estimate that

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as of September 30, 2013 and September 30, 2012, a 10% decline in the rate of exchange of all foreign currencies against the U.S. dollar would result in the following declines in Management Fees, Performance Fees, Net of Related Compensation Expense and Investment Income:

	September 30, 2013			September 30, 2012		
	Management Fees (a)	Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)	Management Fees (a)	Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)
	(Dollars in Thousands)					
10% Decline in the Rate of Exchange of All Foreign Currencies Against the U.S. Dollar	$ 14,911	$ 156,000	$ 36,514	$ 13,070	$ 101,621	$ 33,966

(a) Represents the annualized effect of the 10% decline.
(b) Represents the reporting date effect of the 10% decline.

Interest Rate Risk

Blackstone has debt obligations payable that accrue interest at variable rates. Interest rate changes may therefore affect the amount of our interest payments, future earnings and cash flows. Based on our debt obligations payable as of September 30, 2013 and September 30, 2012, we estimate that interest expense relating to variable rates would increase on an annual basis, in the event interest rates were to increase by one percentage point, as follows:

	September 30, 2013	September 30, 2012
	(Dollars in Thousands)	
Annualized Increase in Interest Expense Due to a One Percentage Point Increase in Interest Rates	$ 192	$ 232

Blackstone s Treasury Cash Management Strategies consists of a diversified portfolio of liquid assets to meet the liquidity needs of various businesses (the Treasury Liquidity Portfolio). This portfolio includes cash, open-ended money market mutual funds, open-ended bond mutual funds, marketable investment securities, freestanding derivative contracts, repurchase and reverse repurchase agreements and other investments. If interest rates were to increase by one percentage point, we estimate that our annualized investment income would decrease, offset by an estimated increase in interest income on an annual basis from interest on floating rate assets, as follows:

	September 30, 2013		September 30, 2012	
	Annualized Decrease in Investment Income	Annualized Increase in Interest Income from Floating Rate Assets	Annualized Decrease in Investment Income	Annualized Increase in Interest Income from Floating Rate Assets
	(Dollars in Thousands)			
One Percentage Point Increase in Interest Rates	$ 10,493(a)	$ 6,263	$ 13,810(a)	$ 7,042

(a) As of September 30, 2013 and 2012, this represents 0.5% and 0.7% of the Treasury Liquidity Portfolio, respectively.

Credit Risk

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

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

We estimate that our annualized investment income would decrease, if credit spreads were to increase by one percentage point, as follows:

	September 30, 2013	September 30, 2012
	(Dollars in Thousands)	
Decrease in Annualized Investment Income Due to a One Percentage Point Increase in Credit Spreads (a)	$ 25,369	$ 12,143

(a) As of September 30, 2013 and 2012, this represents 1.2% and 0.6% of the Treasury Liquidity Portfolio, respectively.

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

ITEM 4. CONTROLS AND PROCEDURES

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

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

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

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We may from time to time be involved in litigation and claims incidental to the conduct of our business. Our businesses are also subject to extensive regulation, which may result in regulatory proceedings against us. See Part I. Item 1A. Risk Factors in our 2012 Annual Report on Form 10-K. We are not currently subject to any pending judicial, administrative or arbitration proceedings that we expect to have a material impact on our consolidated financial statements.

In December 2007, a purported class of shareholders in public companies acquired by one or more private equity firms filed a lawsuit against a number of private equity firms and investment banks, including The Blackstone Group L.P., in the United States District Court in Massachusetts (*Kirk Dahl, et al. v. Bain Capital Partners, LLC, et al.*). The suit alleges that, from mid-2003 through 2007, eleven defendants violated the antitrust laws by allegedly conspiring to rig bids, restrict the supply of private equity financing, fix the prices for target companies at artificially low levels, and divide up an alleged market for private equity services for leveraged buyouts. After the conclusion of discovery, the plaintiffs filed an amended complaint in June 2012, in which the plaintiffs sought damages on behalf of public shareholders that tendered their shares in connection with 17 leveraged buyouts. In March 2013, the court denied defendants joint motion for summary judgment and all but one individual motion for summary judgment on plaintiffs overarching conspiracy claim but narrowed the scope of plaintiffs allegations. Consequently, the number of transactions for which plaintiffs are seeking damages has been reduced from 17 to eight transactions. The court has previously dismissed claims against Blackstone with respect to three of these eight transactions because Blackstone was released from any and all claims by the same shareholders in prior litigation. In July 2013, the court denied all but two defendants renewed individual motions for summary judgment, and in August 2013, the court granted another defendant s motion for reconsideration and ordered summary judgment in favor of that defendant (there remain seven defendants, including Blackstone). In July 2013, the court also denied the motion by Blackstone and three other defendants for summary judgment on plaintiffs claim of a conspiracy with respect to the Hospital Corporation of America (HCA). On October 21, 2013, plaintiffs filed a motion for class certification, and defendants opposition to that motion is due on January 24, 2014. A hearing on plaintiffs class certification motion will take place after May 19, 2014.

Blackstone believes that the foregoing suit is totally without merit and intends to defend it vigorously.

In the spring of 2008, six substantially identical complaints were brought against Blackstone and some of its executive officers purporting to be class actions on behalf of purchasers of common units in Blackstone s June 2007 initial public offering. These suits were subsequently consolidated into one complaint (*Landmen Partners Inc. v. The Blackstone Group L.P., et al.*) filed in the United States District Court for the Southern District of New York in October 2008 against Blackstone, Stephen A. Schwarzman (Blackstone s Chairman and Chief Executive Officer), Peter G. Peterson (Blackstone s former Senior Chairman), Hamilton E. James (Blackstone s President and Chief Operating Officer) and Michael A. Puglisi (Blackstone s Chief Financial Officer at the time of the IPO). The amended complaint alleged that (1) the IPO prospectus was false and misleading for failing to disclose that (a) one private equity investment would be adversely affected by trends in mortgage default rates, particularly for sub-prime mortgage loans, (b) another private equity investment was adversely affected by the loss of an exclusive manufacturing agreement, and (c) prior to the IPO the U.S. real estate market had started to deteriorate, adversely affecting the value of Blackstone s real estate investments; and (2) the financial statements in the IPO prospectus were materially inaccurate principally because they overstated the value of the investments referred to in clause (1).

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

In February 2011, a three-judge panel of the Second Circuit reversed the District Court s decision, ruling that the District Court incorrectly found that plaintiffs allegations were, if true, immaterial as a matter of law. The Second Circuit disagreed with the District Court, concluding that the complaint plausibly alleged that the initial public offering documents omitted material information concerning two of Blackstone funds individual investments and inadequately disclosed information relating to market risks to their real estate investments. Because this was a motion to dismiss, in reaching this decision the Second Circuit accepted all of the complaint s factual allegations as true and drew every reasonable inference in plaintiffs favor. The Second Circuit did not consider facts other than those in the plaintiffs complaint. On June 28, 2011, defendants filed a petition for writ of certiorari with the United States Supreme Court, which was subsequently denied. On August 8, 2011, defendants filed their answer to the complaint and discovery commenced. The parties completed factual discovery on March 29, 2013 and expert discovery on May 10, 2013. Briefing on defendants motion for summary judgment seeking to dismiss the case was completed on June 21, 2013 and oral argument was held on August 14, 2013. On August 14, 2013, the District Court certified a class pursuant to the stipulation of the parties.

On August 28, 2013, the parties executed a settlement agreement and plaintiffs filed a motion for approval of the settlement agreement. On August 30, 2013, the District Court preliminarily approved the settlement agreement and ordered notice of the settlement be sent to class members. The settlement agreement provides for a payment to the class of $85,000,000. The settlement payment was covered by insurance and did not have a material effect on our financial condition or results of operations. The District Court has scheduled a settlement hearing for December 18, 2013, at which time it will determine whether to approve the settlement.

ITEM 1A. RISK FACTORS

For a discussion of our potential risks and uncertainties, see the information under the heading Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012 and in our subsequently filed Quarterly Reports on Form 10-Q, all of which are accessible on the Securities and Exchange Commission s website at www.sec.gov.

See Part I. Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Business Environment in this report for a discussion of the conditions in the financial markets and economic conditions affecting our businesses. This discussion updates, and should be read together with, the risk factor entitled Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments made by our investment funds, reducing the ability of our investment funds to raise or deploy capital and reducing the volume of the transactions involving our financial advisory business, each of which could materially reduce our revenue and cash flow and adversely affect our financial condition in our Annual Report on Form 10-K for the year ended December 31, 2012.

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

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

In January 2008, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to $500 million of Blackstone common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased 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. The unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date. During the three months ended September 30, 2013, no units were repurchased. As of September 30, 2013, the amount remaining available for repurchases was $335.8 million under this program. See Part I. Item 1. Financial Statements

Notes to Condensed Consolidated Financial Statements Note 14. Net Income Per Common Unit and Part I. Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity Needs for further information regarding this unit repurchase program.

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 (ITRSHRA), which added Section 13(r) of the Exchange Act, Blackstone hereby incorporates by reference herein Exhibit 99.1 of this report, which includes disclosures publicly filed and/or provided to us by Travelport Limited, which may be considered our affiliate.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
99.1	Section 13(r) Disclosure.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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

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SIGNATURES

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

Date: November 8, 2013

The Blackstone Group L.P.

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

/s/ Laurence A. Tosi

Name: **Laurence A. Tosi**
Title: **Chief Financial Officer**
(Principal Financial Officer and Authorized Signatory)