

Blackstone Group L.P.  
Form 10-Q  
May 08, 2015  
Table of Contents

**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 MARCH 31, 2015**  
**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**  
(State or other jurisdiction of  
incorporation or organization)

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

**345 Park Avenue**

**New York, New York 10154**

(Address of principal executive offices)(Zip Code)

**(212) 583-5000**

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(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

The number of the Registrant's voting common units representing limited partner interests outstanding as of April 30, 2015 was 548,301,316.

The number of the Registrant's non-voting common units representing limited partner interests outstanding as of April 30, 2015 was 59,083,468.

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>PART I. <u>FINANCIAL INFORMATION</u></b>	
ITEM 1. <u>FINANCIAL STATEMENTS</u>	5
Unaudited Condensed Consolidated Financial Statements – March 31, 2015 and 2014:	
<u>Condensed Consolidated Statements of Financial Condition as of March 31, 2015 and December 31, 2014</u>	6
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2015 and 2014</u>	7
<u>Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2015 and 2014</u>	8
<u>Condensed Consolidated Statements of Changes in Partners' Capital for the Three Months Ended March 31, 2015 and 2014</u>	9
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2015 and 2014</u>	11
<u>Notes to Condensed Consolidated Financial Statements</u>	13
ITEM 1A. <u>UNAUDITED SUPPLEMENTAL PRESENTATION OF STATEMENTS OF FINANCIAL CONDITION</u>	54
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	56
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	114
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	118
<b>PART II. <u>OTHER INFORMATION</u></b>	
ITEM 1. <u>LEGAL PROCEEDINGS</u>	119
ITEM 1A. <u>RISK FACTORS</u>	119
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	120
ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	120
ITEM 4. <u>MINE SAFETY DISCLOSURES</u>	120
ITEM 5. <u>OTHER INFORMATION</u>	120
ITEM 6. <u>EXHIBITS</u>	121
<u>SIGNATURES</u>	122

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## **Table of Contents**

### **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, indicator, believes, expects, potential, continues, will, should, seeks, approximately, predicts, intends, plans, estimates, anticipates or the negative version of these words or other words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2014 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](http://www.sec.gov). These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. 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](http://www.blackstone.com)), Facebook page ([www.facebook.com/blackstone](http://www.facebook.com/blackstone)), Twitter ([www.twitter.com/blackstone](http://www.twitter.com/blackstone)), LinkedIn ([www.linkedin.com/company/the-blackstone-group](http://www.linkedin.com/company/the-blackstone-group)), Instagram ([instagram.com/Blackstone](http://instagram.com/Blackstone)) and YouTube ([www.youtube.com/user/blackstonegroup](http://www.youtube.com/user/blackstonegroup)) accounts 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 Contact Us/Email Alerts section of our website at [ir.blackstone.com](http://ir.blackstone.com) and the Alerts & Subscriptions page under News & Views at [www.blackstone.com](http://www.blackstone.com). The contents of our website, any alerts 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 corporate 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 core+ real estate funds which invest with a more modest risk profile and lower leverage as Blackstone Property Partners (BPP) 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.

**Table of Contents**

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 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 invested capital or fair value of assets we manage pursuant to separately managed accounts,
- (d) the amount of debt and equity outstanding for our CLOs and CDOs during the reinvestment period,
- (e) the aggregate par amount of collateral assets, including principal cash, for our CLOs and CDOs after the reinvestment period,
- (f) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies, and
- (g) the fair value of common stock, preferred stock, convertible debt, or similar instruments issued by our public REIT.

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 Real Estate segment carry funds including certain real estate debt investment funds and certain of our Hedge Fund Solutions funds, 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 invested capital or fair value of assets we manage pursuant to separately managed accounts,

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(f) the net proceeds received from equity offerings and accumulated core earnings of our REITs, subject to certain adjustments,

(g) the aggregate par amount of collateral assets, including principal 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.

**Table of Contents**

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

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

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

	March 31, 2015	December 31, 2014
<b>Assets</b>		
Cash and Cash Equivalents	\$ 1,135,472	\$ 1,412,472
Cash Held by Blackstone Funds and Other	1,969,621	1,808,092
Investments (including assets pledged of \$111,206 and \$45,764 at March 31, 2015 and December 31, 2014, respectively)	22,896,254	22,765,589
Accounts Receivable	1,259,037	559,321
Reverse Repurchase Agreements	79,628	
Due from Affiliates	1,146,008	1,128,408
Intangible Assets, Net	434,033	458,833
Goodwill	1,787,392	1,787,392
Other Assets	458,044	338,557
Deferred Tax Assets	1,241,112	1,252,230
<b>Total Assets</b>	<b>\$ 32,406,601</b>	<b>\$ 31,510,894</b>
<b>Liabilities and Partners' Capital</b>		
Loans Payable	\$ 9,063,490	\$ 8,937,638
Due to Affiliates	1,460,362	1,490,088
Accrued Compensation and Benefits	2,432,830	2,439,257
Securities Sold, Not Yet Purchased	162,111	85,878
Repurchase Agreements	87,085	29,907
Accounts Payable, Accrued Expenses and Other Liabilities	1,246,739	1,194,579
<b>Total Liabilities</b>	<b>14,452,617</b>	<b>14,177,347</b>
<b>Commitments and Contingencies</b>		
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<b>2,510,047</b>	<b>2,441,854</b>
<b>Partners' Capital</b>		
The Blackstone Group L.P. Partners' Capital		
Partners' Capital (common units: 609,185,546 issued and outstanding as of March 31, 2015; 595,624,855 issued and outstanding as of December 31, 2014)	7,396,962	6,999,830
Appropriated Partners' Capital	103,838	81,301
Accumulated Other Comprehensive Loss	(42,014)	(20,864)
<b>Total The Blackstone Group L.P. Partners' Capital</b>	<b>7,458,786</b>	<b>7,060,267</b>
<b>Non-Controlling Interests in Consolidated Entities</b>	<b>3,404,810</b>	<b>3,415,356</b>
<b>Non-Controlling Interests in Blackstone Holdings</b>	<b>4,580,341</b>	<b>4,416,070</b>
<b>Total Partners' Capital</b>	<b>15,443,937</b>	<b>14,891,693</b>



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<b>Total Liabilities and Partners' Capital</b>	\$ 32,406,601	\$ 31,510,894
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continued

See notes to condensed consolidated financial statements.

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

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

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
<b>Assets</b>		
Cash Held by Blackstone Funds and Other	\$ 1,344,326	\$ 1,325,094
Investments	7,424,060	7,759,322
Accounts Receivable	612,415	131,996
Due from Affiliates	33,464	65,124
Other Assets	52,911	48,441
<b>Total Assets</b>	<b>\$ 9,467,176</b>	<b>\$ 9,329,977</b>
<b>Liabilities</b>		
Loans Payable	\$ 6,914,687	\$ 6,787,100
Due to Affiliates	194,197	182,107
Accounts Payable, Accrued Expenses and Other	705,041	697,149
<b>Total Liabilities</b>	<b>\$ 7,813,925</b>	<b>\$ 7,666,356</b>

See notes to condensed consolidated financial statements.

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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Revenues</b>		
Management and Advisory Fees, Net	\$ 603,498	\$ 573,160
<b>Performance Fees</b>		
Realized		
Carried Interest	1,206,425	333,623
Incentive Fees	27,992	43,794
Unrealized		
Carried Interest	374,481	330,394
Incentive Fees	61,860	64,233
Total Performance Fees	1,670,758	772,044
<b>Investment Income</b>		
Realized	187,710	153,026
Unrealized	15,771	13,500
Total Investment Income	203,481	166,526
Interest and Dividend Revenue	21,499	14,069
Other	(5,656)	869
<b>Total Revenues</b>	<b>2,493,580</b>	<b>1,526,668</b>
<b>Expenses</b>		
<b>Compensation and Benefits</b>		
Compensation	559,559	485,351
<b>Performance Fee Compensation</b>		
Realized		
Carried Interest	292,248	149,398
Incentive Fees	12,227	23,635
Unrealized		
Carried Interest	74,380	40,730
Incentive Fees	24,961	23,531
Total Compensation and Benefits	963,375	722,645
General, Administrative and Other	130,973	135,554
Interest Expense	31,370	24,667
Fund Expenses	23,232	4,985
<b>Total Expenses</b>	<b>1,148,950</b>	<b>887,851</b>
<b>Other Income</b>		
Net Gains from Fund Investment Activities	238,972	70,155
<b>Income Before Provision for Taxes</b>	<b>1,583,602</b>	<b>708,972</b>
<b>Provision for Taxes</b>	<b>99,344</b>	<b>54,097</b>

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<b>Net Income</b>	1,484,258	654,875
<b>Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	56,358	45,792
<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities</b>	153,222	43,961
<b>Net Income Attributable to Non-Controlling Interests in Blackstone Holdings</b>	645,230	299,505
<b>Net Income Attributable to The Blackstone Group L.P.</b>	\$ 629,448	\$ 265,617
<b>Distributions Declared Per Common Unit</b>	\$ 0.78	\$ 0.58
<b>Net Income Per Common Unit</b>		
Common Units, Basic	\$ 1.01	\$ 0.44
Common Units, Diluted	\$ 1.00	\$ 0.44
<b>Weighted-Average Common Units Outstanding</b>		
Common Units, Basic	625,276,969	601,527,299
Common Units, Diluted	631,232,041	605,669,164
<b>Revenues Earned from Affiliates</b>		
Management and Advisory Fees, Net	\$ 47,763	\$ 74,032

See notes to condensed consolidated financial statements.

**Table of Contents**

**THE BLACKSTONE GROUP L.P.**

**Condensed Consolidated Statements of Comprehensive Income (Unaudited)**

**(Dollars in Thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Net Income	\$ 1,484,258	\$ 654,875
Other Comprehensive Loss, Net of Tax    Currency Translation Adjustment	(50,271)	(1,166)
Comprehensive Income	1,433,987	653,709
Less		
Comprehensive Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	56,358	45,792
Comprehensive Income Attributable to Non-Controlling Interests in Consolidated Entities	124,101	43,843
Comprehensive Income Attributable to Non-Controlling Interests in Blackstone Holdings	645,230	299,505
Comprehensive Income Attributable to The Blackstone Group L.P.	\$ 608,298	\$ 264,569

See notes to condensed consolidated financial statements.

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

(Dollars in Thousands, Except Unit Data)

	The Blackstone Group L.P. Accumulated					Non- Controlling Interests in Consolidated Entities	Non- Controlling Interests in Blackstone Holdings	Total Partners Capital	Redeemable Non- Controlling Interests in Consolidated Entities
	Common Units	Partners Capital	Appro- priated Partners Capital	Other Compre- hensive Income (Loss)	Total				
<b>Balance at December 31, 2014</b>	595,624,855	\$ 6,999,830	\$ 81,301	\$ (20,864)	\$ 7,060,267	\$ 3,415,356	\$ 4,416,070	\$ 14,891,693	\$ 2,441,854
Consolidation of Fund Entity									
Net Income		629,448			629,448	153,222	645,230	1,427,900	56,358
Allocation of Income of Consolidated CLO Entities			51,658		51,658	(51,658)			
Currency Translation Adjustment				(21,150)	(21,150)	(29,121)		(50,271)	
Allocation of Currency Translation Adjustment of Consolidated CLO Entities			(29,121)		(29,121)	29,121			
Capital Contributions						141,668		141,668	178,838
Capital Distributions		(482,249)			(482,249)	(243,615)	(488,711)	(1,214,575)	(167,003)
Transfer of Non-Controlling Interests in Consolidated Entities						(10,163)		(10,163)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		9,113			9,113			9,113	
Equity-Based Compensation		130,134			130,134		122,236	252,370	
Net Delivery of Vested Blackstone Holdings Partnership Units and Blackstone Common Units	7,956,871	(27,632)			(27,632)			(27,632)	
Excess Tax Benefits Related to Equity-Based Compensation, Net		23,834			23,834			23,834	
Change in The Blackstone Group L.P.'s Ownership Interest		68,361			68,361		(68,361)		
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	5,603,820	46,123			46,123		(46,123)		
<b>Balance at March 31, 2015</b>	609,185,546	\$ 7,396,962	\$ 103,838	\$ (42,014)	\$ 7,458,786	\$ 3,404,810	\$ 4,580,341	\$ 15,443,937	\$ 2,510,047

See notes to condensed consolidated financial statements.

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

(Dollars in Thousands, Except Unit Data)

	The Blackstone Group L.P. Accumulated					Non- Controlling Interests in Consolidated Entities	Non- Controlling Interests in Blackstone Holdings	Total Partners Capital	Redeemable Non- Controlling Interests in Consolidated Entities
	Common Units	Partners Capital	Appro- priated Partners Capital	Other Compre- hensive Income (Loss)	Total				
<b>Balance at December 31, 2013</b>	572,592,279	\$ 6,002,592	\$ 300,708	\$ 3,466	\$ 6,306,766	\$ 2,464,047	\$ 3,656,416	\$ 12,427,229	\$ 1,950,442
Transition and Acquisition Adjustments Relating to Consolidation of CLO Entities			8,398		8,398			8,398	
Consolidation of Fund Entity						4,511		4,511	30,922
Net Income		265,617			265,617	43,961	299,505	609,083	45,792
Allocation of Losses of Consolidated CLO Entities			(39,019)		(39,019)	39,019			
Currency Translation Adjustment				(1,048)	(1,048)	(118)		(1,166)	
Allocation of Currency Translation Adjustment of Consolidated CLO Entities			(118)		(118)	118			
Reclassification of Currency Translation Adjustment Due to Deconsolidation of CLO Entities		(2,695)			(2,695)			(2,695)	
Capital Contributions						147,862		147,862	282,641
Capital Distributions		(341,318)			(341,318)	(135,987)	(367,544)	(844,849)	(133,443)
Transfer of Non-Controlling Interests in Consolidated Entities						(212)		(212)	
Purchase of Interests from Certain Non-Controlling Interest Holders		(6)			(6)			(6)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		12,645			12,645			12,645	
Equity-Based Compensation		142,117			142,117		133,128	275,245	
Relinquished with Deconsolidation and Liquidation of Partnership			(35,460)		(35,460)	(55)		(35,515)	
Net Delivery of Vested Blackstone Holdings Partnership Units and Blackstone Common Units	4,759,747	(19,129)			(19,129)			(19,129)	
Excess Tax Benefits Related to Equity-Based Compensation, Net		14,006			14,006			14,006	
Change in The Blackstone Group L.P.'s Ownership Interest		(10,354)			(10,354)		10,354		



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Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	6,739,766	45,050			45,050					(45,050)
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<b>Balance at March 31, 2014</b>	584,091,792	\$ 6,108,525	\$ 234,509	\$ 2,418	\$ 6,345,452	\$ 2,563,146	\$ 3,686,809	\$ 12,595,407	\$ 2,176,354
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See notes to condensed consolidated financial statements.

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

(Dollars in Thousands)

	Three Months Ended March 31,	
	2015	2014
<b>Operating Activities</b>		
Net Income	\$ 1,484,258	\$ 654,875
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	(185,229)	(108,233)
Net Realized Gains on Investments	(1,475,429)	(543,367)
Changes in Unrealized (Gains) Losses on Investments Allocable to The Blackstone Group L.P.	(61,241)	3,833
Non-Cash Performance Fees	(314,889)	(276,508)
Non-Cash Performance Fee Compensation	403,816	237,294
Equity-Based Compensation Expense	272,335	194,645
Excess Tax Benefits Related to Equity-Based Compensation	(23,834)	(16,513)
Amortization of Intangibles	24,800	26,258
Other Non-Cash Amounts Included in Net Income	107,467	53,939
Cash Flows Due to Changes in Operating Assets and Liabilities		
Cash Held by Blackstone Funds and Other	(292,648)	(52,120)
Cash Relinquished in Deconsolidation and Liquidation of Partnership	(1,356)	(75,327)
Accounts Receivable	(186,510)	364,988
Reverse Repurchase Agreements	(79,628)	(13,724)
Due from Affiliates	72,202	275,550
Other Assets	(120,946)	(81,645)
Accrued Compensation and Benefits	(436,354)	(288,791)
Securities Sold, Not Yet Purchased	76,698	70,318
Accounts Payable, Accrued Expenses and Other Liabilities	(473,287)	(223,761)
Repurchase Agreements	57,152	(138,678)
Due to Affiliates	(115,946)	(28,278)
Treasury Cash Management Strategies		
Investments Purchased	(1,063,714)	(808,884)
Cash Proceeds from Sale of Investments	1,120,428	1,020,997
Blackstone Funds Related		
Investments Purchased	(761,891)	(1,652,358)
Cash Proceeds from Sale or Pay Down of Investments	2,609,213	2,385,748
Net Cash Provided by Operating Activities	635,467	980,258
<b>Investing Activities</b>		
Purchase of Furniture, Equipment and Leasehold Improvements	(3,275)	(6,123)
Changes in Restricted Cash	5,843	5,841
Net Cash Provided by (Used in) Investing Activities	2,568	(282)

continued

See notes to condensed consolidated financial statements.



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

(Dollars in Thousands)

	Three Months Ended March 31,	
	2015	2014
<b>Financing Activities</b>		
Distributions to Non-Controlling Interest Holders in Consolidated Entities	\$ (406,503)	\$ (258,361)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	309,868	419,332
Purchase of Interests from Certain Non-Controlling Interest Holders		(6)
Payments Under Tax Receivable Agreement	(82,830)	(80,565)
Net Settlement of Vested Common Units and Repurchase of Common and Blackstone Holdings Partnership Units	(27,632)	(19,129)
Excess Tax Benefits Related to Equity-Based Compensation	23,834	16,513
Proceeds from Loans Payable	23	2,206
Repayment and Repurchase of Loans Payable	(2,410)	(6,488)
Distributions to Unitholders	(970,960)	(708,862)
Blackstone Funds Related		
Proceeds from Loans Payable	507,832	
Repayment of Loans Payable	(266,317)	(389,097)
Net Cash Used in Financing Activities	(915,095)	(1,024,457)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	60	4
<b>Net Decrease in Cash and Cash Equivalents</b>	(277,000)	(44,477)
Cash and Cash Equivalents, Beginning of Period	1,412,472	831,998
Cash and Cash Equivalents, End of Period	\$ 1,135,472	\$ 787,521
<b>Supplemental Disclosure of Cash Flows Information</b>		
Payments for Interest	\$ 49,484	\$ 49,282
Payments for Income Taxes	\$ 70,609	\$ 47,547
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities</b>		
Non-Cash Contributions from Non-Controlling Interest Holders	\$ 601	\$ 10,933
Non-Cash Distributions to Non-Controlling Interest Holders	\$ (4,115)	\$ (11,069)
Net Activities Related to Capital Transactions of Consolidated Blackstone Funds	\$ 268	\$ 808
Net Assets Related to the Consolidation of CLO Vehicles	\$	\$ 8,398
Net Assets Related to the Consolidation of Certain Fund Entities	\$	\$ 35,433
Transfer of Interests to Non-Controlling Interest Holders	\$ (10,163)	\$ (212)
Change in The Blackstone Group L.P.'s Ownership Interest	\$ 68,361	\$ (10,354)

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Net Settlement of Vested Common Units	\$ 51,228	\$ 22,325
Conversion of Blackstone Holdings Partnership Units to Common Units	\$ 46,123	\$ 45,050
Acquisition of Ownership Interests from Non-Controlling Interest Holders Deferred Tax Asset	\$ (54,313)	\$ (46,023)
Due to Affiliates	\$ 45,200	\$ 33,378
Partners' Capital	\$ 9,113	\$ 12,645

See notes to condensed consolidated financial statements.

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**Table of Contents**

**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements**

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

**1. ORGANIZATION**

The Blackstone Group L.P., together with its subsidiaries ( Blackstone or the Partnership ), is a leading global manager of private capital and provider of financial advisory services. The alternative asset management business includes the management of private equity funds, real estate funds, real estate investment trusts ( REITs ), funds of hedge funds, 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, capital markets 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, 2014 filed with the Securities and Exchange Commission.

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

All intercompany balances and transactions have been eliminated in consolidation.

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



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**Table of Contents**

**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

**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 Blackstone Holdings, 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:

- (a) The entity has all of the attributes of an investment company,
- (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 continually. 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 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 .





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**Table of Contents**

**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

**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 irrespective of whether such ability has been exercised. Senior and subordinate notes issued by CLO vehicles 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.

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

**Table of Contents**

**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements - Continued**

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

***Level II Valuation Techniques***

Financial instruments classified within Level II of the fair value hierarchy comprise debt instruments, including certain 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 measures which, in many cases, are based on unaudited information 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



**Table of Contents**

**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

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 existence of redemption restrictions, if any, 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.

***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 that 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. The valuations are further tested by comparison to actual sales prices obtained on disposition of the investments.

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**Table of Contents**

**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

**Investments, at Fair Value**

The Blackstone Funds are accounted for as investment companies under the American Institute of Certified Public Accountants Accounting and Auditing Guide, Investment Companies, and reflect their investments, including majority-owned and controlled investments (the Portfolio Companies), at fair value. 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. 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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**Table of Contents**

**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

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 approximates fair value.

**Reverse Repurchase and 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 reverse repurchase agreements and 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.

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 in the Condensed Consolidated Statements of Financial Condition.

Blackstone does not offset assets and liabilities relating to reverse repurchase agreements and repurchase agreements in 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.

**Table of Contents**

**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

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. Gains or losses on a derivative instrument that is designated as, and is effective as, an economic hedge of a net investment in a foreign operation is reported in the cumulative translation adjustment section of other comprehensive income to the extent it is effective as a hedge. The ineffective portion of a net investment hedge is 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. For net investment hedges, the Partnership uses a method based on changes in spot rates to measure effectiveness. 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 values of hedging derivative instruments are 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 in Net Gains (Losses) from Fund 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 in 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 .



**Table of Contents**

**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

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 declared.

**Recent Accounting Developments**

In June 2014, the Financial Accounting Standards Board ( FASB ) issued amended guidance on revenue from contracts with customers. The guidance requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity is required to (a) identify the contract(s) with a customer, (b) identify the performance obligations in the contract, (c) determine the transaction price, (d) allocate the transaction price to the performance obligations in the contract, and (e) recognize revenue when (or as) the entity satisfies a performance obligation. In determining the transaction price, an entity may include variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized would not occur when the uncertainty associated with the variable consideration is resolved.

The guidance introduces new qualitative and quantitative disclosure requirements about contracts with customers including revenue and impairments recognized, disaggregation of revenue and information about contract balances and performance obligations. Information is required about significant judgments and changes in judgments in determining the timing of satisfaction of performance obligations and determining the transaction price and amounts allocated to performance obligations. Additional disclosures are required about assets recognized from the costs to obtain or fulfill a contract.

The amended guidance is effective for annual periods beginning after December 15, 2016, including interim periods within that reporting period. The guidance may have a material impact on Blackstone's consolidated financial statements if it is determined that both performance fees and carried interest are forms of variable consideration that may not be included in the transaction price. This may significantly delay the recognition of carried interest income and performance fees.

In June 2014, the FASB issued amended guidance on transfers and servicing. Under the amended guidance, repurchase transactions previously accounted for as sales should be accounted for as secured borrowings. There are additional disclosures relating to repurchase agreements, secured lending transactions and repurchase-to-maturity transactions that are accounted for as secured borrowings including a disaggregation of the gross obligations by the class of collateral pledged, the remaining contractual tenor of the agreements and a discussion of the potential risks associated with the agreements and the related collateral pledged.

The accounting guidance is effective for the first interim or annual period beginning after December 15, 2014. Adoption did not have a material impact on Blackstone's financial statements. The amended disclosure guidance is effective for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The amended disclosure requirements are not expected to have a material impact on Blackstone's financial statements.

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**Table of Contents**

**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

In August 2014, the FASB issued amended guidance on the measurement of financial assets and financial liabilities of a consolidated collateralized financing entity. Under the amended guidance, a reporting entity that consolidates a collateralized financing entity may elect to measure the financial assets and the financial liabilities using the more observable of the fair value of the financial assets and the fair value of the financial liabilities. When this measurement alternative is elected, a reporting entity's consolidated net income (loss) should reflect the reporting entity's own economic interest in the collateralized financing entity, including (a) changes in the fair value of the beneficial interests retained by the reporting entity and (b) beneficial interests that represent compensation for services. When this measurement alternative is not elected, the amendments clarify that the fair value of financial assets and financial liabilities should be measured in accordance with existing fair value guidance and any difference in the fair value of financial assets and financial liabilities should be reflected in earnings and attributed to the reporting entity in the consolidated statement of income (loss). The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted as of the beginning of the annual period. The guidance is expected to impact the measurement of the financial assets or financial liabilities of Blackstone's consolidated collateralized loan obligation vehicles and have a material impact on the recognition of appropriated partners' capital. However, the impact on net income attributable to The Blackstone Group L.P. is not expected to be material.

In February 2015, the FASB issued amended guidance on consolidation. The amended guidance modifies the analysis that companies must perform in order to determine whether a legal entity should be consolidated. The amended guidance simplifies current consolidation rules by (a) reducing the number of consolidation models, (b) eliminating the risk that a reporting entity may have to consolidate a legal entity solely based on a fee arrangement with another legal entity, (c) placing more weight on the risk of loss in order to identify the party that has a controlling financial interest, (d) reducing the number of instances that related party guidance needs to be applied when determining the party that has a controlling financial interest, and changing rules for companies in certain industries that ordinarily employ limited partnership or VIE structures. The amended guidance is effective for public entities for interim and annual periods beginning after December 15, 2015. Early adoption, including adoption in an interim period, is permitted. The Partnership is evaluating the impact on its consolidated financial statements.

In April 2015, the FASB issued amended guidance to simplify the presentation of debt issuance costs. The amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendments are effective for fiscal years beginning after December 15, 2015 and interim periods within those years. The amended guidance is not expected to have a material impact on Blackstone's financial statements.

In May 2015, the FASB issued amended guidance on the disclosures for investments in certain entities that calculate net asset value per share (or its equivalent). The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient.

The guidance is effective for fiscal years beginning after December 15, 2015 and for interim periods within those years. The guidance shall be applied retrospectively for all periods presented. Early application is permitted. The guidance is not expected to have a material impact on Blackstone's financial statements.

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

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

**3. INTANGIBLE ASSETS**

Intangible Assets, Net consists of the following:

	March 31, 2015	December 31, 2014
Finite-Lived Intangible Assets/Contractual Rights	\$ 1,464,017	\$ 1,464,017
Accumulated Amortization	(1,029,984)	(1,005,184)
<b>Intangible Assets, Net</b>	<b>\$ 434,033</b>	<b>\$ 458,833</b>

Amortization expense associated with Blackstone's intangible assets was \$24.8 million for the three months ended March 31, 2015 and \$26.3 million for the three months ended March 31, 2014.

Amortization of Intangible Assets held at March 31, 2015 is expected to be \$96.1 million, \$85.6 million, \$46.5 million, \$46.5 million, and \$46.4 million for each of the years ending December 31, 2015, 2016, 2017, 2018, and 2019, respectively. Blackstone's intangible assets as of March 31, 2015 are expected to amortize over a weighted-average period of 6.7 years.

**4. INVESTMENTS**

Investments consists of the following:

	March 31, 2015	December 31, 2014
Investments of Consolidated Blackstone Funds	\$ 11,123,132	\$ 11,375,407
Equity Method Investments	3,144,959	3,240,825
Blackstone's Treasury Cash Management Strategies	1,631,696	1,666,061
Performance Fees	6,842,398	6,337,045
Other Investments	154,069	146,251
	<b>\$ 22,896,254</b>	<b>\$ 22,765,589</b>

Blackstone's share of Investments of Consolidated Blackstone Funds totaled \$671.1 million and \$704.9 million at March 31, 2015 and December 31, 2014, respectively.

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

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

**Investments of Consolidated Blackstone Funds**

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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Realized Gains	\$ 65,658	\$ 13,713
Net Change in Unrealized Gains (Losses)	109,247	(27,214)
Realized and Net Change in Unrealized Gains (Losses) from Consolidated Blackstone Funds	174,905	(13,501)
Interest and Dividend Revenue Attributable to Consolidated Blackstone Funds	64,067	83,656
Other Income Net Gains from Fund Investment Activities	\$ 238,972	\$ 70,155

**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.

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 March 31, 2015 and 2014, no individual equity method investment held by Blackstone met the significance criteria. As such, Blackstone is not required to present separate financial statements for any of its equity method investments.

The Partnership recognized net gains related to its equity method investments of \$161.3 million and \$97.2 million for the three months ended March 31, 2015 and 2014, 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:

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Realized Gains (Losses)	\$ (161)	\$ 3,094
Net Change in Unrealized Gains	11,111	8,970

\$ 10,950

\$ 12,064

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

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

**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, 2014	\$ 2,215,584	\$ 3,721,751	\$ 15,031	\$ 384,679	\$ 6,337,045
Performance Fees Allocated as a Result of Changes in Fund Fair Values	949,515	674,475	12,353	7,115	1,643,458
Foreign Exchange Loss		(43,947)			(43,947)
Fund Distributions	(402,044)	(666,321)	(12,696)	(13,097)	(1,094,158)
Performance Fees, March 31, 2015	\$ 2,763,055	\$ 3,685,958	\$ 14,688	\$ 378,697	\$ 6,842,398

**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 March 31,	
	2015	2014
Realized Gains	\$ 22	\$ 6,307
Net Change in Unrealized Gains (Losses)	371	(6,504)
	\$ 393	\$ (197)

**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 March 31, 2015 is presented below:

Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Diversified Instruments	\$ 186,184	\$ 1,415	(a)	(a)
Credit Driven	345,381		(b)	(b)
Event Driven	197,613		(c)	(c)

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Equity	369,338		(d)	(d)
Commodities	64,911		(e)	(e)
Private Equity	140,290		(f)	(f)
\$ 1,303,717		\$	1,415	

- (a) Diversified Instruments include investments in funds that invest across multiple strategies. Investments representing 81% 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 13% 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

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

- funds will be received as underlying investments are liquidated. The time at which this redemption restriction may lapse cannot be estimated. The remaining 6% 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 7% 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 66% 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 30% of the fair value of the investments in this category are redeemable as of the reporting date. Investments representing 3% of the total fair value in the credit driven category are subject to redemption restrictions such as the investee fund manager's ability to limit the amount of redemptions. The remaining 1% of the investments in this category 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.
- (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. Withdrawals are generally not permitted for the investments in this category. Distributions will be received as the underlying investments are liquidated.
- (e) The Commodities category includes investments in commodities-focused funds that primarily invest in futures and physical-based commodity driven strategies. Withdrawals are not permitted for investments representing 96% of the fair value of investments in this category. Distributions will be received as the underlying investments are liquidated. The remaining 4% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date.
- (f) The Private Equity category includes investments in private equity funds that primarily invest in private equity, revenue interests and other private investments. Withdrawals are not permitted for investments in this category.

**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. Blackstone may enter into derivative contracts in order to hedge its interest rate risk exposure against the effects of interest rate changes. Additionally, Blackstone may also enter into derivative contracts in order to hedge its foreign currency risk exposure against the effects of a portion of its non-U.S. dollar denominated currency net investments. 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.

**Net Investment Hedges**

To manage the potential exposure from adverse changes in currency exchange rates arising from Blackstone's net investment in foreign operations, during December 2014, Blackstone entered into several foreign currency forward contracts to hedge a portion of the net investment in Blackstone's non-U.S. dollar denominated foreign operations.

Blackstone uses foreign currency forward contracts to hedge portions of Blackstone's net investments in foreign operations. The gains and losses due to change in fair value attributable to changes in spot exchange rates on



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

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

foreign currency derivatives designated as net investment hedges were recognized in Other Comprehensive Income (Loss), Net of Tax Currency Translation Adjustment. For the three months ended March 31, 2015 the resulting gain was \$7.3 million.

**Freestanding Derivatives**

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

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

	March 31, 2015				December 31, 2014			
	Assets		Liabilities		Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
<b>Net Investment Hedges</b>								
Foreign Currency Contracts	\$	\$	\$ 53,280	\$ 408	\$ 62,078	\$ 523	\$	\$
<b>Freestanding Derivatives</b>								
Blackstone	Other							
Interest Rate Contracts	\$ 109,405	\$ 451	\$ 780,146	\$ 7,458	\$ 223,886	\$ 407	\$ 879,412	\$ 4,590
Foreign Currency Contracts	158,470	1,647	224,625	2,593	192,163	2,798	148,873	681
Credit Default Swaps	19,500	308	56,000	1,464	19,500	85	56,000	868
Investments of Consolidated Blackstone Funds								
Foreign Currency Contracts	135,520	5,118	302,609	36,138	199,364	8,915	250,244	21,875
Interest Rate Contracts	20,193	2,033			22,659	2,281		
Credit Default Swaps			83,060	543			91,372	2,514
	443,088	9,557	1,446,440	48,196	657,572	14,486	1,425,901	30,528
Total	\$ 443,088	\$ 9,557	\$ 1,499,720	\$ 48,604	\$ 719,650	\$ 15,009	\$ 1,425,901	\$ 30,528

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

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Net Investment Hedges Foreign Currency Contracts</b>		
Hedge Ineffectiveness	\$ 240	\$
<b>Freestanding Derivatives</b>		
Realized Gains (Losses)		
Interest Rate Contracts	\$ (3,514)	\$ (833)
Foreign Currency Contracts	14,073	1,439
Credit Default Swaps	1,826	286
Total	\$ 12,385	\$ 892
<b>Freestanding Derivatives</b>		
Net Change in Unrealized Gains (Losses)		
Interest Rate Contracts	\$ (995)	\$ (2,542)
Foreign Currency Contracts	(23,025)	(8,117)
Credit Default Swaps	(2,922)	1,813
Total	\$ (26,942)	\$ (8,846)

As of March 31, 2015 and December 31, 2014, the Partnership had not designated any derivatives as cash flow hedges.

**7. FAIR VALUE OPTION**

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

	<b>March 31,</b>	<b>December 31,</b>
	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Loans and Receivables	\$ 40,691	\$ 40,397
Equity and Preferred Securities	103,971	102,907
Assets of Consolidated CLO Vehicles		
Corporate Loans	5,902,169	6,279,592
Corporate Bonds	322,696	292,690
Other	75,387	44,513
	\$ 6,444,914	\$ 6,760,099

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**Liabilities**

Liabilities of Consolidated CLO Vehicles

Senior Secured Notes	\$ 6,587,954	\$ 6,448,352
Subordinated Notes	345,793	348,752
	\$ 6,933,747	\$ 6,797,104

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

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

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

	Three Months Ended March 31,			
	2015	2015	2014	2014
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
<b>Assets</b>				
Loans and Receivables	\$	\$ (1,875)	\$	\$
Equity and Preferred Securities	(185)	(2,828)	(584)	5,118
Assets of Consolidated CLO Vehicles				
Corporate Loans	6,656	67,619	(38,242)	15,059
Corporate Bonds	(1,105)	3,916	1,098	252
Other	1,955	(376)	14,997	(3,118)
	\$ 7,321	\$ 66,456	\$ (22,731)	\$ 17,311
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles				
Senior Secured Notes	\$	\$ (28,071)	\$ (2,538)	\$ (55,874)
Subordinated Notes		20,565		36,955
	\$	\$ (7,506)	\$ (2,538)	\$ (18,919)

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

	March 31, 2015			December 31, 2014		
	For Financial Assets Past Due (a)		Fair Value	For Financial Assets Past Due (a)		Fair Value
Excess (Deficiency) of Fair Value Over Principal	Excess (Deficiency) of Fair Value Over Principal	Excess (Deficiency) of Fair Value Over Principal		Excess (Deficiency) of Fair Value Over Principal		
Loans and Receivables	\$ (7,273)	\$	\$	\$ (5,323)	\$	\$
Assets of Consolidated CLO Vehicles						
Corporate Loans	(83,924)	2,875	(25,514)	(197,580)	4,369	(21,876)
Corporate Bonds	(2,324)			(7,814)		
	\$ (93,521)	\$ 2,875	\$ (25,514)	\$ (210,717)	\$ 4,369	\$ (21,876)

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- (a) 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 December 31, 2014, no Loans and Receivables for which the fair value option was elected were past due or in non-accrual status. As of March 31, 2015 and December 31, 2014, no Corporate Bonds included within the Assets of Consolidated CLO Vehicles for which the fair value option was elected were past due or in non-accrual status.

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

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

**8. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS**

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

	March 31, 2015			
	Level I	Level II	Level III	Total
<b>Assets</b>				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	\$	\$	\$ 1,170,378	\$ 1,170,378
Equity Securities	65,706	87,343	186,687	339,736
Partnership and LLC Interests		183,675	1,562,341	1,746,016
Debt Instruments		1,473,038	86,561	1,559,599
Assets of Consolidated CLO Vehicles				
Corporate Loans		5,387,924	514,245	5,902,169
Corporate Bonds		322,696		322,696
Freestanding Derivatives Foreign Currency Contracts		5,118		5,118
Freestanding Derivatives Interest Rate Contracts		2,033		2,033
Other	14	19,010	56,363	75,387
<b>Total Investments of Consolidated Blackstone Funds</b>	<b>65,720</b>	<b>7,480,837</b>	<b>3,576,575</b>	<b>11,123,132</b>
Blackstone's Treasury Cash Management Strategies				
Investment Funds	276,611			276,611
Equity Securities	69,849			69,849
Debt Instruments		1,158,707	64,816	1,223,523
Other		51,618	10,095	61,713
<b>Total Blackstone's Treasury Cash Management Strategies</b>	<b>346,460</b>	<b>1,210,325</b>	<b>74,911</b>	<b>1,631,696</b>
Money Market Funds	260,002			260,002
Freestanding Derivatives				
Interest Rate Contracts	191	260		451
Foreign Currency Contracts		1,647		1,647
Credit Default Swaps		308		308
Loans and Receivables			40,691	40,691
Other Investments	35,379	7,014	111,676	154,069
	\$ 707,752	\$ 8,700,391	\$ 3,803,853	\$ 13,211,996
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes	\$	\$	\$ 6,587,954	\$ 6,587,954
Subordinated Notes			345,793	345,793
Freestanding Derivatives Foreign Currency Contracts		36,138		36,138
Freestanding Derivatives Credit Default Swaps		543		543
Net Investment Hedges Foreign Currency Contracts		408		408
Freestanding Derivatives				
Interest Rate Contracts	2,813	4,645		7,458

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Foreign Currency Contracts	2,593	2,593		
Credit Default Swaps	1,464	1,464		
Securities Sold, Not Yet Purchased	162,111	162,111		
	\$ 2,813	\$ 207,902	\$ 6,933,747	\$ 7,144,462

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

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

	December 31, 2014			
	Level I	Level II	Level III	Total
<b>Assets</b>				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	\$	\$	\$ 1,103,210	\$ 1,103,210
Equity Securities	58,934	114,115	179,311	352,360
Partnership and LLC Interests		187,140	1,496,422	1,683,562
Debt Instruments		1,502,314	105,970	1,608,284
Assets of Consolidated CLO Vehicles				
Corporate Loans		5,691,517	588,075	6,279,592
Corporate Bonds		292,690		292,690
Freestanding Derivatives Foreign Currency Contracts		8,915		8,915
Freestanding Derivatives Interest Rate Contracts		2,281		2,281
Other	13	19,455	25,045	44,513
<b>Total Investments of Consolidated Blackstone Funds</b>	<b>58,947</b>	<b>7,818,427</b>	<b>3,498,033</b>	<b>11,375,407</b>
Blackstone's Treasury Cash Management Strategies				
Investment Funds	307,111			307,111
Equity Securities	71,746			71,746
Debt Instruments		1,141,301	84,894	1,226,195
Other		50,850	10,159	61,009
<b>Total Blackstone's Treasury Cash Management Strategies</b>	<b>378,857</b>	<b>1,192,151</b>	<b>95,053</b>	<b>1,666,061</b>
Money Market Funds	198,278			198,278
Net Investment Hedges Foreign Currency Contracts		523		523
Freestanding Derivatives				
Interest Rate Contracts	263	144		407
Foreign Currency Contracts		2,798		2,798
Credit Default Swaps		85		85
Loans and Receivables			40,397	40,397
Other Investments	31,731	7,310	107,210	146,251
	\$ 668,076	\$ 9,021,438	\$ 3,740,693	\$ 13,430,207
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes	\$	\$	\$ 6,448,352	\$ 6,448,352
Subordinated Notes			348,752	348,752
Freestanding Derivatives Foreign Currency Contracts		21,875		21,875
Freestanding Derivatives Credit Default Swaps		2,514		2,514
Freestanding Derivatives				
Interest Rate Contracts	1,357	3,233		4,590
Foreign Currency Contracts		681		681
Credit Default Swaps		868		868
Securities Sold, Not Yet Purchased		85,878		85,878
	\$ 1,357	\$ 115,049	\$ 6,797,104	\$ 6,913,510



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

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

The following table summarizes the fair value transfers between Level I and Level II for positions that existed as of March 31, 2015 and 2014, respectively:

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Transfers from Level I into Level II (a)	\$	\$
Transfers from Level II into Level I (b)	\$ 5,688	\$ 18,029

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

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

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

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of March 31, 2015:

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted-Average (a)
<b>Financial Assets</b>					
Investments of Consolidated Blackstone Funds					
Investment Funds	\$ 1,170,378	NAV as Fair Value	N/A	N/A	N/A
Equity Securities	118,199	Discounted Cash Flows	Discount Rate	8.4% - 24.6%	11.9%
			Revenue CAGR	1.1% - 102.6%	7.0%
			Exit Multiple - EBITDA	5.0x - 17.0x	10.0x
			Exit Multiple - P/E	7.5x - 17.0x	14.9x
	64,167	Transaction Price	N/A	N/A	N/A
	1,617	Market Comparable Companies	EBITDA Multiple	6.5x - 7.8x	6.9x
	39	Third Party Pricing	N/A	N/A	N/A
	2,665	Other	N/A	N/A	N/A
Partnership and LLC Interests	684,685	Discounted Cash Flows	Discount Rate	4.4% - 24.2%	8.9%
			Revenue CAGR	-8.1% - 63.5%	5.4%
			Exit Multiple - EBITDA	3.0x - 23.0x	10.2x
			Exit Multiple - P/E	0.5x	N/A
			Exit Capitalization Rate	2.0% - 14.2%	6.1%
	25,825	Transaction Price	N/A	N/A	N/A
	851,108	Third Party Pricing	N/A	N/A	N/A
	723	Other	N/A	N/A	N/A
Debt Instruments	8,622	Discounted Cash Flows	Discount Rate	9.1% - 29.3%	14.4%
			Revenue CAGR	5.6% - 20.0%	16.5%
			Exit Multiple - EBITDA	5.8x - 9.5x	8.6x
			Exit Capitalization Rate	1.0% - 6.6%	5.9%
	75,346	Third Party Pricing	N/A	N/A	N/A
	2,414	Transaction Pricing	N/A	N/A	N/A
	179	Market Comparable Companies	EBITDA Multiple	5.9x - 7.9x	6.0x
Assets of Consolidated CLO					
Vehicles	491,928	Third Party Pricing	N/A	N/A	N/A
	76,754	Market Comparable Companies	EBITDA Multiple	3.5x - 7.5x	5.4x
	1,926	Discounted Cash Flows	Discount Rate	3.8%	N/A
Total Investments of Consolidated Blackstone Funds	3,576,575				

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

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

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted-Average (a)
Blackstone's Treasury Cash Management Strategies	\$ 28,238	Discounted Cash Flows	Default Rate	1.0%	N/A
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	30.0%	N/A
			Reinvestment Rate	LIBOR + 450 bps	N/A
			Discount Rate	5.8% - 10.2%	6.8%
				33,437	Third Party Pricing
	3,141	Transaction Price	N/A	N/A	N/A
	10,095	NAV as Fair Value	N/A	N/A	N/A
Loans and Receivables	19,878	Discounted Cash Flows	Discount Rate	16.9% - 17.4%	17.3%
	20,813	Transaction Price	N/A	N/A	N/A
Other Investments	16,612	Transaction Price	N/A	N/A	N/A
	82,370	Discounted Cash Flows	Discount Rate	1.6% - 12.5%	3.3%
			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 + 450 bps	N/A
	12,694	NAV as Fair Value	N/A	N/A	N/A
Total	\$ 3,803,853				
<b>Financial Liabilities</b>					
Liabilities of Consolidated CLO Vehicles	\$ 6,933,747	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
			Discount Rate	0.6% - 29.0%	2.9%
			Reinvestment Rate	LIBOR + 400 bps	N/A

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

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

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of December 31, 2014:

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted-Average (a)
<b>Financial Assets</b>					
Investments of Consolidated Blackstone Funds					
Investment Funds	\$ 1,103,210	NAV as Fair Value	N/A	N/A	N/A
Equity Securities	106,727	Discounted Cash Flows	Discount Rate	8.4% - 24.7%	11.8%
			Revenue CAGR	0.7% - 24.4%	7.1%
			Exit Multiple - EBITDA	5.0x - 13.0x	10.1x
			Exit Multiple -P/E	10.5x - 17.0x	11.2x
	67,706	Transaction Price	N/A	N/A	N/A
	163	Market Comparable Companies	EBITDA Multiple	6.7x - 7.6x	6.9x
	45	Third Party Pricing	N/A	N/A	N/A
	4,670	Other	N/A	N/A	N/A
Partnership and LLC Interests	485,748	Discounted Cash Flows	Discount Rate	4.4% - 21.5%	9.5%
			Revenue CAGR	-4.4% - 41.7%	6.5%
			Exit Multiple - EBITDA	1.0x - 19.1x	9.7x
			Exit Capitalization Rate	2.0% - 19.1%	6.8%
	996,199	Transaction Price	N/A	N/A	N/A
	13,793	Third Party Pricing	N/A	N/A	N/A
	682	Other	N/A	N/A	N/A
Debt Instruments	9,570	Discounted Cash Flows	Discount Rate	8.8% - 24.7%	16.1%
			Revenue CAGR	4.7% - 6.8%	5.0%
			Exit Multiple - EBITDA	5.9x - 11.3x	11.0x
			Exit Capitalization Rate	1.0% - 12.4%	9.3%
			Default Rate	2%	N/A
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
	95,542	Third Party Pricing	N/A	N/A	N/A
	686	Transaction Price	N/A	N/A	N/A
	172	Market Comparable Companies	EBITDA Multiple	6.6x - 7.9x	6.6x
Assets of Consolidated CLO Vehicles	318,636	Third Party Pricing	N/A	N/A	N/A
	290,658	Market Comparable Companies	EBITDA Multiple	3.8x - 15.0x	6.1x
	3,826	Discounted Cash Flows	Discount Rate	8.0%	N/A
Total Investments of Consolidated Blackstone Funds	3,498,033				



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

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

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted-Average (a)	
Blackstone's Treasury Cash Management Strategies	\$ 26,167	Discounted Cash Flows	Default Rate	1.0%	N/A	
			Recovery Rate	30.0% - 70.0%	66.0%	
			Recovery Lag	12 months	N/A	
			Pre-payment Rate	30.0%	N/A	
			Reinvestment Rate	LIBOR + 450 bps	N/A	
	54,257	Third Party Pricing	Discount Rate	5.8% - 10.0%	7.2%	
			NAV as Fair Value	N/A	N/A	
			Transaction Price	N/A	N/A	
			10,159	NAV as Fair Value	N/A	N/A
			4,470	Transaction Price	N/A	N/A
Loans and Receivables	26,247	Discounted Cash Flows	Discount Rate	10.5% - 12.2%	10.9%	
	14,150	Transaction Price	N/A	N/A	N/A	
Other Investments	11,887	Transaction Price	N/A	N/A	N/A	
	2,719	NAV as Fair Value	N/A	N/A	N/A	
	92,604	Discounted Cash Flows	Discount Rate	1.3% - 12.5%	2.9%	
			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				
Total	\$ 3,740,693					
<b>Financial Liabilities</b>						
Liabilities of Consolidated CLO Vehicles	\$ 6,797,104	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	
			Discount Rate	0.3% - 19.3%	2.3%	
			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 Blackstone's Treasury Cash Management Strategies, debt instruments, other investments and liabilities of consolidated CLO vehicles are discount rates, default rates, recovery rates, recovery lag, pre-payment rates and reinvestment rates. Increases (decreases) in any of the discount rates, default rates, recovery lag and pre-payment rates in isolation would result in a lower (higher) fair value measurement. Increases (decreases) in any of the recovery rates and reinvestment rates in isolation would result in a higher (lower) fair value measurement. Generally, a change in the assumption used for default rates may be accompanied by a directionally similar change in the assumption used for recovery lag and a directionally opposite change in the assumption used for recovery rates and pre-payment rates.

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The significant unobservable inputs used in the fair value measurement of equity securities, partnership and LLC interests, debt instruments, assets of consolidated CLO vehicles and loans and receivables are discount rates, exit capitalization rates, exit multiples, EBITDA multiples and revenue compound annual growth rates. Increases



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

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

(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 and revenue compound annual growth rates in isolation can result in a higher (lower) fair value measurement.

Since December 31, 2014, there have been no changes in valuation techniques within Level II and Level III that have had a material impact on the valuation of financial instruments.

The following tables summarize the changes in financial assets and liabilities measured at fair value for which the Partnership has used Level III inputs to determine fair value and does not include gains or losses that were reported in Level III in prior years or for instruments that were transferred out of Level III prior to the end of the respective reporting period. Total realized and unrealized gains and losses recorded for Level III investments are reported in Investment Income and Net Gains from Fund Investment Activities in the Condensed Consolidated Statements of Operations.

	2015				2014			
	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	\$ 3,498,033	\$ 40,397	\$ 202,263	\$ 3,740,693	\$ 3,358,752	\$ 137,788	\$ 58,598	\$ 3,555,138
Transfer In Due to Consolidation and Acquisition (a)					276,806			276,806
Transfer In (Out) Due to Deconsolidation					(83,867)			(83,867)
Transfer In to Level III (b)	129,848		26,930	156,778	195,607		3,679	199,286
Transfer Out of Level III (b)	(202,401)		(22,684)	(225,085)	(244,308)		(1,009)	(245,317)
Purchases	288,222	6,186	24,933	319,341	159,613	81,241	77,637	318,491
Sales	(147,181)	(4,071)	(35,352)	(186,604)	(290,782)	(156,719)	(4,067)	(451,568)
Settlements		(1,144)	(103)	(1,247)		(1,170)	(155)	(1,325)
Changes in Gains (Losses) Included in Earnings and Other Comprehensive Income	10,054	(677)	(9,400)	(23)	17,015		102	17,117
Balance, End of Period	\$ 3,576,575	\$ 40,691	\$ 186,587	\$ 3,803,853	\$ 3,388,836	\$ 61,140	\$ 134,785	\$ 3,584,761
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	\$ 29,891	\$ (806)	\$ 1,514	\$ 30,599	\$ 23,986	\$ 433	\$ 2,126	\$ 26,545

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

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

	Level III Financial Liabilities at Fair Value Three Months Ended March 31,					
	2015			2014		
	Collateralized Loan Obligations	Collateralized Loan Obligations	Total	Collateralized Loan Obligations	Collateralized Loan Obligations	Total
	Senior Notes	Subordinated Notes		Senior Notes	Subordinated Notes	
Balance, Beginning of Period	\$ 6,448,352	\$ 348,752	\$ 6,797,104	\$ 8,302,572	\$ 610,435	\$ 8,913,007
Transfer In Due to Consolidation and Acquisition (a)				472,019	86,182	558,201
Transfer Out to Deconsolidation				(639,091)	(39,798)	(678,889)
Issuances	888,960	42,199	931,159			
Settlements	(266,317)		(266,317)	(388,987)	(110)	(389,097)
Changes in (Gains) Losses Included in Earnings and Other Comprehensive Income	(483,041)	(45,158)	(528,199)	2,538		2,538
Balance, End of Period	\$ 6,587,954	\$ 345,793	\$ 6,933,747	\$ 7,749,051	\$ 656,709	\$ 8,405,760
Changes in Unrealized (Gains) Losses Included in Earnings Related to Liabilities Still Held at the Reporting Date	\$ (26,169)	\$ 19,698	\$ (6,471)	\$ 46,472	\$ (37,521)	\$ 8,951

- (a) Represents the transfer into Level III of financial assets and liabilities as a result of the consolidation of certain fund entities, the acquisition of management contracts and the Harbourmaster acquisition.
- (b) Transfers in and out of Level III financial assets and liabilities were due to changes in the observability of inputs used in the valuation of such assets and liabilities.
- (c) Represents Blackstone's Treasury Cash Management Strategies and Other Investments.

**9. VARIABLE INTEREST ENTITIES**

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

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

The Partnership holds variable interests in certain VIEs which are not consolidated as it is determined that the Partnership is not the primary beneficiary. The Partnership's involvement with such entities is in the form of direct equity interests and fee arrangements. The maximum exposure to loss represents the loss of assets recognized by Blackstone relating to non-consolidated entities, any amounts due to

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non-consolidated entities and any clawback obligation relating to previously distributed Carried Interest. The assets and liabilities recognized in the

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

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

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:

	March 31, 2015	December 31, 2014
Investments	\$ 813,764	\$ 776,079
Accounts Receivable	103,400	125,316
Due from Affiliates	45,788	53,751
Total VIE Assets	962,952	955,146
Due to Affiliates	94	108
Accounts Payable, Accrued Expenses and Other Liabilities	44	124
Potential Clawback Obligation	245,651	206,725
Maximum Exposure to Loss	\$ 1,208,741	\$ 1,162,103

**10. REVERSE REPURCHASE AND REPURCHASE AGREEMENTS**

At March 31, 2015, 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 \$79.3 million as collateral for reverse repurchase agreements that could be repledged, delivered or otherwise used. Securities with a fair value of \$79.3 million and cash were used to cover Securities Sold, Not Yet Purchased. The Partnership also pledged securities with a carrying value of \$110.7 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

At December 31, 2014, the Partnership pledged securities with a carrying value of \$44.8 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

**11. OFFSETTING OF ASSETS AND LIABILITIES**

The following tables present the offsetting of assets and liabilities as of March 31, 2015:

	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
<b>Assets</b>				
Freestanding Derivatives	\$ 2,406	\$ 1,645	\$	\$ 761
Reverse Repurchase Agreements	79,628	79,350		278

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Total	\$	82,034	\$	80,995	\$	\$	1,039
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**Table of Contents****THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements Continued**

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

	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
<b>Liabilities</b>				
Net Investment Hedges	\$ 408	\$	\$	\$ 408
Freestanding Derivatives	12,058	1,645	8,244	2,169
Repurchase Agreements	87,085	86,616	469	
<b>Total</b>	<b>\$ 99,551</b>	<b>\$ 88,261</b>	<b>\$ 8,713</b>	<b>\$ 2,577</b>

The following tables present the offsetting of assets and liabilities as of December 31, 2014:

	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
<b>Assets</b>				
Net Investment Hedges	\$ 523	\$	\$	\$ 523
Freestanding Derivatives	3,290	1,132	352	1,806
<b>Total</b>	<b>\$ 3,813</b>	<b>\$ 1,132</b>	<b>\$ 352</b>	<b>\$ 2,329</b>

	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
<b>Liabilities</b>				
Freestanding Derivatives	\$ 8,653	\$ 1,132	\$ 7,424	\$ 97
Repurchase Agreements	29,907	29,438	469	
<b>Total</b>	<b>\$ 38,560</b>	<b>\$ 30,570</b>	<b>\$ 7,893</b>	<b>\$ 97</b>

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

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Furniture, Equipment and Leasehold Improvements, Net	\$ 132,448	\$ 135,740
Prepaid Expenses	220,192	102,503
Other Assets	102,998	96,501
Freestanding Derivatives	2,406	3,290
Net Investment Hedges		523
	\$ 458,044	\$ 338,557

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

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

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

**Notional Pooling Arrangement**

Blackstone has entered into a notional cash pooling arrangement with a financial institution for cash management purposes. This arrangement allows for cash withdrawals based upon aggregate cash balances on deposit at the same financial institution. Cash withdrawals cannot exceed aggregate cash balances on deposit. The net balance of cash on deposit and overdrafts is used as a basis for calculating net interest expense or income. As of March 31, 2015, the aggregate cash balance on deposit relating to the cash pooling arrangement was \$1.1 billion, which was fully offset with an accompanying overdraft.

**12. BORROWINGS**

The carrying value and fair value of the Blackstone issued notes, included in Loans Payable within the Condensed Consolidated Statements of Financial Condition, were:

	March 31, 2015		December 31, 2014	
	Carrying Value	Fair Value (a)	Carrying Value	Fair Value (a)
Blackstone Issued 6.625%, \$600 Million Par, Notes Due 8/15/2019 (b)	\$ 623,121	\$ 694,044	\$ 625,111	\$ 684,158
Blackstone Issued 5.875%, \$400 Million Par, Notes Due 3/15/2021	\$ 398,753	\$ 472,400	\$ 398,710	\$ 462,360
Blackstone Issued 4.750%, \$400 Million Par, Notes Due 2/15/2023	\$ 393,960	\$ 445,680	\$ 393,805	\$ 436,240
Blackstone Issued 6.250%, \$250 Million Par, Notes Due 8/15/2042	\$ 239,897	\$ 320,900	\$ 239,864	\$ 307,125
Blackstone Issued 5.000%, \$500 Million Par, Notes Due 6/15/2044	\$ 493,039	\$ 544,900	\$ 493,013	\$ 527,500

(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 within the Condensed Consolidated Statements of Financial Condition 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:

	March 31, 2015			December 31, 2014		
	Borrowing Outstanding	Weighted-Average Interest Rate	Weighted-Average Remaining Maturity in Years	Borrowing Outstanding	Weighted-Average Interest Rate	Weighted-Average Remaining Maturity in Years
Senior Secured Notes	\$ 6,705,220	1.52%	3.3	\$ 6,594,266	1.27%	3.8
Subordinated Notes	724,839	(a)	N/A	740,050	(a)	N/A



\$ 7,430,059

\$ 7,334,316

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

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

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

Senior Secured Notes and Subordinated Notes comprise the following amounts:

	March 31, 2015			December 31, 2014		
	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	\$ 6,587,954	\$	\$	\$ 6,448,352	\$ 2,500	\$ 2,504
Subordinated Notes	\$ 345,793	\$ 34,200	\$ 23,543	\$ 348,752	\$ 24,200	\$ 14,377

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 March 31, 2015 and December 31, 2014, the fair value of the consolidated CLO assets was \$8.2 billion and \$8.0 billion, respectively. This collateral consisted of Cash, Corporate Loans, Corporate Bonds and other securities.

Scheduled principal payments for borrowings as of March 31, 2015 were as follows:

	Operating Borrowings	Blackstone Fund Facilities/CLO Vehicles	Total Borrowings
2015	\$	\$ 4,483	\$ 4,483
2016			
2017		476,498	476,498
2018			
2019	585,000		585,000
Thereafter	1,550,000	6,953,562	8,503,562
<b>Total</b>	<b>\$ 2,135,000</b>	<b>\$ 7,434,543</b>	<b>\$ 9,569,543</b>

**13. INCOME TAXES**

Blackstone's effective tax rate was 6.3% and 7.6% for the three months ended March 31, 2015 and 2014, respectively. Blackstone's income tax provision was \$99.3 million and \$54.1 million for the three months ended March 31, 2015 and 2014, respectively.

Blackstone's effective tax rate for the three months ended March 31, 2015 and 2014 was substantially due to the following: (a) certain corporate subsidiaries are subject to federal, state, local and foreign income taxes as applicable and other subsidiaries are subject to New York City unincorporated business taxes, and (b) a portion of compensation charges are not deductible for tax purposes.



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

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

**14. NET INCOME PER COMMON UNIT**

Basic and diluted net income per common unit for the three months ended March 31, 2015 and March 31, 2014 was calculated as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Net Income Attributable to The Blackstone Group L.P.	\$ 629,448	\$ 265,617
<b>Basic Net Income Per Common Unit</b>		
Weighted-Average Common Units Outstanding	625,276,969	601,527,299
Basic Net Income Per Common Unit	\$ 1.01	\$ 0.44
<b>Diluted Net Income Per Common Unit</b>		
Weighted-Average Common Units Outstanding	625,276,969	601,527,299
Weighted-Average Unvested Deferred Restricted Common Units	5,955,072	4,141,865
Weighted-Average Diluted Common Units Outstanding	631,232,041	605,669,164
Diluted Net Income Per Common Unit	\$ 1.00	\$ 0.44

The following table summarizes the anti-dilutive securities for the three months ended March 31, 2015 and 2014:

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Weighted-Average Blackstone Holdings Partnership Units	548,837,150	549,327,240

**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 three month periods ended March 31, 2015 and 2014, no units were repurchased. As of March 31, 2015, the amount remaining available for repurchases under this program was \$335.8 million.

**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

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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, 2015, the Partnership had the ability to grant 165,943,809 units under the Equity Plan.

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

For the three months ended March 31, 2015 and March 31, 2014, the Partnership recorded compensation expense of \$272.3 million and \$194.6 million, respectively, in relation to its equity-based awards with corresponding tax benefits of \$23.6 million and \$7.2 million, respectively. As of March 31, 2015, there was \$1.3 billion of estimated unrecognized compensation expense related to unvested awards. This cost is expected to be recognized over a weighted-average period of 4.8 years.

Total vested and unvested outstanding units, including Blackstone common units, Blackstone Holdings Partnership Units and deferred restricted common units, were 1,182,828,470 as of March 31, 2015. Total outstanding unvested phantom units were 1,638 as of March 31, 2015.

A summary of the status of the Partnership's unvested equity-based awards as of March 31, 2015 and of changes during the period January 1, 2015 through March 31, 2015 is presented below:

	Blackstone Holdings		The Blackstone Group L.P.			
	Partnership Units	Weighted-Average Grant Date Fair Value	Equity Settled Awards Deferred Restricted Common Units and Options	Weighted-Average Grant Date Fair Value	Cash Settled Awards Phantom Units	Weighted-Average Grant Date Fair Value
<b>Unvested Units</b>						
Balance, December 31, 2014	33,498,237	\$ 26.19	17,569,372	\$ 16.95	1,455	\$ 31.95
Granted	19,874,298	37.86	3,661,263	33.69	998	33.83
Vested	(1,697,202)	27.17	(3,656,555)	14.01	(815)	32.62
Forfeited	43,916	25.17	(77,371)	12.62		
Balance, March 31, 2015	51,719,249	\$ 30.64	17,496,709	\$ 21.09	1,638	\$ 32.76

**Units Expected to Vest**

The following unvested units, after expected forfeitures, as of March 31, 2015, are expected to vest:

	Units	Weighted-Average Service Period in Years
Blackstone Holdings Partnership Units	44,918,574	3.2
Deferred Restricted Blackstone Common Units	14,948,369	2.2
<b>Total Equity-Based Awards</b>	<b>59,866,943</b>	<b>2.9</b>
Phantom Units	1,289	2.5

**Equity-Based Awards with Performance Conditions**

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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 \$2.6 million.

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

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

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

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

	March 31, 2015	December 31, 2014
<b>Due from Affiliates</b>		
Accrual for Potential Clawback of Previously Distributed Carried Interest	\$ 2,199	\$ 2,518
Primarily Interest Bearing Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees for Investments in Blackstone Funds	251,424	237,341
Amounts Due from Portfolio Companies and Funds	340,897	372,820
Investments Redeemed in Non-Consolidated Funds of Hedge Funds	36,254	32,020
Management and Performance Fees Due from Non-Consolidated Funds	339,616	355,657
Payments Made on Behalf of Non-Consolidated Entities	161,141	111,796
Advances Made to Certain Non-Controlling Interest Holders and Blackstone Employees	14,477	16,256
	<b>\$ 1,146,008</b>	<b>\$ 1,128,408</b>

	March 31, 2015	December 31, 2014
<b>Due to Affiliates</b>		
Due to Certain Non-Controlling Interest Holders in Connection with the Tax Receivable Agreements	\$ 1,198,155	\$ 1,234,890
Accrual for Potential Repayment of Previously Received Performance Fees	3,369	3,889
Due to Note Holders of Consolidated CLO Vehicles	23,543	16,881
Distributions Received on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees	18,281	21,266
Payable to Affiliates for Consolidated Funds	20,807	22,447
Distributions Received on Behalf of Blackstone Entities	182,893	176,304
Payments Made by Non-Consolidated Entities	13,314	14,411
	<b>\$ 1,460,362</b>	<b>\$ 1,490,088</b>

**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 consolidated Blackstone Funds both directly and through consolidated entities. These investments generally are subject to preferential management fee and performance fee arrangements. As of March 31, 2015 and December 31, 2014, such investments aggregated \$1.0 billion and \$1.0 billion, respectively. Their share of the Net Income Attributable to Redeemable Non-Controlling and Non-Controlling Interests in Consolidated Entities aggregated \$53.1 million and \$44.9 million for the three months ended March 31, 2015 and 2014, respectively.

**Revenues Earned from Affiliates**



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Management and Advisory Fees, Net earned from affiliates totaled \$47.8 million and \$74.0 million for the three months ended March 31, 2015 and 2014, respectively. Fees relate primarily to transaction and monitoring fees which are negotiated in the ordinary course of fundraising and investment activities.

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**Table of Contents**

**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

**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 \$2.0 million and \$0.1 million for the three months ended March 31, 2015 and 2014, 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 March 31, 2015. 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 and an aircraft owned jointly as a personal asset by Hamilton E. James, Blackstone's President and Chief Operating Officer, and Jonathan D. Gray, Blackstone's Global Head of Real Estate and a Director of Blackstone (each such aircraft, Personal Aircraft ). Mr. Schwarzman paid for his purchases of his Personal Aircraft himself and bears all operating, personnel and maintenance costs associated with their operation. Each of Mr. James and Mr. Gray paid for his respective interest in their jointly owned Personal Aircraft himself and bears all operating, personnel and maintenance costs associated with its operation. Payment by Blackstone for the use of the Personal Aircraft by Blackstone employees is made at market rates.

In addition, on occasion, certain of Blackstone's executive officers and employee directors and their families may make use of aircraft owned by Blackstone or in which Blackstone owns a fractional interest, as well as other assets of Blackstone. Any such personal use of Blackstone assets is charged to the executive officer or employee director based on market rates and usage. Personal use of Blackstone resources is also reimbursed to Blackstone based on market rates.

The transactions described herein are not material to the Condensed Consolidated Financial Statements.

**Tax Receivable Agreements**

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

One of the subsidiaries of the Partnership which is a corporate taxpayer has entered into tax receivable agreements with each of the predecessor owners and additional tax receivable agreements have been executed, and will continue to be executed, with newly-admitted senior managing directors and others who acquire Blackstone



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**Table of Contents**

**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

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 \$370.4 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.

Amounts related to the deferred tax asset resulting from the increase in tax basis from the exchange of Blackstone Holdings Partnership Units to Blackstone common units, the resulting remeasurement of net deferred tax assets at the Blackstone ownership percentage at the balance sheet date, the due to affiliates for the future payments resulting from the tax receivable agreements and resulting adjustment to partners' capital are included as Acquisition of Ownership Interests from Non-Controlling Interest Holders in the Supplemental Disclosure of Non-Cash Investing and Financing Activities in the Condensed Consolidated Statements of Cash Flows.

**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 \$1.6 billion of investment commitments as of March 31, 2015 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 \$27.8 million as of March 31, 2015 which includes \$11.6 million of signed investment commitments for portfolio company acquisitions in the process of closing.

**Contingencies**

*Guarantees*

Certain of Blackstone's consolidated real estate funds guarantee payments to third parties in connection with the on-going business activities and/or acquisitions of their Portfolio Companies. There is no direct recourse to the Partnership to fulfill such obligations. To the extent that underlying funds are required to fulfill guarantee obligations, the Partnership's invested capital in such funds is at risk. Total investments at risk in respect of guarantees extended by consolidated real estate funds was \$8.3 million as of March 31, 2015.



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

The Blackstone Holdings Partnerships provide a guarantee to a lending institution for certain loans held by employees for investment in Blackstone Funds. The amount guaranteed as of March 31, 2015 was \$89.7 million. Blackstone Group International Partners LLP ( BGIP ) provides a guarantee to the same lending institution for loans held by its members for their capital contributions to BGIP. The amount guaranteed as of March 31, 2015 was \$18.8 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 with respect to a fund exceeds the amount due to Blackstone based on cumulative results of that fund. 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, multi-asset class investment funds and credit-focused 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 2016. 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:

Segment	March 31, 2015			December 31, 2014		
	Blackstone Holdings	Current and Former Personnel	Total	Blackstone Holdings	Current and Former Personnel	Total
Real Estate	\$ 130	\$ 1,460	\$ 1,590	\$ 130	\$ 1,647	\$ 1,777
Credit	1,040	739	1,779	1,241	871	2,112
<b>Total</b>	<b>\$ 1,170</b>	<b>\$ 2,199</b>	<b>\$ 3,369</b>	<b>\$ 1,371</b>	<b>\$ 2,518</b>	<b>\$ 3,889</b>

A portion of the Carried Interest paid to current and former Blackstone personnel is held in segregated accounts in the event of a cash clawback obligation. These segregated accounts are not included in the Condensed Consolidated Financial Statements of the Partnership, except to the extent a portion of the assets held in the segregated accounts may be allocated to a consolidated Blackstone fund of hedge funds. At March 31, 2015, \$496.1 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.



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**Table of Contents**

**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

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, certain multi-asset class investment funds and secondary private funds of funds.

**Real Estate** Blackstone's Real Estate segment primarily comprises its management of global, European focused and Asian focused opportunistic real estate funds. In addition, the segment has debt investment funds and a publicly traded REIT 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 and public debt 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, capital markets 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 the Blackstone Funds that are consolidated into the Condensed Consolidated Financial Statements. Consequently, all segment data excludes the assets, liabilities and operating results related to the Blackstone Funds.



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

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

The following table presents the financial data for Blackstone's five segments as of and for the three months ended March 31, 2015 and 2014:

	March 31, 2015 and the Three Months Then Ended					Total Segments
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$ 108,383	\$ 152,348	\$ 130,637	\$ 125,029	\$	\$ 516,397
Advisory Fees					84,238	84,238
Transaction and Other Fees, Net	20,359	15,216	25	1,457	16	37,073
Management Fee Offsets	(4,949)	(4,866)	(280)	(7,850)		(17,945)
<b>Total Management and Advisory Fees, Net</b>	<b>123,793</b>	<b>162,698</b>	<b>130,382</b>	<b>118,636</b>	<b>84,254</b>	<b>619,763</b>
<b>Performance Fees</b>						
Realized						
Carried Interest	382,978	811,249		13,367		1,207,594
Incentive Fees		723	10,516	18,431		29,670
Unrealized						
Carried Interest	566,822	(181,019)		(11,951)		373,852
Incentive Fees		6,069	47,427	9,124		62,620
<b>Total Performance Fees</b>	<b>949,800</b>	<b>637,022</b>	<b>57,943</b>	<b>28,971</b>		<b>1,673,736</b>
<b>Investment Income (Loss)</b>						
Realized						
Carried Interest	44,816	71,344	(10,375)	2,237	(230)	107,792
Incentive Fees	31,487	37,510	4,483	6,887	1,482	81,849
Unrealized						
Carried Interest	76,303	108,854	(5,892)	9,124	1,252	189,641
Incentive Fees	7,617	9,997	3,949	5,651	3,237	30,451
Other	(1,825)	(3,977)	(1,607)	3,493	(956)	(4,872)
<b>Total Investment Income (Loss)</b>	<b>127,395</b>	<b>196,728</b>	<b>(2,285)</b>	<b>18,698</b>	<b>3,303</b>	<b>243,542</b>
<b>Total Revenues</b>	<b>1,155,688</b>	<b>914,594</b>	<b>184,775</b>	<b>165,875</b>	<b>87,787</b>	<b>2,508,719</b>
<b>Expenses</b>						
Compensation and Benefits Compensation						
Performance Fee Compensation	70,089	84,834	56,104	49,877	68,934	329,838
Realized						
Carried Interest	39,482	246,496		6,270		292,248
Incentive Fees		356	3,470	8,401		12,227
Unrealized						
Carried Interest	178,120	(98,084)		(5,656)		74,380
Incentive Fees		2,575	15,651	6,735		24,961
<b>Total Compensation and Benefits</b>	<b>287,691</b>	<b>236,177</b>	<b>75,225</b>	<b>65,627</b>	<b>68,934</b>	<b>733,654</b>

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Other Operating Expenses	38,755	40,143	21,206	21,836	21,342	143,282
Total Expenses	326,446	276,320	96,431	87,463	90,276	876,936
Economic Income (Loss)	\$ 829,242	\$ 638,274	\$ 88,344	\$ 78,412	\$ (2,489)	\$ 1,631,783
Segment Assets	\$ 6,754,805	\$ 7,916,836	\$ 1,533,776	\$ 2,563,449	\$ 869,846	\$ 19,638,712

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

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

	Three Months Ended March 31, 2014					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
<b>Segment Revenues</b>						
<b>Management and Advisory Fees, Net</b>						
Base Management Fees	\$ 98,584	\$ 159,336	\$ 113,384	\$ 105,574	\$	\$ 476,878
Advisory Fees					69,963	69,963
Transaction and Other Fees, Net	42,847	13,564	93	3,344	62	59,910
Management Fee Offsets	(1,713)	(9,224)	(1,455)	(4,252)		(16,644)
<b>Total Management and Advisory Fees, Net</b>	<b>139,718</b>	<b>163,676</b>	<b>112,022</b>	<b>104,666</b>	<b>70,025</b>	<b>590,107</b>
<b>Performance Fees</b>						
<b>Realized</b>						
Carried Interest	119,805	194,658		19,160		333,623
Incentive Fees		(26)	39,845	14,018		53,837
<b>Unrealized</b>						
Carried Interest	167,065	140,237		22,986		330,288
Incentive Fees		2,737	18,085	40,444		61,266
<b>Total Performance Fees</b>	<b>286,870</b>	<b>337,606</b>	<b>57,930</b>	<b>96,608</b>		<b>779,014</b>
<b>Investment Income (Loss)</b>						
<b>Realized</b>						
Carried Interest	60,535	31,357	16,820	3,071	134	111,917
Incentive Fees	(9,033)	5,379	4,431	3,079	694	4,550
<b>Unrealized</b>						
Carried Interest	51,502	36,736	21,251	6,150	828	116,467
Interest and Dividend Revenue	5,228	6,110	2,661	5,861	2,502	22,362
Other	864	317	122	(259)	(175)	869
<b>Total Investment Income</b>	<b>484,182</b>	<b>544,445</b>	<b>193,986</b>	<b>213,026</b>	<b>73,180</b>	<b>1,508,819</b>
<b>Expenses</b>						
<b>Compensation and Benefits Compensation</b>						
Performance Fee Compensation Realized	73,307	80,233	40,571	50,752	61,682	306,545
<b>Unrealized</b>						
Carried Interest	85,771	51,833		11,794		149,398
Incentive Fees		(16)	13,271	10,380		23,635
<b>Unrealized</b>						
Carried Interest	(27,148)	56,985		10,853		40,690
Incentive Fees		1,382	6,761	15,388		23,531
<b>Total Compensation and Benefits</b>	<b>131,930</b>	<b>190,417</b>	<b>60,603</b>	<b>99,167</b>	<b>61,682</b>	<b>543,799</b>
Other Operating Expenses	33,006	33,107	19,480	32,839	21,342	139,774
<b>Total Expenses</b>	<b>164,936</b>	<b>223,524</b>	<b>80,083</b>	<b>132,006</b>	<b>83,024</b>	<b>683,573</b>
<b>Economic Income (Loss)</b>	<b>\$ 319,246</b>	<b>\$ 320,921</b>	<b>\$ 113,903</b>	<b>\$ 81,020</b>	<b>\$ (9,844)</b>	<b>\$ 825,246</b>



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

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

The following table reconciles the Total Segments to Blackstone's Income Before Provision for Taxes and Total Assets as of and for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	\$ 2,508,719	\$ (15,139)(a)	\$ 2,493,580	\$ 1,508,819	\$ 17,849(a)	\$ 1,526,668
Expenses	\$ 876,936	\$ 272,014(b)	\$ 1,148,950	\$ 683,573	\$ 204,278(b)	\$ 887,851
Other Income	\$	\$ 238,972(c)	\$ 238,972	\$	\$ 70,155(c)	\$ 70,155
Economic Income	\$ 1,631,783	\$ (48,181)(d)	\$ 1,583,602	\$ 825,246	\$ (116,274)(d)	\$ 708,972
Total Assets	\$ 19,638,712	\$ 12,767,889(e)	\$ 32,406,601	\$ 16,458,341	\$ 13,570,204(e)	\$ 30,028,545

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

	Three Months Ended March 31,	
	2015	2014
Fund Management Fees and Performance Fees Eliminated in Consolidation and Transactional Investment Loss	\$ 15,067	\$ (17,878)
Fund Expenses Added in Consolidation	15,748	(746)
Non-Controlling Interests in Income of Consolidated Entities	209,580	89,753
Transaction-Related Other Loss	(1,423)	(974)
<b>Total Consolidation Adjustments and Reconciling Items</b>	<b>\$ 238,972</b>	<b>\$ 70,155</b>

- (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 March 31,	
	2015	2014
Economic Income	\$ 1,631,783	\$ 825,246

Adjustments

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Amortization of Intangibles	(25,899)	(29,003)
IPO and Acquisition-Related Charges	(231,862)	(177,024)
Non-Controlling Interests in Income of Consolidated Entities	209,580	89,753
Total Consolidation Adjustments and Reconciling Items	(48,181)	(116,274)
Income Before Provision for Taxes	\$ 1,583,602	\$ 708,972

- (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.

**Table of Contents**

**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements - Continued**

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

**19. SUBSEQUENT EVENTS**

On April 27, 2015, Blackstone Holdings Finance Co. L.L.C., an indirect subsidiary of the Partnership, issued \$350 million in aggregate principal amount of 4.450% senior notes which will mature on July 15, 2045.

**Table of Contents****ITEM 1A. UNAUDITED SUPPLEMENTAL PRESENTATION OF STATEMENTS OF FINANCIAL CONDITION  
THE BLACKSTONE GROUP L.P.****Unaudited Consolidating Statements of Financial Condition**

(Dollars in Thousands)

	March 31, 2015			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
<b>Assets</b>				
Cash and Cash Equivalents	\$ 1,135,472	\$	\$	\$ 1,135,472
Cash Held by Blackstone Funds and Other	544,326	1,425,295		1,969,621
Investments	12,493,451	11,583,913	(1,181,110)	22,896,254
Accounts Receivable	465,202	793,835		1,259,037
Reverse Repurchase Agreements	79,628			79,628
Due from Affiliates	1,105,352	627,078	(586,422)	1,146,008
Intangible Assets, Net	434,033			434,033
Goodwill	1,787,392			1,787,392
Other Assets	352,744	105,300		458,044
Deferred Tax Assets	1,241,112			1,241,112
<b>Total Assets</b>	<b>\$ 19,638,712</b>	<b>\$ 14,535,421</b>	<b>\$ (1,767,532)</b>	<b>\$ 32,406,601</b>
<b>Liabilities and Partners Capital</b>				
Loans Payable	\$ 2,148,770	\$ 6,914,720	\$	\$ 9,063,490
Due to Affiliates	1,240,287	1,294,811	(1,074,736)	1,460,362
Accrued Compensation and Benefits	2,432,830			2,432,830
Securities Sold, Not Yet Purchased	79,370	82,741		162,111
Repurchase Agreements	48,225	38,860		87,085
Accounts Payable, Accrued Expenses and Other Liabilities	442,986	803,753		1,246,739
<b>Total Liabilities</b>	<b>6,392,468</b>	<b>9,134,885</b>	<b>(1,074,736)</b>	<b>14,452,617</b>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>		<b>2,510,047</b>		<b>2,510,047</b>
<b>Partners Capital</b>				
Partners Capital	7,397,731	692,772	(693,541)	7,396,962
Appropriated Partners Capital		103,838		103,838
Accumulated Other Comprehensive Income (Loss)	(43,787)	1,028	745	(42,014)
Non-Controlling Interests in Consolidated Entities	1,311,959	2,092,851		3,404,810
Non-Controlling Interests in Blackstone Holdings	4,580,341			4,580,341
<b>Total Partners Capital</b>	<b>13,246,244</b>	<b>2,890,489</b>	<b>(692,796)</b>	<b>15,443,937</b>
<b>Total Liabilities and Partners Capital</b>	<b>\$ 19,638,712</b>	<b>\$ 14,535,421</b>	<b>\$ (1,767,532)</b>	<b>\$ 32,406,601</b>

continued



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

(Dollars in Thousands)

	December 31, 2014			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
<b>Assets</b>				
Cash and Cash Equivalents	\$ 1,412,472	\$	\$	\$ 1,412,472
Cash Held by Blackstone Funds and Other	348,957	1,459,135		1,808,092
Investments	12,123,708	11,835,242	(1,193,361)	22,765,589
Accounts Receivable	364,927	194,394		559,321
Due from Affiliates	1,060,831	723,285	(655,708)	1,128,408
Intangible Assets, Net	458,833			458,833
Goodwill	1,787,392			1,787,392
Other Assets	290,273	48,284		338,557
Deferred Tax Assets	1,252,230			1,252,230
<b>Total Assets</b>	<b>\$ 19,099,623</b>	<b>\$ 14,260,340</b>	<b>\$ (1,849,069)</b>	<b>\$ 31,510,894</b>
<b>Liabilities and Partners Capital</b>				
Loans Payable	\$ 2,150,503	\$ 6,787,135	\$	\$ 8,937,638
Due to Affiliates	1,289,552	1,350,911	(1,150,375)	1,490,088
Accrued Compensation and Benefits	2,439,257			2,439,257
Securities Sold, Not Yet Purchased		85,878		85,878
Repurchase Agreements		29,907		29,907
Accounts Payable, Accrued Expenses and Other Liabilities	430,712	763,867		1,194,579
<b>Total Liabilities</b>	<b>6,310,024</b>	<b>9,017,698</b>	<b>(1,150,375)</b>	<b>14,177,347</b>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>		<b>2,441,854</b>		<b>2,441,854</b>
<b>Partners Capital</b>				
Partners Capital	6,999,830	698,694	(698,694)	6,999,830
Appropriated Partners Capital		81,301		81,301
Accumulated Other Comprehensive Income (Loss)	(21,932)	1,068		(20,864)
Non-Controlling Interests in Consolidated Entities	1,395,631	2,019,725		3,415,356
Non-Controlling Interests in Blackstone Holdings	4,416,070			4,416,070
<b>Total Partners Capital</b>	<b>12,789,599</b>	<b>2,800,788</b>	<b>(698,694)</b>	<b>14,891,693</b>
<b>Total Liabilities and Partners Capital</b>	<b>\$ 19,099,623</b>	<b>\$ 14,260,340</b>	<b>\$ (1,849,069)</b>	<b>\$ 31,510,894</b>

(a) The Consolidated Blackstone Funds consisted of the following:  
Blackstone AG Investment Partners L.P.

Blackstone Distressed Securities Fund L.P.

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Blackstone Market Opportunities Fund L.P.

Blackstone Real Estate Partners VI.C ESH L.P.

Blackstone Real Estate Special Situations Fund L.P.

Blackstone Real Estate Special Situations Offshore Fund Ltd.

Blackstone Strategic Alliance Fund II L.P.

Blackstone Strategic Alliance Fund L.P.

Blackstone Strategic Capital Holdings B L.P.

**Table of Contents**

Blackstone Strategic Capital Holdings L.P.

Blackstone Strategic Equity Fund L.P.

Blackstone Value Recovery Fund L.P.

Blackstone/GSO Loan Financing Limited

Blackstone/GSO Secured Trust Ltd.

BREP Edens Investment Partners L.P.

BSSF I AIV L.P.

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, since we established this business in 1987. We refer to these managed corporate private equity funds collectively as our Blackstone Capital Partners ( BCP ) funds. Our Private Equity segment also includes Blackstone Tactical Opportunities Accounts ( Tactical Opportunities ), which are multi-asset class investment accounts, Strategic Partners Fund Solutions ( Strategic Partners ), a secondary private fund of funds business and Blackstone Total Alternatives Solution ( BTAS ), a new investment program for eligible high net worth investors offering exposure to Blackstone's key illiquid investment strategies through a single commitment. 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

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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, having built the largest private real estate investment business in the world since our start in 1991. We have managed or continue to manage a number of global, European and Asian focused opportunistic real estate funds, several real estate debt investment funds, a publicly traded real estate investment trust ( BXMT ) and core+ real estate investments, including the 2014 launch of our first commingled U.S.-focused open ended core+ fund. Our real estate opportunity funds are diversified geographically and have made significant investments in lodging, 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. Our core+ funds target stabilized office,

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## **Table of Contents**

multifamily, industrial, and retail assets globally. We refer to our real estate opportunistic funds as our Blackstone Real Estate Partners ( BREP ) funds, our real estate debt investment funds as our Blackstone Real Estate Debt Strategies ( BREDS ) funds and our core+ investment funds as our Blackstone Property Partners ( BPP ) funds.

**Hedge Fund Solutions.** Blackstone's Hedge Fund Solutions segment is comprised principally of Blackstone Alternative Asset Management ( BAAM ). BAAM was organized in 1990 and has developed into a leading institutional solutions provider utilizing hedge funds across a wide variety of strategies. BAAM is the world's largest discretionary allocator to hedge funds.

**Credit.** Our Credit segment is comprised principally of GSO Capital Partners LP ( GSO ), a global leader in managing credit-focused products within private and public debt 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, capital markets 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, restructuring and reorganization advisory, capital markets 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 (generally collectively referred to as Performance Fees ). The composition of our revenues will vary based on market conditions and the cyclicity of the different businesses in which we operate. Net investment gains and investment income generated by the Blackstone Funds, principally private equity and real estate funds, are driven by value created by our operating and strategic initiatives as well as overall market conditions. 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**

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

Overall global equity indices were flat in the first quarter of 2015, although there was significant variance across regions. In the U.S., the S&P 500 Index ended the quarter flat, but was characterized by higher levels of volatility, as investor sentiment was impacted by concerns around potential monetary policy tightening and the negative impact to corporate earnings from a stronger U.S. dollar. While the U.S. dollar strengthened against most major currencies during the quarter, most notably it appreciated 11% versus the euro due to the European Central Bank's announcement of a larger-than-expected quantitative easing program, designed to accelerate the economic recovery in the Eurozone and stem deflationary pressures. European equity markets rose significantly as a result, with one of the largest quarterly increases on record.

Credit markets rose modestly in the first quarter, and leveraged lending remained widely available across regions. High yield spreads were stable in the quarter and base rates in the U.S. remained at historically low levels. Both global equity capital markets and merger and acquisition activity increased sharply year-over-year, supporting a constructive environment for transaction activity generally.

The global real estate investment environment is generally characterized by limited new supply and moderate levels of debt capital. In the U.S., construction starts remain at only 1.1% of stock, meaningfully below historic levels. This, along with a strengthening economy, suggests improving supply and demand fundamentals. Real estate

## **Table of Contents**

debt markets in the U.S. have recovered, with first quarter 2015 commercial mortgage-backed securities issuance of \$26 billion, up 33% compared to the first quarter of 2014, but still well below 2007 levels. Although Europe has experienced a recent inflow of capital through foreign investment and the European Central Bank's quantitative easing program, new construction still remains well below pre-crisis levels, as the lending market has only recently reopened. In Asia, economic growth expectations in India have increased while growth in China has moderated. However, both markets continue to experience robust demand. Ongoing capital market dislocation across emerging markets in Asia has provided minimal liquidity for real estate owners and reduced financing for new construction, providing an opportunity for private real estate investment.

## **Significant Transactions**

On April 27, 2015, Blackstone issued \$350 million in aggregate principal amount of 4.450% senior notes which will mature on July 15, 2045.

On October 10, 2014, Blackstone announced that its Board of Directors had approved a plan to spin off its financial and strategic advisory services, restructuring and reorganization advisory services, and its Park Hill fund placement businesses and combine these businesses with PJT Partners, an independent financial advisory firm founded by Paul J. Taubman. Blackstone's capital markets business will not be part of the transaction, and will be retained by Blackstone. The parties expect the transaction to close in 2015. The new entity will be an independent, publicly traded company, which will be led by Mr. Taubman as Chairman and Chief Executive Officer. The transaction is intended to be tax-free to Blackstone and Blackstone's unitholders.

## **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.

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## **Table of Contents**

### **Key Financial Measures and Indicators**

We manage our business using traditional financial measures and key operating metrics since we believe these metrics measure the productivity of our investment activities. 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 in our Annual Report on Form 10-K for the year ended December 31, 2014 and Critical Accounting Policies Revenue Recognition for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

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

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 recognized based on contractual terms specified in the underlying investment advisory agreements.

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 the limited partners of the Blackstone Funds, which are granted based on the amount such limited partners reimburse the Blackstone Funds for placement fees.

Advisory fees consist of advisory retainer and transaction-based fee arrangements related to financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services 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 Consolidated Statements of Financial Condition. Management fees paid by limited partners to the Blackstone Funds and passed on to Blackstone are not considered affiliate revenues.

*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 Consolidated Statements of

**Table of Contents**

Financial Condition. Accrued but unpaid Incentive Fees on onshore funds as of the reporting date are reflected in Investments in the 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 or reversal.

In certain fund structures, specifically in private equity, real estate and certain Hedge Fund Solutions and 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 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 or, in limited instances, after certain thresholds for return of capital are met. 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. 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. 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, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

*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. 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,



## **Table of Contents**

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 remeasured at the end of each reporting period.

*Compensation and Benefits Performance Fee* Performance Fee Compensation consists of Carried Interest (which may be distributed in cash or in-kind) 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. Compensation received from advisory clients in the form of securities of such clients may also 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 held by third party investors and employees. The 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.

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**Table of Contents**

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 Blackstone 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 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 Consolidated Statements of Financial Position.

Blackstone uses the flow-through method to account for investment tax credits. Under this method, the investment tax credits are recognized as a reduction to income tax expense.

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 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 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. 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.

The most recent legislative proposals provided that, for taxable years beginning ten years after the date of enactment, income derived with respect to an ISPI that is not a qualified capital interest and that is subject to the foregoing rules would not meet the qualifying income requirements under the publicly traded partnership rules. Therefore, if similar legislation were to be enacted, following such ten-year period, we would be precluded from qualifying as a partnership for U.S. federal income tax purposes or be required to hold all such ISPIs through corporations.

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**Table of Contents**

The Obama administration proposed policies similar to Congress 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 proposal 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. The Obama administration proposed similar changes in its published revenue proposals for 2013 and prior years.

On February 26, 2014, Representative Camp, Chairman of the House Ways and Means Committee, released a discussion draft of proposed legislation that would introduce major changes to the U.S. federal income tax system (the 2014 Camp Proposal). It would, among other things (a) generally treat publicly traded partnerships (other than those deriving 90 percent of their income from activities relating to mining and natural resources) as taxable corporations for tax years beginning after 2016 and (b) recharacterize a portion of capital gain from certain partnership interests held in connection with the performance of services as ordinary income for tax years beginning after 2014.

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

If we were taxed as a corporation or were forced to hold interests in entities earning income from Carried Interest through taxable subsidiary corporations, our effective tax rate could increase significantly. The federal 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.

The Obama administration has announced other proposals for potential reform to the U.S. federal income tax rules for businesses, including reducing the deductibility of interest for corporations, reducing the top marginal rate on corporations and subjecting entities currently treated as partnerships for tax purposes to an entity level income

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**Table of Contents**

tax similar to the corporate income tax. Several proposals for reform if enacted could adversely affect us. It is unclear what any actual legislation would provide, when it would be proposed or what its prospects for enactment would be.

The 2014 Camp Proposal, in addition to the proposed changes discussed above relating to publicly traded partnerships and carried interest, includes proposed provisions for the migration of the United States from a worldwide system of taxation, pursuant to which U.S. corporations are taxed on their worldwide income, to a territorial system where U.S. corporations are taxed only on their U.S. source income (subject to certain exceptions for income derived in low-tax jurisdictions from the exploitation of tangible assets) at a top corporate tax rate that would be 25%. The 2014 Camp Proposal includes numerous revenue raisers to offset the reduction in the tax rate and base which may or may not be detrimental to us, including changes to the rules for depreciating or amortizing assets, including goodwill, and changes to rules affecting real estate investment trusts, partnerships and tax-exempt entities. Senator Baucus recently proposed a similar territorial U.S. tax system, but with more expansive U.S. taxation of the foreign profits of non-U.S. subsidiaries of U.S. corporations. The Baucus proposal would also eliminate the withholding tax exemption on portfolio interest debt obligations for investors residing in non-treaty jurisdictions. Whether these proposals will be enacted by the government and in what form is unknown, as are the ultimate consequences of the proposed legislation.

***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. EI, our principal segment measure, is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of 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.)

***Fee Related Earnings***

Blackstone uses Fee Related Earnings ( FRE ), which is derived from EI, 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. 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, 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) non-interest operating expenses. See Liquidity and Capital Resources Sources of Liquidity below for our discussion of Fee Related Earnings.

Effective January 1, 2015, Blackstone redefined Fee Related Earnings to exclude Interest Income and Dividend Revenue, Interest Expense and Investment Income (Loss) Blackstone Treasury Cash Management Strategies.

***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

**Table of Contents**

not prepared under GAAP (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.

As a result of the redefinition of Fee Related Earnings noted above, effective January 1, 2015, Distributable Earnings has been redefined to exclude Unrealized Investment Income (Loss) Blackstone Treasury Cash Management Strategies.

***Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization***

Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization ( Adjusted EBITDA ), is a supplemental non-GAAP measure derived from our segment reported results and may be used to assess our ability to service our borrowings. Adjusted EBITDA represents Distributable Earnings plus the addition of (a) Interest Expense, (b) Taxes and Related Payables Including Payable Under Tax Receivable Agreement, and (c) Depreciation and Amortization. See Liquidity and Capital Resources Sources of Liquidity below for our calculation of Adjusted EBITDA.

**Table of Contents**

***Summary Walkdown of GAAP to Non-GAAP Financial Metrics***

The relationship of our GAAP to non-GAAP financial measures is presented in the summary walkdown below. The summary walkdown shows how each non-GAAP financial measure is related to the other non-GAAP financial measures. This presentation is not meant to be a detailed calculation of each measure, but to show the relationship between the measures. For the calculation of each of these non-GAAP financial measures and a full reconciliation of Income Before Provision for Taxes to Distributable Earnings, please see [Liquidity and Capital Resources Sources of Liquidity](#).

***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.

**Table of Contents**

*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 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 invested capital or fair value of assets we manage pursuant to separately managed accounts,
- (d) the amount of debt and equity outstanding for our CLOs and CDOs during the reinvestment period,
- (e) the aggregate par amount of collateral assets, including principal cash, for our CLOs and CDOs after the reinvestment period,
- (f) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies, and
- (g) the fair value of common stock, preferred stock, convertible debt, or similar instruments issued by our public REIT.

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 Real Estate segment carry funds including certain real estate debt investment funds and certain of our Hedge Fund Solutions funds, 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 invested capital or fair value of assets we manage pursuant to separately managed accounts,

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(f) the net proceeds received from equity offerings and accumulated core earnings of our REITs, subject to certain adjustments,

(g) the aggregate par amount of collateral assets, including principal 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



**Table of Contents**

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.

*Limited Partner Capital Invested.* Limited Partner Capital Invested represents the amount of Limited Partner capital commitments which were invested by our carry and drawdown 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 or Incentive Fee.

The amount of committed undrawn capital available for investment, including general partner and employee commitments, is known as dry powder and is an indicator of the capital we have available for future investments.

**Table of Contents****Consolidated Results of Operations**

Following is a discussion of our consolidated results of operations for the three months ended March 31, 2015 and 2014. 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.

	Three Months Ended		2015 vs. 2014	
	2015	March 31, 2014	\$	%
<b>Revenues</b>				
Management and Advisory Fees, Net	\$ 603,498	\$ 573,160	\$ 30,338	5%
<b>Performance Fees</b>				
Realized				
Carried Interest	1,206,425	333,623	872,802	262%
Incentive Fees	27,992	43,794	(15,802)	-36%
Unrealized				
Carried Interest	374,481	330,394	44,087	13%
Incentive Fees	61,860	64,233	(2,373)	-4%
Total Performance Fees	1,670,758	772,044	898,714	116%
<b>Investment Income</b>				
Realized				
	187,710	153,026	34,684	23%
Unrealized				
	15,771	13,500	2,271	17%
Total Investment Income	203,481	166,526	36,955	22%
<b>Interest and Dividend Revenue</b>				
	21,499	14,069	7,430	53%
Other	(5,656)	869	(6,525)	N/M
<b>Total Revenues</b>	<b>2,493,580</b>	<b>1,526,668</b>	<b>966,912</b>	<b>63%</b>
<b>Expenses</b>				
Compensation and Benefits Compensation	559,559	485,351	74,208	15%
Performance Fee Compensation				
Realized				
Carried Interest	292,248	149,398	142,850	96%
Incentive Fees	12,227	23,635	(11,408)	-48%
Unrealized				
Carried Interest	74,380	40,730	33,650	83%
Incentive Fees	24,961	23,531	1,430	6%
Total Compensation and Benefits	963,375	722,645	240,730	33%
General, Administrative and Other	130,973	135,554	(4,581)	-3%
Interest Expense	31,370	24,667	6,703	27%
Fund Expenses	23,232	4,985	18,247	366%
<b>Total Expenses</b>	<b>1,148,950</b>	<b>887,851</b>	<b>261,099</b>	<b>29%</b>
<b>Other Income</b>				
Net Gains from Fund Investment Activities	238,972	70,155	168,817	241%

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<b>Income Before Provision for Taxes</b>	1,583,602	708,972	874,630	123%
<b>Provision for Taxes</b>	99,344	54,097	45,247	84%
<b>Net Income</b>	1,484,258	654,875	829,383	127%
<b>Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	56,358	45,792	10,566	23%
<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities</b>	153,222	43,961	109,261	249%
<b>Net Income Attributable to Non-Controlling Interests in Blackstone Holdings</b>	645,230	299,505	345,725	115%
<b>Net Income Attributable to The Blackstone Group L.P.</b>	\$ 629,448	\$ 265,617	\$ 363,831	137%

N/M Not meaningful.

**Table of Contents**

*Revenues*

Total Revenues were \$2.5 billion for the three months ended March 31, 2015, an increase of \$966.9 million compared to Total Revenues for the three months ended March 31, 2014 of \$1.5 billion. The increase in revenues was primarily attributable to an increase in Performance Fees of \$898.7 million.

The increase in Performance Fees was primarily attributable to increases in our Private Equity and Real Estate segments of \$662.9 million and \$299.4 million, respectively, offset by a decrease in our Credit segment of \$67.6 million. The increase in Private Equity was principally due to appreciation of 6.4% in the quarter on strong operating performance, particularly in BCP V, which generated a net return of 7.3% for the quarter. Also contributing to the increase were realizations in several investments including Catalent, Pinnacle Foods and Michaels in BCP V and Merlin in BCP IV. The increase in Real Estate was due to appreciation in the opportunistic Real Estate funds carrying value of 8.2% for the quarter. The decrease in Credit was due to challenging market conditions for lower rated credits in our hedge fund strategies business and a lower rate of appreciation in our rescue lending business.

*Expenses*

Expenses were \$1.1 billion for the three months ended March 31, 2015, an increase of \$261.1 million compared to \$887.9 million for the three months ended March 31, 2014. The increase in expenses was primarily attributable to an increase in Total Compensation and Benefits of \$240.7 million. The increase in Total Compensation and Benefits was primarily attributable to an increase in Performance Fee Revenue, on which a portion of compensation is based, as well as an increase in headcount to support the growth of the business.

*Other Income*

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

Other Income Net Gains from Fund Investment Activities was \$239.0 million for the three months ended March 31, 2015, an increase of \$168.8 million compared to \$70.2 million for the three months ended March 31, 2014. The increase was attributable to consolidated Credit and Real Estate funds of \$125.3 million and \$61.6 million, respectively, offset by decreases attributable to consolidated Hedge Fund funds of \$20.1 million. The increase attributable to the consolidated Credit funds was primarily driven by lower valuations on the liabilities of the consolidated CLO vehicles, which led to unrealized gains. The increase attributable to the consolidated Real Estate funds was principally due to valuation increases resulting from improving operating fundamentals for certain of the funds. The decrease attributable to consolidated Hedge Fund Solutions funds was primarily the result of a decrease in investment performance from certain consolidated funds.

*Provision for Taxes*

Blackstone's Provision for Taxes for the three months ended March 31, 2015 and 2014 was \$99.3 million and \$54.1 million, respectively. This resulted in an effective tax rate of 6.3% and 7.6%, respectively, based on our Income Before Provision for Taxes of \$1.6 billion and \$709.0 million, respectively.

One principal factor contributed to the 1.3% decrease in the effective tax rate for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. Pre-tax income of \$1.3 billion and \$567.8 million for the three month periods ended March 31, 2015 and the three months ended March 31, 2014, respectively, that was passed through to common unitholders was not taxable to the Partnership and its subsidiaries. The change in these amounts resulted in a 1.2% decrease in the effective tax rate between the respective three month periods.

*Non-Controlling Interests in Consolidated Entities*

The Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities and Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities is attributable to the consolidated

**Table of Contents**

Blackstone Funds. The amounts of these items vary directly with the performance of the consolidated Blackstone Funds and largely eliminate the amount of Other Income Net Gains from Fund Investment Activities from the Net Income Attributable to The Blackstone Group L.P.

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

For the three months ended March 31, 2015 and 2014, the net income before taxes allocated to Blackstone Holdings was 47.1% and 48.5%, respectively. The decrease of 1.4% was primarily due to conversions of Blackstone Holdings Partnership Units to Blackstone common units and the vesting of common units.

*Operating Metrics*

The following graph summarizes the Fee-Earning Assets Under Management by Segment and Total Assets Under Management by Segment, followed by a rollforward of activity for the three months ended March 31, 2015 and 2014. 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 :

Note: Totals in graph may not add due to rounding.

**Table of Contents**

	March 31, 2015					Three Months Ended				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total (Dollars in Thousands)	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
Earnings Under Management										
Beginning of Period	\$ 43,890,167	\$ 52,563,068	\$ 61,417,558	\$ 58,821,006	\$ 216,691,799	\$ 42,600,515	\$ 50,792,803	\$ 52,865,837	\$ 51,722,584	\$ 197,981,737
Flows, including commitments (a)	7,646,742	1,444,415	3,070,649	3,923,890	16,085,696	382,705	3,306,774	2,367,630	3,830,198	9,887,309
Flows, including distributions (b)	(985,379)	(32,658)	(1,266,495)	(1,971,510)	(4,256,042)	(342,462)	(91,340)	(607,622)	(870,802)	(1,912,226)
Realizations (c)	(1,246,718)	(2,494,304)	(21,342)	(775,938)	(4,538,302)	(1,579,072)	(572,763)	(187,564)	(1,648,271)	(3,987,677)
Net Inflows (Net Flows)	5,414,645	(1,082,547)	1,782,812	1,176,442	7,291,352	(1,538,829)	2,642,671	1,572,444	1,311,125	3,987,416
Market Appreciation (Market Depreciation) (d)	37,399	(697,274)	914,128	(725,704)	(471,451)	89,042	55,360	1,133,076	352,976	1,630,451
Balance, End of Period (e)	\$ 49,342,211	\$ 50,783,247	\$ 64,114,498	\$ 59,271,744	\$ 223,511,700	\$ 41,150,728	\$ 53,490,834	\$ 55,571,357	\$ 53,386,685	\$ 203,599,604
Change (Increase) Decrease	\$ 5,452,044	\$ (1,779,821)	\$ 2,696,940	\$ 450,738	\$ 6,819,901	\$ (1,449,787)	\$ 2,698,031	\$ 2,705,520	\$ 1,664,101	\$ 5,617,866
Change (Increase) Decrease	12%	-3%	4%	1%	3%	-3%	5%	5%	3%	

	March 31, 2015					Three Months Ended				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total (Dollars in Thousands)	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
Net Assets Under Management										
Beginning of Period	\$ 73,073,252	\$ 80,863,187	\$ 63,585,671	\$ 72,858,960	\$ 290,381,070	\$ 65,675,031	\$ 79,410,788	\$ 55,657,463	\$ 65,014,348	\$ 265,757,630
Flows, including commitments (a)	2,870,494	18,361,132	3,083,236	6,124,417	30,439,279	2,105,664	2,406,802	2,287,010	3,395,901	10,195,377
Flows, including distributions (b)	(25,357)	(168,303)	(1,274,747)	(2,273,272)	(3,741,679)	(167,798)	(579,900)	(612,259)	(901,672)	(2,261,626)
Realizations (c)	(3,313,818)	(9,154,899)	(25,808)	(1,006,319)	(13,500,844)	(4,682,235)	(2,046,265)	(275,888)	(2,271,798)	(9,276,186)
Net Inflows (Net Flows)	(468,681)	9,037,930	1,782,681	2,844,826	13,196,756	(2,744,369)	(219,363)	1,398,863	222,431	(1,342,434)
Market Appreciation (Market Depreciation) (d)	3,722,618	2,884,541	1,010,556	(744,252)	6,873,463	3,212,283	2,142,137	1,206,333	769,638	7,330,394
Balance, End of Period (e)	\$ 76,327,189	\$ 92,785,658	\$ 66,378,908	\$ 74,959,534	\$ 310,451,289	\$ 66,142,945	\$ 81,333,562	\$ 58,262,659	\$ 66,006,417	\$ 271,745,583
Change (Increase) Decrease	\$ 3,253,937	\$ 11,922,471	\$ 2,793,237	\$ 2,100,574	\$ 20,070,219	\$ 467,914	\$ 1,922,774	\$ 2,605,196	\$ 992,069	\$ 5,987,955
Change (Increase) Decrease	4%	15%	4%	3%	7%	1%	2%	5%	2%	

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- (a) Inflows represent contributions in our hedge funds and closed-end mutual funds, increases in available capital for our carry funds (capital raises, callable capital and increased side-by-side commitments) and 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, capital returned to investors from CLOs and the effect of changes in the definition of Total Assets Under Management.
- (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 Total Assets Under Management as of March 31, 2015 included \$196.9 million and \$251.5 million, respectively, from a joint venture in which we are the minority interest holder.

**Table of Contents**

*Fee-Earning Assets Under Management*

Fee-Earning Assets Under Management were \$223.5 billion at March 31, 2015, an increase of \$6.8 billion, compared to \$216.7 billion at December 31, 2014. The net increase was due to:

Inflows of \$16.1 billion related to:

\$7.6 billion in our Private Equity segment primarily due to \$4.4 billion raised in our Blackstone Energy Partners ( BEP ) II fund and \$3.0 billion due to the commencement of the investment period of the second vintage of the Tactical Opportunities strategies,

\$3.9 billion in our Credit segment principally due to new CLOs (\$1.0 billion raised in the U.S. and \$431.2 million in Europe), Business Development Companies ( BDCs ) (\$765.1 million), hedge fund strategies (\$366.1 million) and carry funds (\$762.0 million),

\$3.1 billion in our Hedge Fund Solutions segment mainly related to customized solutions (\$1.3 billion), commingled products (\$368.8 million), specialized solutions (\$936.0 million) and individual investor solutions (\$475.5 million), and

\$1.4 billion in our Real Estate segment primarily related to \$1.0 billion raised in our BPP funds and \$193.1 million raised for BREP Europe IV.

Offsetting these increases were:

Realizations of \$4.5 billion driven by:

\$2.5 billion in our Real Estate segment primarily from BREP VI (\$1.3 billion), BREP V (\$352.6 million) and BREDS (\$512.6 million),

\$1.2 billion in our Private Equity segment that were primarily from BCP IV, BCP V and Tactical Opportunities public and strategic dispositions including Merlin, Catalent, Pinnacle, Michaels Stores, Bayview Asset Management and Milestone, and Strategic Partners realizations, and

\$775.9 million in our Credit segment primarily due to \$529.6 million of capital returned to CLO investors from CLOs that are post their re-investment periods and \$227.4 million returned in Carry Funds.

Outflows of \$4.3 billion primarily attributable to:

\$2.0 billion in our Credit segment primarily from our BDCs (\$256.0 million), long only separately managed accounts (\$1.2 billion) and hedge fund strategies (\$227.2 million), and



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\$1.3 billion in our Hedge Fund Solutions segment driven by investors' liquidity needs and certain strategic shifts in their programs.

Market appreciation of \$725.7 million principally due to solid returns from core funds in our Hedge Fund Solutions segment. BAAM had net inflows of \$1.7 billion from April 1 through May 1, 2015.

Blackstone expects to complete the first closings for its seventh global private equity fund in the second quarter. The fund expects to have received approximately \$17 billion in commitments at that time and is subject to a hard cap of \$17.5 billion (which excludes Blackstone's general partner commitment and management fees payable by limited partners).

Fee-Earning Assets Under Management were \$203.6 billion at March 31, 2014, an increase of \$5.6 billion, compared to \$198.0 billion at December 31, 2013. The net increase was due to:

Inflows of \$9.9 billion related to:

\$3.8 billion in our Credit segment principally related to \$1.1 billion raised in our hedge fund strategies funds, \$859.5 million of capital raised for our BDCs and \$812.0 million raised due to the closing of a new European CLO,

**Table of Contents**

\$3.3 billion in our Real Estate segment primarily related to \$1.3 billion raised for BREP Europe IV, \$916.4 million raised and/or invested across our BREDS funds and \$245.0 million raised for our first Asian fund,

\$2.4 billion in our Hedge Fund Solutions segment mainly related to growth in its commingled products and customized products, and

\$382.7 million in our Private Equity segment primarily due to the inclusion of additional fee generating assets for our Tactical Opportunities accounts.

Market appreciation of \$1.6 billion principally due to solid returns from core funds in our Hedge Fund Solutions segment. Offsetting these increases were:

Realizations of \$4.0 billion driven by:

\$1.6 billion in our Credit segment primarily due to \$1.1 billion of capital returned to CLO investors from CLOs that are post their re-investment periods and \$559.5 million returned across our Mezzanine and Rescue Lending funds,

\$1.6 billion in our Private Equity segment that were primarily from our BCP V fund, including three public market dispositions and three strategic sales, and

\$572.8 million in our Real Estate segment primarily from sales of office assets in BREP.

Outflows of \$1.9 billion primarily attributable to:

\$870.8 million in our Credit segment primarily from our BDCs and separately managed accounts, and

\$607.6 million in our Hedge Fund Solutions segment as a result of, in general, the liquidity needs of limited partners.

*Total Assets Under Management*

Total Assets Under Management were \$310.5 billion at March 31, 2015, an increase of \$20.1 billion, compared to \$290.4 billion at December 31, 2014. The net increase was due to:

Inflows of \$30.4 billion primarily related to:

\$18.4 billion in our Real Estate segment primarily due to fundraising for the eighth global opportunistic fund (\$14.5 billion) and the BPP funds (\$1.6 billion),

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\$6.1 billion in our Credit segment primarily due to \$702.1 million raised in hedge fund strategies funds, \$765.1 million of capital raised for our BDCs, \$2.4 billion for our carry funds and \$1.4 billion raised due to the closing of three new CLOs,

\$3.1 billion in our Hedge Fund Solutions segment primarily related to growth of customized strategies, an additional close in the general partner interests vehicle bringing total commitments to \$3.0 billion through March 31, 2015, and continued diversification of the platform, and

\$2.9 billion in our Private Equity segment primarily related to fundraising for the second vintage of the Tactical Opportunities strategies (\$2.4 billion), BEP II (\$364.9 million) and Strategic Partners (\$100.0 million).

Market appreciation of \$6.9 billion primarily due to:

\$3.7 billion in our Private Equity segment primarily due to BCP V appreciation of 12.0% driven by public holdings including the IPO of Summit Materials,

\$2.9 billion in our Real Estate segment due to 8.2% appreciation in opportunistic funds driven by strong operating fundamentals in the BREP private portfolio (up 5% or \$2.1 billion) and public portfolio appreciation (up 15% or \$2.2 billion), and

**Table of Contents**

\$1.0 billion in our Hedge Fund Solutions segment due to BAAM's Principal Solutions Composite up 2.7% gross (2.5% net). Offsetting these increases were:

Realizations of \$13.5 billion driven by:

\$9.2 billion in our Real Estate segment primarily due to record realization activity in the quarter with 79% of realizations generated from BREP V, VI and VII,

\$3.3 billion in our Private Equity segment primarily due to BCP IV (\$644.8 million), BCP V (\$1.8 billion), Tactical Opportunities (\$331.7 million) and Strategic Partners (\$331.5 million), and

\$1.0 billion in our Credit segment primarily due to \$559.4 million of capital returned to CLO investors from CLOs that are post their re-investment periods and \$446.8 million returned in Carry Funds.

Outflows of \$3.7 billion primarily attributable to:

\$2.3 billion in our Credit segment primarily due to the same reasons in Fee-Earning Assets Under Management above, and

\$1.3 billion in our Hedge Fund Solutions segment primarily due to the same reasons in Fee-Earning Assets Under Management above.

Total Assets Under Management were \$271.7 billion at March 31, 2014, an increase of \$6.0 billion, compared to \$265.8 billion at December 31, 2013. The net increase was due to:

Inflows of \$10.2 billion primarily related to:

\$3.4 billion in our Credit segment primarily due to the same reasons in Fee-Earning Assets Under Management above,

\$2.4 billion in our Real Estate segment primarily due to the same reasons in Fee-Earning Assets Under Management above,

\$2.3 billion in our Hedge Fund Solutions segment, primarily related to growth in its commingled products and customized products and a second close on the general partner interests vehicle (\$1.4 billion of total commitments through March 31, 2014), and

\$2.1 billion in our Private Equity segment primarily related to \$853.5 million raised for Strategic Partners and \$510.0 million for our Tactical Opportunities investment vehicles.

Market appreciation of \$7.3 billion primarily due to:

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\$3.2 billion in our Private Equity segment primarily due to strong fund performance, with a 7.0% overall increase in carrying value, including 12.5% in BCP VI and 5.6% in BCP V,

\$2.1 billion in our Real Estate segment due to a carrying value increase of 3.8% driven by improving fundamentals in the private portfolio (4.4%, \$1.5 billion) and public portfolio appreciation (2.9%, \$579.8 million),

\$1.2 billion in our Hedge Fund Solutions segment due to BAAM's Principal Solutions Composite up 1.8% gross (1.6% net), and

\$769.6 million in our Credit segment due to \$433.3 million of appreciation in hedge fund strategies and BDCs and \$333.2 million of appreciation in carry funds.

Offsetting these increases were:

Realizations of \$9.3 billion driven by:

\$4.7 billion in our Private Equity segment primarily due to continued disposition activity across the segment, mainly from our BCP V fund,

**Table of Contents**

\$2.3 billion in our Credit segment primarily due to the same reasons in Fee-Earning Assets Under Management above, and

\$2.0 billion in our Real Estate segment primarily due to the same reasons in Fee-Earning Assets Under Management above.

Outflows of \$2.3 billion primarily attributable to:

\$901.7 million in our Credit segment primarily due to the same reasons in Fee-Earning Assets Under Management above,

\$612.3 million in our Hedge Fund Solutions segment primarily due to the same reasons in Fee-Earning Assets Under Management above, and

\$579.9 million in our Real Estate segment primarily from redemptions from our real estate hedge funds and a decrease in available capital resulting from the expiration of the investment period for certain BREDS funds.

*Limited Partner Capital Invested*

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

Note: Totals in graph may not add due to rounding.

	<b>Three Months Ended</b>		<b>2015 vs. 2014</b>	
	<b>2014</b>	<b>2015</b>	<b>\$</b>	<b>%</b>
	<b>March 31,</b>			
	<b>(Dollars in Thousands)</b>			
Limited Partner Capital Invested				
Private Equity	\$ 2,029,019	\$ 2,374,599	\$ 345,580	17%
Real Estate	1,692,232	1,443,163	(249,069)	-15%
Hedge Fund Solutions	167,170	133,351	(33,819)	-20%
Credit	580,106	814,423	234,317	40%
Total	\$ 4,468,527	\$ 4,765,536	\$ 297,009	7%

**Table of Contents**

Limited Partner Capital Invested was \$4.8 billion for the three months ended March 31, 2015, an increase of \$297.0 million, or 7%, from \$4.5 billion for the three months ended March 31, 2014. The amount of Limited Partner Capital Invested is a function of finding opportunistic investments that fit our investment philosophy and strategy in each of our segments as well as the relative size and timing of investment closings within those segments. Our Private Equity segment deployed capital at a greater rate during the three months ended March 31, 2015 than in the three months ended March 31, 2014 due to the timing of investment closings. Our Real Estate segment deployed capital at a slower rate during the three months ended March 31, 2015 than in the three months ended March 31, 2014. Our Hedge Fund Solutions segment is investing capital based on the relative investment opportunities from the hedge fund manager seeding platform and general partner interests vehicle. In our Credit segment, capital deployed for the three months ended March 31, 2015 was higher than for the three months ended March 31, 2014 due to greater investment opportunities in Europe.

The following presents the committed undrawn capital available for investment ( dry powder ) for the respective periods:

Note: Totals may not add due to rounding. Amounts are as of March 31 for each of the periods indicated.

- (a) Represents illiquid drawdown funds only; excludes marketable vehicles; includes both Fee-Earning (third party) capital and general partner and employee commitments that do not earn fees. Amounts are reduced by outstanding commitments to invest, but for which capital has not been called.

**Table of Contents***Net Accrued Performance Fees*

The following table presents the accrued performance fees, net of performance fee compensation, of the Blackstone Funds as of March 31, 2015 and 2014. Net accrued performance fees presented do not include clawback amounts, if any, which are disclosed in Note 17. Commitments and Contingencies Contingencies Contingent Obligations (Clawback) in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1. Financial Statements of this filing.

	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
	<b>(Dollars in Millions)</b>	
<b>Private Equity</b>		
BCP IV Carried Interest	\$ 178	\$ 437
BCP V Carried Interest	1,479	141
BCP VI Carried Interest	270	173
BEP Carried Interest	64	58
Tactical Opportunities Carried Interest	24	10
Strategic Partners Carried Interest	11	1
Other	1	
<b>Total Private Equity (a)</b>	<b>2,027</b>	<b>820</b>
<b>Real Estate</b>		
BREP IV Carried Interest	30	2
BREP V Carried Interest	652	623
BREP VI Carried Interest	1,109	1,284
BREP VII Carried Interest	527	358
BREP International I Carried Interest	1	2
BREP Europe III Carried Interest	201	117
BREP Europe IV Carried Interest	56	3
BREP Asia Carried Interest	30	8
BPP Carried Interest	14	
BREDS Carried Interest	17	15
BREDS Incentive Fees	4	3
Asia Platform Incentive Fees	7	9
<b>Total Real Estate (a)</b>	<b>2,648</b>	<b>2,424</b>
<b>Hedge Fund Solutions</b>		
Incentive Fees	40	56
<b>Total Hedge Fund Solutions</b>	<b>40</b>	<b>56</b>
<b>Credit</b>		
Carried Interest	165	185
Incentive Fees	30	61
<b>Total Credit</b>	<b>195</b>	<b>246</b>
<b>Total Blackstone</b>		
Carried Interest	4,829	3,417
Incentive Fees	81	129
<b>Net Accrued Performance Fees</b>	<b>\$ 4,910</b>	<b>\$ 3,546</b>



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

**Table of Contents**

*Performance Fee Eligible Assets Under Management*

The following represents invested and to be invested capital, including closed commitments for funds whose investment period has not yet commenced, on which performance fees could be earned if certain hurdles are met:

Note: Totals may not add due to rounding. Amounts are as of March 31, 2015.

- (a) Represents invested and to be invested capital at fair value, including closed commitments for funds whose investment period has not yet commenced, on which performance fees could be earned if certain hurdles are met.
- (b) Represents dry powder exclusive of non-fee earning general partner and employee commitments.

*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.

**Table of Contents**

The following table presents the investment record of our significant drawdown funds from inception through March 31, 2015:

Fund (Investment Period)	Committed Capital	Available Capital (a)	Unrealized Investments			Realized Investments		Total Investments		Net IRR (c)	
			Value	MOIC (b)	Public %	Value	MOIC (b)	Value	MOIC (b)	Realized	Total
<b>Private Equity</b>											
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	3,256,818	2.5x	3,256,818	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	244,522	1.1x		2,619,040	1.4x	2,863,562	1.3x	7%	6%
BCP IV (Nov 2002 / Dec 2005)	6,773,182	223,589	2,498,337	1.4x	36%	18,651,078	3.2x	21,149,415	2.8x	45%	36%
BCP V (Dec 2005 / Jan 2011)	21,032,061	1,311,618	18,361,782	1.8x	61%	19,291,650	1.9x	37,653,432	1.9x	11%	9%
BCP VI (Jan 2011 / Jan 2017)	15,182,144	5,980,880	11,696,775	1.3x	16%	1,548,216	1.8x	13,244,991	1.4x	50%	14%
BEP (Aug 2011 / Aug 2017)	2,437,287	372,131	2,713,049	1.4x	24%	535,189	2.0x	3,248,238	1.4x	56%	29%
BEP II (Feb 2015 / Feb 2021)	4,864,865	4,864,865			N/A		N/A		N/A	N/A	N/A
<b>Total Corporate Private Equity</b>	<b>58,614,472</b>	<b>12,952,381</b>	<b>35,514,465</b>	<b>1.6x</b>	<b>41%</b>	<b>56,828,417</b>	<b>2.3x</b>	<b>92,342,882</b>	<b>1.9x</b>	<b>22%</b>	<b>16%</b>
Tactical Opportunities	8,858,500	5,128,542	4,232,095	1.1x	2%	980,853	1.4x	5,212,948	1.2x	27%	14%
Strategic Partners	16,693,422	4,553,811	6,549,585	1.6x	N/A	11,673,083	1.3x	18,222,668	1.4x	N/A	15%
Other Funds and Co-Invest (d)	1,621,886	169,977	1,187,250	1.1x	55%	103,859	1.7x	1,291,109	1.1x	N/A	N/A
<b>Total Private Equity</b>	<b>\$ 85,788,280</b>	<b>\$ 22,804,711</b>	<b>\$ 47,483,395</b>	<b>1.5x</b>	<b>32%</b>	<b>\$ 69,586,212</b>	<b>2.0x</b>	<b>\$ 117,069,607</b>	<b>1.8x</b>	<b>20%</b>	<b>16%</b>
<b>Real Estate</b>											
<b>Dollar</b>											
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	2,531,612	2.1x	2,531,612	2.1x	19%	19%
BREP III (Apr 1999 / Apr 2003)	1,522,708				N/A	3,328,504	2.4x	3,328,504	2.4x	21%	21%
BREP IV (Apr 2003 / Dec 2005)	2,198,694		1,053,344	0.9x	16%	3,619,482	2.2x	4,672,826	1.7x	48%	14%
BREP V (Dec 2005 / Feb 2007)	5,539,418		5,775,716	2.2x	11%	6,922,979	2.2x	12,698,695	2.2x	16%	12%
BREP VI (Feb 2007 / Aug 2011)	11,059,494	586,765	12,817,654	2.7x	62%	14,006,819	2.3x	26,824,473	2.5x	17%	15%
BREP VII (Aug 2011 / Feb 2017)	13,476,021	4,089,253	15,523,310	1.5x	2%	5,036,944	1.9x	20,560,254	1.6x	39%	26%
BREP VIII (Aug 2015 / Oct 2020)	14,556,000	14,556,000			N/A		N/A		N/A	N/A	N/A
<b>Total Global Real Estate Funds</b>	<b>\$ 50,072,096</b>	<b>\$ 19,232,018</b>	<b>\$ 35,170,024</b>	<b>1.9x</b>	<b>26%</b>	<b>\$ 37,119,238</b>	<b>2.2x</b>	<b>\$ 72,289,262</b>	<b>2.0x</b>	<b>23%</b>	<b>18%</b>

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<b>Euro</b>											
BREP Int I (Jan 2001 / Sep 2005)	824,172		9,364	0.5x		1,359,864	2.1x	1,369,228	2.1x	25%	23%
BREP Int I II (Sep 2005 / Jun 2008)	1,629,748	54,198	1,681,289	1.5x	41%	567,022	1.8x	2,248,311	1.6x	12%	6%
BREP Europe III (Jun 2008 / Sep 2013)	3,204,714	525,539	4,307,781	1.8x	9%	1,149,471	2.5x	5,457,252	1.9x	32%	20%
BREP Europe IV (Sep 2013 / Mar 2019)	6,509,841	4,382,570	3,385,545	1.2x		247,017	1.3x	3,632,562	1.2x	40%	21%
<b>Total Euro Real Estate Funds</b>	<b>12,168,475</b>	<b>4,962,307</b>	<b>9,383,979</b>	<b>1.5x</b>	<b>11%</b>	<b>3,323,374</b>	<b>2.1x</b>	<b>12,707,353</b>	<b>1.6x</b>	<b>23%</b>	<b>14%</b>
BREP Co-Investment (e)	\$ 5,556,716	\$	\$ 7,834,007	2.1x	67%	\$ 4,357,984	2.3x	\$ 12,191,991	2.2x	17%	18%
BREP Asia (Jun 2013 / Dec 2017)	5,076,119	3,111,174	2,347,061	1.2x		4,400	1.0x	2,351,461	1.2x	N/A	15%
<b>Total Real Estate</b>	<b>\$ 76,577,457</b>	<b>\$ 27,712,904</b>	<b>\$ 57,810,842</b>	<b>1.8x</b>	<b>27%</b>	<b>\$ 45,894,528</b>	<b>2.2x</b>	<b>\$ 103,705,370</b>	<b>1.9x</b>	<b>22%</b>	<b>17%</b>
<b>BPP</b>	<b>\$ 5,063,701</b>	<b>\$ 3,008,012</b>	<b>\$ 2,449,050</b>	<b>1.2x</b>		<b>\$</b>	<b>N/A</b>	<b>\$ 2,449,050</b>	<b>1.2x</b>	<b>N/A</b>	<b>N/A</b>
<b>BREDS (f)</b>	<b>\$ 7,142,206</b>	<b>\$ 2,092,436</b>	<b>\$ 2,713,830</b>	<b>1.2x</b>		<b>\$ 3,947,173</b>	<b>1.3x</b>	<b>\$ 6,661,003</b>	<b>1.3x</b>	<b>13%</b>	<b>12%</b>
<b>Credit (g)</b>											
Mezzanine I (Jul 2007 / Jul 2012)	\$ 2,000,000	\$ 134,024	\$ 841,926	1.7x		\$ 3,999,712	1.6x	\$ 4,841,638	1.6x	N/A	18%
Mezzanine II (Nov 2011 / Nov 2016)	4,120,000	2,590,229	2,588,856	1.2x		1,217,175	1.5x	3,806,031	1.3x	N/A	22%
Rescue Lending I (Sep 2009 / May 2013)	3,253,143	558,165	2,414,948	1.4x		3,397,415	1.4x	5,812,363	1.4x	N/A	14%
Rescue Lending II (Jun 2013 / Jun 2018)	5,125,000	3,797,864	1,727,755	1.2x		3,795	1.0x	1,731,550	1.2x	N/A	N/M
<b>Total Credit</b>	<b>\$ 14,498,143</b>	<b>\$ 7,080,282</b>	<b>\$ 7,573,485</b>	<b>1.3x</b>		<b>\$ 8,618,097</b>	<b>1.5x</b>	<b>\$ 16,191,582</b>	<b>1.4x</b>	<b>N/A</b>	<b>17%</b>

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

**Table of Contents**

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) Net Internal Rate of Return ( IRR ) represents the annualized inception to March 31, 2015 IRR on total invested capital based on realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest. Net IRRs for BREP Europe IV, BREP Asia and BREDS II are calculated from commencement of their respective investment periods which, being less than one year, are not annualized.
- (d) Returns for Other Funds and Co-Invest are not meaningful as these funds have little or no realizations.
- (e) 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.
- (f) Excludes Capital Trust drawdown funds.
- (g) The Total Investments MOIC for Mezzanine I, Mezzanine II, Rescue Lending I and Rescue Lending II Funds, excluding recycled capital during the investment period, was 2.0x, 1.7x, 1.6x and 1.3x, respectively. Funds presented represent the flagship credit drawdown funds only. The Total Credit Net IRR is the combined IRR of the four flagship credit drawdown funds presented.

**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.

**Table of Contents****Private Equity**

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

	Three Months Ended		2015 vs. 2014	
	2015	2014	\$	%
(Dollars in Thousands)				
<b>Segment Revenues</b>				
Management Fees, Net				
Base Management Fees	\$ 108,383	\$ 98,584	\$ 9,799	10%
Transaction and Other Fees, Net	20,359	42,847	(22,488)	-52%
Management Fee Offsets	(4,949)	(1,713)	(3,236)	-189%
Total Management Fees, Net	123,793	139,718	(15,925)	-11%
<b>Performance Fees</b>				
Realized				
Carried Interest	382,978	119,805	263,173	220%
Unrealized				
Carried Interest	566,822	167,065	399,757	239%
Total Performance Fees	949,800	286,870	662,930	231%
<b>Investment Income (Loss)</b>				
Realized	44,816	60,535	(15,719)	-26%
Unrealized	31,487	(9,033)	40,520	N/M
Total Investment Income	76,303	51,502	24,801	48%
Interest and Dividend Revenue	7,617	5,228	2,389	46%
Other	(1,825)	864	(2,689)	N/M
Total Revenues	1,155,688	484,182	671,506	139%
<b>Expenses</b>				
<b>Compensation and Benefits</b>				
Compensation	70,089	73,307	(3,218)	-4%
<b>Performance Fee Compensation</b>				
Realized				
Carried Interest	39,482	85,771	(46,289)	-54%
Unrealized				
Carried Interest	178,120	(27,148)	205,268	N/M
Total Compensation and Benefits	287,691	131,930	155,761	118%
Other Operating Expenses	38,755	33,006	5,749	17%
Total Expenses	326,446	164,936	161,510	98%
Economic Income	\$ 829,242	\$ 319,246	\$ 509,996	160%

N/M Not meaningful.

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### *Revenues*

Revenues were \$1.2 billion for the three months ended March 31, 2015, an increase of \$671.5 million compared to \$484.2 million for the three months ended March 31, 2014. The increase in revenues was primarily attributable to increases in Performance Fees and Investment Income of \$662.9 million and \$24.8 million, respectively, offset by a decrease in Total Management Fees, Net of \$15.9 million.

Performance Fees, which are determined on a fund by fund basis, were \$949.8 million for the three months ended March 31, 2015, an increase of \$662.9 million, compared to \$286.9 million for the three months ended

**Table of Contents**

March 31, 2014, as total private equity funds appreciated 6.4% during the quarter, driven mainly by BCP V, which generated a net return of 7.3% for the quarter. The performance of the funds was driven by our public portfolio including the successful IPO of Summit Materials as well as our private holdings in the services, healthcare and energy sectors. Realized Performance Fees of \$383.0 million during the quarter were driven by realizations in several investments including Catalent, Pinnacle Foods, Michaels and Merlin, as well as other strategic and public exits across the remaining private equity portfolio.

Investment Income was \$76.3 million for the three months ended March 31, 2015, an increase of \$24.8 million compared to \$51.5 million for the three months ended March 31, 2014, driven primarily by the overall appreciation in the portfolio.

Total Management Fees were \$123.8 million for the three months ended March 31, 2015, a decrease of \$15.9 million compared to \$139.7 million for the three months ended March 31, 2014, driven primarily by a decrease in Transaction and Other Fees offset by an increase in Base Management Fees. Transaction and Other Fees were \$20.4 million for the three months ended March 31, 2015, a decrease of \$22.5 million compared to \$42.8 million for the three months ended March 31, 2014, principally due to the timing of transaction closings. Base Management Fees were \$108.4 million for the three months ended March 31, 2015, an increase of \$9.8 million, compared to \$98.6 million for the three months ended March 31, 2014, primarily due to the increase in fee assets across the segment.

*Expenses*

Expenses were \$326.4 million for the three months ended March 31, 2015, an increase of \$161.5 million, compared to \$164.9 million for the three months ended March 31, 2014. The increase was attributable to a \$159.0 million increase in Performance Fee Compensation. The increase in Performance Fee Compensation was driven by the increase in Performance Fees Revenue. The increase in other operating expenses was primarily due to an increase in interest allocated to the segment as well as an increase in business development costs.

*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:

Fund (b)	Three Months Ended				March 31, 2015			
	March 31,		March 31,		Inception to Date		Total	
	2015	2014 (a)	2015	2014 (a)	Realized	Net	Gross	Net
BCP IV	-1%	-1%	3%	3%	59%	45%	50%	36%
BCP V	12%	7%	6%	5%	13%	11%	11%	9%
BCP VI	3%	2%	14%	11%	66%	50%	22%	14%
BEP	1%		6%	5%	60%	56%	36%	29%
Tactical Opportunities	2%	1%	3%	3%	36%	27%	19%	14%
Strategic Partners	3%	2%	7%	6%	N/A	N/A	18%	15%

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

N/A Not applicable.



**Table of Contents**

- (a) Changes in previous period returns are due to the repayment of fund level financing with capital drawn down from the respective funds general and limited partners.
- (b) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and Carried Interest allocations.

The corporate private equity funds within the Private Equity segment have four contributed funds with closed investment periods: BCP IV, BCP V, BCOM and BEP I. As of March 31, 2015, 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 comprised of two fund classes based on the timings of fund closings, the BCP V main fund and BCP V-AC fund. Within these fund classes, the general partner ( GP ) is subject to equalization such that (a) the GP accrues Carried Interest when the total Carried Interest for the combined fund classes is positive and (b) the GP realizes Carried Interest so long as clawback obligations, if any, for the combined fund classes are fully satisfied. During the quarter, both fund classes were above their respective Carried Interest thresholds. BCOM is currently above its Carried Interest threshold and 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. BEP I is currently above its Carried Interest threshold.

**Table of Contents****Real Estate**

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

	Three Months Ended March 31,		2015 vs. 2014	
	2015	2014	\$	%
(Dollars in Thousands)				
<b>Segment Revenues</b>				
Management Fees, Net				
Base Management Fees	\$ 152,348	\$ 159,336	\$ (6,988)	-4%
Transaction and Other Fees, Net	15,216	13,564	1,652	12%
Management Fee Offsets	(4,866)	(9,224)	4,358	47%
Total Management Fees, Net	162,698	163,676	(978)	-1%
<b>Performance Fees</b>				
Realized				
Carried Interest	811,249	194,658	616,591	317%
Incentive Fees	723	(26)	749	N/M
Unrealized				
Carried Interest	(181,019)	140,237	(321,256)	N/M
Incentive Fees	6,069	2,737	3,332	122%
Total Performance Fees	637,022	337,606	299,416	89%
<b>Investment Income</b>				
Realized				
	71,344	31,357	39,987	128%
Unrealized				
	37,510	5,379	32,131	597%
Total Investment Income	108,854	36,736	72,118	196%
Interest and Dividend Revenue	9,997	6,110	3,887	64%
Other	(3,977)	317	(4,294)	N/M
Total Revenues	914,594	544,445	370,149	68%
<b>Expenses</b>				
Compensation and Benefits				
Compensation				
	84,834	80,233	4,601	6%
Performance Fee Compensation				
Realized				
Carried Interest	246,496	51,833	194,663	376%
Incentive Fees	356	(16)	372	N/M
Unrealized				
Carried Interest	(98,084)	56,985	(155,069)	N/M
Incentive Fees	2,575	1,382	1,193	86%
Total Compensation and Benefits	236,177	190,417	45,760	24%
Other Operating Expenses	40,143	33,107	7,036	21%
Total Expenses	276,320	223,524	52,796	24%
Economic Income	\$ 638,274	\$ 320,921	\$ 317,353	99%

N/M Not meaningful.

*Revenues*

Revenues were \$914.6 million for the three months ended March 31, 2015, an increase of \$370.2 million compared to \$544.4 million for the three months ended March 31, 2014. The increase in revenues was primarily attributable to increases of \$299.4 million in Performance Fees and \$72.1 million in Investment Income.

**Table of Contents**

Performance Fees, which are determined on a fund by fund basis, were \$637.0 million for the three months ended March 31, 2015, an increase of \$299.4 million compared to \$337.6 million for the three months ended March 31, 2014. Performance Fees increased due to the net appreciation of investments from our BREP carry funds. For the three months ended March 31, 2015 the carrying value of assets for Blackstone's contributed Real Estate funds, including fee-paying co-investments, increased 8.2% driven by strong operating fundamentals in the private portfolio (5%, \$2.1 billion) and public portfolio appreciation (15%, \$2.2 billion). Our BREDS drawdown and real estate hedge funds appreciated 1.7% and 2.8%, respectively.

Investment Income was \$108.8 million for the three months ended March 31, 2015, an increase of \$72.1 million compared to \$36.7 million for the three months ended March 31, 2014. The increase in Investment Income was primarily driven by increased quarterly appreciation of investments across our global Real Estate funds including BREP VI, where Blackstone has a larger investment than in the other BREP funds.

*Expenses*

Expenses were \$276.3 million for the three months ended March 31, 2015, an increase of \$52.8 million, compared to \$223.5 million for the three months ended March 31, 2014. The increase was primarily due to increases in Performance Fee Compensation and Other Operating Expenses of \$41.2 million and \$7.0 million, respectively. The increase in Performance Fee Compensation was a result of an increase in Performance Fee Revenue. The increase in Other Operating Expenses was primarily due to an increase in interest expense allocated to the segment as well as increases in business development and a non-recurring fund waiver expense.

*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:

Fund (a)	Three Months Ended				March 31, 2015			
	March 31,		2014		Realized		Inception to Date	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BREP International (b)	15%	5%	46%	36%	34%	25%	33%	23%
BREP IV	3%	3%	4%	3%	74%	48%	23%	14%
BREP V	11%	10%	4%	4%	20%	16%	15%	12%
BREP International II (b)	15%	15%	3%	3%	13%	12%	7%	6%
BREP VI	11%	9%	2%	1%	20%	17%	19%	15%
BREP Europe III (b)	8%	7%	5%	4%	44%	32%	32%	20%
BREP VII	4%	3%	6%	5%	54%	39%	36%	26%
BREP Asia	7%	4%	7%	4%	N/A	N/A	27%	15%
BREP Europe IV (b)	8%	5%	8%	4%	64%	40%	33%	21%
BREDS	4%	2%	2%	1%	N/A	N/A	14%	9%
BSSF I	5%	3%	3%	2%	N/A	N/A	15%	11%
CMBS	2%	2%	3%	2%	N/A	N/A	16%	11%
BREP Co-Investment (c)	14%	13%	5%	4%	18%	17%	20%	18%

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

**Table of Contents**

N/A Not applicable.

- (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 internal rates of return.
- (c) Excludes fully realized co-investments prior to Blackstone's initial public offering.

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 March 31, 2015:

Fully Invested Funds	Amount (Amounts in Millions)	Gain to Cross Carried Interest Threshold (a)	
		% Change in Total Enterprise Value (b)	% Change in Equity Value
BREP Int I II (Sep 2005 / Jun 2008)	627	15%	41%

- (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 five funds in their investment period, which were above their respective Carried Interest thresholds as of March 31, 2015: BREP VII, BREP Asia, BREP Europe IV and two funds within BREDS.

**Table of Contents****Hedge Fund Solutions**

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

	Three Months Ended March 31,		2015 vs. 2014	
	2015	2014	\$	%
(Dollars in Thousands)				
<b>Segment Revenues</b>				
Management Fees, Net				
Base Management Fees	\$ 130,637	\$ 113,384	\$ 17,253	15%
Transaction and Other Fees, Net	25	93	(68)	-73%
Management Fee Offsets	(280)	(1,455)	1,175	81%
Total Management Fees, Net	130,382	112,022	18,360	16%
<b>Performance Fees</b>				
Realized				
Incentive Fees	10,516	39,845	(29,329)	-74%
Unrealized				
Incentive Fees	47,427	18,085	29,342	162%
Total Performance Fees	57,943	57,930	13	0%
<b>Investment Income (Loss)</b>				
Realized	(10,375)	16,820	(27,195)	N/M
Unrealized	4,483	4,431	52	1%
Total Investment Income (Loss)	(5,892)	21,251	(27,143)	N/M
Interest and Dividend Revenue	3,949	2,661	1,288	48%
Other	(1,607)	122	(1,729)	N/M
Total Revenues	184,775	193,986	(9,211)	-5%
<b>Expenses</b>				
<b>Compensation and Benefits</b>				
Compensation	56,104	40,571	15,533	38%
Performance Fee Compensation				
Realized				
Incentive Fees	3,470	13,271	(9,801)	-74%
Unrealized				
Incentive Fees	15,651	6,761	8,890	131%
Total Compensation and Benefits	75,225	60,603	14,622	24%
Other Operating Expenses	21,206	19,480	1,726	9%
Total Expenses	96,431	80,083	16,348	20%
Economic Income	\$ 88,344	\$ 113,903	\$ (25,559)	-22%

N/M Not meaningful.

*Revenues*

Revenues were \$184.8 million for the three months ended March 31, 2015, a decrease of \$9.2 million compared to \$194.0 million for the three months ended March 31, 2014. The decrease in revenues was primarily attributable to a decrease of \$27.1 million in Investment Income (Loss), partially offset by an increase of \$18.4 million in Total Management Fees.

Investment Income (Loss) was \$(5.9) million for the three months ended March 31, 2015, a decrease of \$27.1 million compared to \$21.3 million for the three months ended March 31, 2014. The decrease was primarily driven by the year over year decrease in the net appreciation of investments of which Blackstone owns a share.

**Table of Contents**

Total Management Fees were \$130.4 million for the three months ended March 31, 2015, an increase of \$18.4 million compared to \$112.0 million for the three months ended March 31, 2014, primarily due to an increase in Base Management Fees. Base Management Fees were \$130.6 million for the three months ended March 31, 2015, an increase of \$17.3 million compared to the three months ended March 31, 2014, driven by an increase in Fee-Earning Assets Under Management of 15% from the prior year, which was from net inflows and market appreciation.

*Expenses*

Expenses were \$96.4 million for the three months ended March 31, 2015, an increase of \$16.4 million compared to the three months ended March 31, 2014. The increase in expenses was attributable to a \$14.6 million increase in Total Compensation and Benefits and a \$1.7 million increase in Other Operating Expenses. Compensation was \$56.1 million for the three months ended March 31, 2015, an increase of \$15.5 million, compared to \$40.6 million for the three months ended March 31, 2014, primarily due to an increase in headcount to support the growth of the business and an increase in Total Management Fees, on which a portion of compensation is based. Other Operating Expenses increased \$1.7 million to \$21.2 million for the three months ended March 31, 2015, compared to \$19.5 million for the three months ended March 31, 2014, primarily resulting from an increase in interest expense allocated to the segment.

*Operating Metrics*

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

	Fee-Earning Assets Under Management Eligible for Incentive Fees As of March 31, (Dollars in Thousands)		Estimated % Above High Water Mark and/or Hurdle (a) As of March 31,	
	2014	2015	2014	2015
BAAM Managed Funds (b)	\$ 29,279,855	\$ 36,082,898	92%	92%

Note: Totals in graph may not add due to rounding.

(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



**Table of Contents**

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 March 31, 2015 the incremental appreciation needed for the 8% 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 \$75.1 million, an increase of \$18.9 million, or 34%, compared to \$56.3 million at March 31, 2014. Of the Fee-Earning Assets Under Management below their respective High Water Marks and/or Hurdle as of March 31, 2015, 93% 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:

Composite	Three Months Ended March 31,				Average Annual Returns (a)							
	2015		2014		One Year		Three Year		Five Year		Historical	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BAAM Managed Funds, BAAM Principal Solutions Composite (b)	3%	2%	2%	2%	8%	7%	9%	8%	7%	6%	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 ( BPS ) 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 individual investor solutions (i.e., liquid alternatives), long-only equity, long-biased commodities, ventures (i.e., seeding and minority interests) and strategic opportunities (i.e., co-investments) platforms except where a BPS fund invests directly into those platforms. BAAM's advisory platforms and liquidating funds are also excluded. On a net of fees basis, the BPS Composite was up 2.5% for the quarter.

**Table of Contents****Credit**

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

	Three Months Ended March 31,		2015 vs. 2014	
	2015	2014	\$	%
(Dollars in Thousands)				
<b>Segment Revenues</b>				
Management Fees, Net				
Base Management Fees	\$ 125,029	\$ 105,574	\$ 19,455	18%
Transaction and Other Fees, Net	1,457	3,344	(1,887)	-56%
Management Fee Offsets	(7,850)	(4,252)	(3,598)	-85%
Total Management Fees, Net	118,636	104,666	13,970	13%
<b>Performance Fees</b>				
<b>Realized</b>				
Carried Interest	13,367	19,160	(5,793)	-30%
Incentive Fees	18,431	14,018	4,413	31%
<b>Unrealized</b>				
Carried Interest	(11,951)	22,986	(34,937)	N/M
Incentive Fees	9,124	40,444	(31,320)	-77%
Total Performance Fees	28,971	96,608	(67,637)	-70%
<b>Investment Income</b>				
<b>Realized</b>				
Carried Interest	2,237	3,071	(834)	-27%
Incentive Fees	6,887	3,079	3,808	124%
<b>Unrealized</b>				
Carried Interest	9,124	6,150	2,974	48%
Interest and Dividend Revenue	5,651	5,861	(210)	-4%
Other	3,493	(259)	3,752	N/M
Total Revenues	165,875	213,026	(47,151)	-22%
<b>Expenses</b>				
<b>Compensation and Benefits</b>				
<b>Realized</b>				
Compensation	49,877	50,752	(875)	-2%
<b>Performance Fee Compensation</b>				
<b>Realized</b>				
Carried Interest	6,270	11,794	(5,524)	-47%
Incentive Fees	8,401	10,380	(1,979)	-19%
<b>Unrealized</b>				
Carried Interest	(5,656)	10,853	(16,509)	N/M
Incentive Fees	6,735	15,388	(8,653)	-56%
Total Compensation and Benefits	65,627	99,167	(33,540)	-34%
Other Operating Expenses	21,836	32,839	(11,003)	-34%
Total Expenses	87,463	132,006	(44,543)	-34%
Economic Income	\$ 78,412	\$ 81,020	\$ (2,608)	-3%

N/M Not meaningful.

**Table of Contents**

*Revenues*

Revenues were \$165.9 million for the three months ended March 31, 2015, a decrease of \$47.2 million compared to the three months ended March 31, 2014. The decrease in revenues was primarily attributable to a decrease of \$67.6 million in Performance Fees, partially offset by an increase of \$14.0 million in Total Management Fees.

Performance Fees were \$29.0 million for the three months ended March 31, 2015, a decrease of \$67.6 million from the three months ended March 31, 2014. This change was primarily attributable to lower returns in certain alternative strategies funds. The composite net returns of Blackstone's Credit segment funds were 1.1% for Hedge Fund Strategies, 2.3% for Mezzanine Strategies and -0.5% for Rescue Lending Strategies for the three months ended March 31, 2015.

Total Management Fees were \$118.6 million for the three months ended March 31, 2015, an increase of \$14.0 million from the three months ended March 31, 2014, primarily due to an increase in Base Management Fees. Base Management Fees were \$125.0 million for the three months ended March 31, 2015, an increase of \$19.5 million compared to the three months ended March 31, 2014, primarily due to significant Fee Earning AUM growth in both performing credit and hedge fund strategies.

*Expenses*

Expenses were \$87.5 million for the three months ended March 31, 2015, a decrease of \$44.5 million compared to the three months ended March 31, 2014. The decrease in expenses was attributable to a decrease of \$32.7 million in Performance Fee Compensation due to the decrease in Performance Fees Revenue and a decrease of \$11.0 million in Other Operating Expenses due to a non-recurring placement fee incurred during the first quarter of 2014.

*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.

As of March 31, 2015, the Credit segment's returns reflect composite returns for funds included within each alternative strategy as set forth below. Previously, these returns reflected only the composite returns for the flagship funds in each such strategy. The historical returns presented in the tables below have been updated to conform to the current presentation.

The following table presents composite return information of the segment's Hedge Fund Strategies funds:

Composite	Three Months Ended March 31,		Average Annual Returns (a)								
	2015		2014		One Year	Three Year		Five Year		Historical	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	
Hedge Fund Strategies (b)	2%	1%	4%	3%	-1%	13%	10%	14%	10%	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 Hedge Fund Strategies' returns represent a weighted-average composite of the fee-earning funds exceeding \$100 million of fair value at each respective quarter end excluding the Blackstone Funds that were contributed to GSO as part of Blackstone's acquisition of GSO in March 2008. The historical returns are from August 1, 2005.



**Table of Contents**

The following table presents combined internal rates of return of the segment's Mezzanine Strategies funds and Rescue Lending Strategies funds:

Composites (a)	Three Months Ended				March 31, 2015	
	March 31,		March 31,		Inception to Date	
	2015	2014	2015	2014	Gross	Net
Mezzanine Strategies (b)	3%	2%	4%	3%	25%	19%
Rescue Lending Strategies (c)	-1%		5%	4%	21%	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 Strategies' returns represent the IRR of the combined cash flows of the fee-earning funds exceeding \$100 million of fair value at each respective quarter end excluding the Blackstone Funds that were contributed to GSO as part of Blackstone's acquisition of GSO in March 2008. The inception to date returns are from July 16, 2007.
- (c) The Rescue Lending Strategies' returns represent the IRR of the combined cash flows of the fee-earning funds exceeding \$100 million of fair value at each respective quarter end. The inception to date returns are from September 29, 2009.

As of March 31, 2015, the drawdown funds within the Mezzanine and Rescue Lending Strategies' returns were above their respective Carried Interest thresholds.

**Financial Advisory**

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

	Three Months Ended		2015 vs. 2014	
	March 31,			
	2015	2014	\$	%
(Dollars in Thousands)				
Segment Revenues				
Advisory Fees	\$ 84,238	\$ 69,963	\$ 14,275	20%
Transaction and Other Fees, Net	16	62	(46)	-74%
Total Advisory and Transaction Fees	84,254	70,025	14,229	20%
Investment Income (Loss)				
Realized	(230)	134	(364)	N/M
Unrealized	1,482	694	788	114%
Total Investment Income	1,252	828	424	51%
Interest and Dividend Revenue	3,237	2,502	735	29%
Other	(956)	(175)	(781)	-446%
Total Revenues	87,787	73,180	14,607	20%
Expenses				
Compensation and Benefits				
Compensation	68,934	61,682	7,252	12%
Other Operating Expenses	21,342	21,342		

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Total Expenses	90,276	83,024	7,252	9%
Economic Loss	\$ (2,489)	\$ (9,844)	\$ 7,355	75%

N/M Not meaningful.

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**Table of Contents***Revenues*

Revenues were \$87.8 million for the three months ended March 31, 2015, an increase of \$14.6 million, compared to \$73.2 million for the three months ended March 31, 2014. The increase in revenues was driven primarily by increases in Blackstone Advisory Partners (BAP) business, capital markets business and Blackstone's fund placement business, partially offset by a decrease in Restructuring and Reorganization. The increase in BAP's business was due to an increase in the number of transactions that closed compared to the prior year period. Blackstone Capital Markets had a good start to the year, with Fee Revenues up slightly from the same period in the prior year. The increase in fees earned by Blackstone's fund placement business was primarily due to an increase in fees earned in the number of transactions that closed in the Private Equity and Real Estate businesses during the period. The decrease in Restructuring and Reorganization was driven primarily by fewer deal closings relative to the prior year period. The pipeline for Restructuring and Reorganization remains steady across a diverse group of industries, most notably in the energy sector.

*Expenses*

Expenses were \$90.3 million for the three months ended March 31, 2015, an increase of \$7.3 million, compared to \$83.0 million for the three months ended March 31, 2014. Compensation increased \$7.3 million compared to the three months ended March 31, 2014, principally due to an overall increase in total revenue across the segment, on which a portion of compensation is based. Other Operating Expenses were flat compared to the three months ended March 31, 2014.

**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 \$32.4 billion as of March 31, 2015, up slightly from December 31, 2014. Total liabilities were \$14.5 billion as of March 31, 2015, up slightly from December 31, 2014.

For the three months ended March 31, 2015, we had Total Fee Related Revenues of \$614.9 million and related expenses of \$434.3 million, generating Fee Related Earnings of \$180.6 million and Distributable Earnings of \$1.2 billion.

*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,



**Table of Contents**

including our \$1.1 billion committed revolving credit facility and the proceeds from our issuances of senior notes. As of March 31, 2015, Blackstone had \$1.1 billion in cash and cash equivalents, \$1.8 billion invested in Blackstone's Treasury Cash Management Strategies, \$183.3 million invested in liquid Blackstone Funds, \$2.3 billion invested in illiquid Blackstone Funds and \$129.0 million invested in other investments, against \$2.1 billion in borrowings from our bond issuances, and no borrowings outstanding under our revolving credit facility.

On April 27, 2015, Blackstone issued \$350 million in aggregate principal amount of 4.450% senior notes which will mature on July 15, 2045.

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.

**Table of Contents**

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

- (a) Represents the total segment amounts of the respective captions. See Note 18. Segment Reporting in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1, Financial Statements of this filing.
- (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.

**Table of Contents**

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

- (a) Represents the total segment amounts of the respective captions. See Note 18. Segment Reporting in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements of this filing.
- (b) Represents equity-based award expense included in Economic Income.
- (c) Taxes and Related Payables Including Payable Under Tax Receivable Agreement represent the current tax provision (benefit) calculated on Income (Loss) Before Provision (Benefit) for Taxes and the Payable Under Tax Receivable Agreement.
- (d) Represents tax-related payables including the Payable Under Tax Receivable Agreement.

**Table of Contents**

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:

**Table of Contents**

- (a) This adjustment adds back to Income (Loss) Before Provision (Benefit) 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 (Loss) Before Provision (Benefit) for Taxes amounts for the Amortization of Intangibles which are associated with Blackstone's initial public offering and other corporate actions.
- (c) This adjustment adds back to Income (Loss) Before Provision (Benefit) for Taxes the amount of (Income) Loss Associated with Non-Controlling Interests of Consolidated Entities and includes the amount of Management Fee Revenues associated with Consolidated CLO Entities.
- (d) Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision (Benefit) 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 Interest Income and Dividend Revenue less Interest Expense.
- (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 (Loss) Realized.
- (k) Taxes and Related Payables Including Payable Under Tax Receivable Agreement represent the current tax provision (benefit) calculated on Income (Loss) Before Provision (Benefit) for Taxes and the Payable Under Tax Receivable Agreement.
- (l) Represents equity-based award expense included in EI.

**Table of Contents****Liquidity Needs**

We expect that our primary liquidity needs will be cash to (a) provide capital to facilitate the growth of our existing businesses which principally includes funding our general partner and co-investment commitments to our funds, (b) provide capital to facilitate our expansion into new businesses that are complementary, (c) pay operating expenses, including cash compensation to our employees and other obligations as they arise, (d) fund modest capital expenditures, (e) repay borrowings and related interest costs, (f) pay income taxes, and (g) make distributions to our unitholders and the holders of Blackstone Holdings Partnership Units. Our own capital commitments to our funds, the funds we invest in and our investment strategies as of March 31, 2015 consisted of the following:

Fund	Blackstone and General Partner		Senior Managing Directors and Certain Other Professionals (a)	
	Original Commitment	Remaining Commitment	Original Commitment	Remaining Commitment
(Dollars in Thousands)				
<b>Private Equity</b>				
BCP VI	\$ 719,718	\$ 308,894	\$ 250,000	\$ 107,297
BCP V	629,356	42,258		
BEP	50,000	13,037		
BEP II	80,000	80,000	26,667	26,667
Tactical Opportunities	174,225	102,259	36,616	22,753
Strategic Partners	131,149	100,376	20,294	15,365
Other (b)	206,279	11,062		
<b>Real Estate</b>				
BREP VII	300,000	89,984	100,000	29,995
BREP VI	750,000	39,215	150,000	13,072
BREP VIII	300,000	300,000	100,000	100,000
BREP Europe III	100,000	14,652	35,000	4,884
BREP Europe IV	130,000	76,460	43,333	25,487
BREP Asia	50,392	26,067	16,797	8,622
BREDS II	50,000	31,785	16,667	10,595
CT Opportunity Partners I	25,000	23,048		
Other (b)	157,821	53,397		
<b>Hedge Fund Solutions</b>				
Strategic Alliance	50,000	2,033		
Strategic Alliance II	50,000	2,862		
Strategic Holdings LP	50,000	45,458		
Other (b)	300	143		
<b>Credit</b>				
Capital Opportunities Fund II L.P.	120,000	78,556	110,678	72,453
GSO Capital Solutions II	125,000	108,929	95,272	83,023
Blackstone/GSO Capital Solutions	50,000	9,469	27,666	5,239
BMezz II	17,692	3,085		
Other (b)	103,553	69,655	11,110	7,256
Total	\$ 4,420,485	\$ 1,632,684	\$ 1,040,100	\$ 532,708

- (a) 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 and remaining commitment are shown in the table above. In addition, certain senior managing directors and other professionals are required to fund a de minimis amount of the commitment in the other private equity, real estate and credit-focused carry funds. We expect our commitments to be drawn down over time and to be funded by available cash and cash



**Table of Contents**

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 above will be more than sufficient to fund our working capital requirements.

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

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 May 29, 2019. Borrowings may also be made in U.K. sterling, euros, Swiss francs or Japanese yen, 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-earning 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. In April 2014, Blackstone Holdings Finance Co. L.L.C. issued \$500 million in aggregate principal amount of 5.000% Senior Notes which will mature on June 15, 2044, unless earlier redeemed or repurchased. (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.

On April 27, 2015, Blackstone Holdings Finance Co. L.L.C. issued \$350 million in aggregate principal amount of 4.450% senior notes which will mature on July 15, 2045, unless earlier redeemed or repurchased.

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 March 31, 2015, no units were repurchased. As of March 31, 2015, 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,



**Table of Contents**

(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 intention is to distribute quarterly to common unitholders approximately 85% of The Blackstone Group L.P.'s share of Distributable Earnings, subject to adjustment by 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. The amount to be distributed could also be adjusted upward in any one quarter.

All of the foregoing is subject to the qualification that the declaration and payment of any distributions are at the sole discretion of our general partner and our general partner may change our distribution policy at any time, including, without limitation, to reduce the quarterly distribution payable to our common unitholders 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.

The following chart shows fiscal quarterly and annual per common unitholder distributions for 2014 and 2015. Distributions are declared and paid in the quarter subsequent to the quarter in which they are earned.

With respect to the first quarter of fiscal year 2015, we paid common unitholders a distribution of \$0.89 per common unit. With respect to fiscal year 2014, we paid common unitholders aggregate distributions of \$2.12 per common unit.

**Table of Contents****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.

Generally our private equity funds, real estate funds, funds of hedge funds and credit-focused funds have not 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 1% 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 Real Estate debt hedge funds, 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.

The following table presents information regarding these financial instruments in our Condensed Consolidated Statements of Financial Condition:

	<b>Reverse Repurchase Agreements</b>	<b>Repurchase Agreements (Dollars in Millions)</b>	<b>Securities Sold, Not Yet Purchased</b>
Balance, March 31, 2015	\$ 79.6	\$ 87.1	\$ 162.1
Balance, December 31, 2014	\$	\$ 29.9	\$ 85.9
<b>Three Months Ended March 31, 2015</b>			
Average Daily Balance	\$ 75.3	\$ 78.8	\$ 158.8
Maximum Daily Balance	\$ 104.5	\$ 128.4	\$ 186.6

**Table of Contents****Contractual Obligations, Commitments and Contingencies**

The following table sets forth information relating to our contractual obligations as of March 31, 2015 on a consolidated basis and on a basis deconsolidating the Blackstone Funds:

Contractual Obligations	April 1, 2015 to December 31, 2015					Total
	2016	2017	2018	2019	Thereafter	
	(Dollars in Thousands)					
Operating Lease Obligations (a)	\$ 56,113	\$ 155,947	\$ 143,543	\$ 618,622	\$ 974,225	
Purchase Obligations	18,884	12,555	1,740		33,179	
Blackstone Issued Notes and Revolving Credit Facility (b)			585,000	1,550,000	2,135,000	
Interest on Blackstone Issued Notes and Revolving Credit Facility (c)	91,415	243,762	229,229	1,052,745	1,617,151	
Blackstone Funds and CLO Vehicles Debt Obligations Payable (d)	4,483	476,498		6,953,562	7,434,543	
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (e)	76,704	202,176	187,082	517,038	983,000	
Blackstone Funds Capital Commitments to Investee Funds (f)	27,761				27,761	
Due to Certain Non-Controlling Interest Holders in Connection with Tax Receivable Agreements (g)		150,001	164,377	912,858	1,227,236	
Unrecognized Tax Benefits, Including Interest and Penalties (h)	5,545				5,545	
Blackstone Operating Entities Capital Commitments to Blackstone Funds and Other (i)	1,632,684				1,632,684	
<b>Consolidated Contractual Obligations</b>	<b>1,913,589</b>	<b>1,240,939</b>	<b>1,310,971</b>	<b>11,604,825</b>	<b>16,070,324</b>	
Blackstone Funds and CLO Vehicles Debt Obligations Payable (d)	(4,483)	(476,498)		(6,953,562)	(7,434,543)	
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (e)	(76,704)	(202,176)	(187,082)	(517,038)	(983,000)	
Blackstone Funds Capital Commitments to Investee Funds (f)	(27,761)				(27,761)	
<b>Blackstone Operating Entities Contractual Obligations</b>	<b>\$ 1,804,641</b>	<b>\$ 562,265</b>	<b>\$ 1,123,889</b>	<b>\$ 4,134,225</b>	<b>\$ 7,625,020</b>	

- (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 March 31, 2015, we had no outstanding borrowings under our revolver.
- (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 will be made and debt will be held until its final maturity date. These amounts exclude commitment fees for unutilized borrowings under our revolver.
- (d) These obligations are those of the Blackstone Funds including the consolidated CLO vehicles.
- (e) 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 March 31, 2015, at spreads to market rates pursuant to the financing agreements, and range from 0.27% to 10.78%. 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.



**Table of Contents**

- (f) 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.
- (g) 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.
- (h) The total represents gross unrecognized tax benefits of \$3.2 million and interest and penalties of \$2.3 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 \$16.2 million and interest of \$5.8 million; therefore, such amounts are not included in the above contractual obligations table.
- (i) 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 March 31, 2015.

***Clawback Obligations***

Carried Interest is subject to clawback to the extent that the Carried Interest received to date with respect to a fund exceeds the amount due to Blackstone based on cumulative results of that fund. 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, multi-asset class investment funds and credit-focused 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 2016. 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.

**Table of Contents**

As of March 31, 2015, the total clawback obligations were \$3.4 million, of which \$1.2 million related to Blackstone Holdings and \$2.2 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 condensed 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,

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

## **Table of Contents**

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 continually. 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 Annual Report on Form 10-K for the year ended December 31, 2014 for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

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

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 recognized 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:

0.28% to 1.75% of committed capital or invested capital during the investment period,

0.25% 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 real estate and credit-focused funds structured like hedge funds:

1.50% to 2.00% of net asset value.

On credit-focused separately managed accounts:

0.30% to 1.35% of net asset value.

On real estate separately managed accounts:

0.50% to 2.00% of invested capital or net operating income.

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

0.50% to 1.25% of net asset value.



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**Table of Contents**

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.

The investment adviser of BXMT receives annual management fees based upon 1.50% of BXMT's net proceeds received from equity offerings and accumulated core earnings (which is generally equal to its GAAP net income excluding certain non-cash and other items), subject to certain adjustments.

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 the limited partners of the Blackstone Funds, which are granted based on the amount such limited partners reimburse the Blackstone Funds for placement fees.

Advisory fees consist of advisory retainer and transaction-based fee arrangements related to financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services 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. Management fees paid by limited partners to the Blackstone Funds and passed on to Blackstone are not considered affiliate revenues.

*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 or reversal.

In certain fund structures, specifically in private equity, real estate and certain Hedge Fund Solutions and 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

**Table of Contents**

(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 or, in limited instances, after certain thresholds for return of capital are met. 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. 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. 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, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

*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. 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 remeasured at the end of each reporting period.

*Compensation and Benefits Performance Fee* Performance Fee Compensation consists of Carried Interest (which may be distributed in cash or in kind) 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

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## **Table of Contents**

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. Compensation received from advisory clients in the form of securities of such clients may also 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 irrespective of whether such ability has been exercised. Senior and subordinate notes issued by CLO vehicles 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.

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



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**Table of Contents**

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 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.

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## **Table of Contents**

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

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## **Table of Contents**

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. 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 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.

## **Table of Contents**

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.

Goodwill is reviewed for impairment at least annually, and more frequently if circumstances indicate impairment may have occurred. 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.

The carrying value of goodwill was \$1.8 billion as of March 31, 2015 and December 31, 2014, respectively. At March 31, 2015 and December 31, 2014, we determined that there was no evidence of Goodwill impairment.

## **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 of this filing.

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

Our predominant exposure to market risk is related to our role as general partner or investment 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.





**Table of Contents**

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 fair 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 three months ended March 31, 2015 and March 31, 2014, the percentages of our fund management fees based on the NAV of the applicable funds or separately managed accounts, were as follows:

	Three Months Ended March 31,	
	2015	2014
Fund Management Fees Based on the NAV of the Applicable Funds or Separately Managed Accounts	36%	33%

**Market Risk**

The Blackstone Funds hold investments which are reported at fair value. Based on the fair value as of March 31, 2015 and March 31, 2014, we estimate that a 10% decline in fair value of the investments would result in the following declines in Management Fees, Performance Fees, Net of Related Compensation Expense and Investment Income:

	March 31,					
	Management Fees (a)	2015 Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)	Management Fees (a)	2014 Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)
10% Decline in Fair Value of the Investments	\$ 93,842	\$ 1,597,278	\$ 270,203	\$ 77,132	\$ 881,054	\$ 292,754

(Dollars in Thousands)

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

**Table of Contents**

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:

	March 31, 2015	
	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	\$ 51,567,781	72%
Real Estate	\$ 60,882,502	67%
Hedge Fund Solutions	\$ 65,806,709	69%
Credit	\$ 43,207,959	48%

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 Annual Report on Form 10-K for the year ended December 31, 2014. 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 as of March 31, 2015 and March 31, 2014, 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:

	March 31,					
	Management Fees (a)	2015 Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)	Management Fees (a)	2014 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	\$ 18,142	\$ 260,035	\$ 31,237	\$ 20,918	\$ 198,378	\$ 43,117

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

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



**Table of Contents****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 March 31, 2015 and March 31, 2014, 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:

	March 31,	
	2015	2014
	(Dollars in Thousands)	
Annualized Increase in Interest Expense Due to a One Percentage Point Increase in Interest Rates	\$ 45	\$ 88

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:

	March 31,			
	2015			2014
	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	\$ 16,729(a)	\$ 13,322	\$ 1,612(a)	\$ 7,551

(a) As of March 31, 2015 and 2014, this represents 0.6% and 0.1% 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:

	March 31,	
	2015	2014
	(Dollars in Thousands)	
Decrease in Annualized Investment Income Due to a One Percentage Point Increase in Credit Spreads (a)	\$ 43,388	\$ 20,324

(a) As of March 31, 2015 and 2014, this represents 1.5% and 1.2% 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



**Table of Contents**

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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**Table of Contents**

**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 Annual Report on Form 10-K for the year ended December 31, 2014. 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. However, given the inherent unpredictability of these types of proceedings and the potentially large and/or indeterminate amounts that could be sought, it is possible that an adverse outcome in certain matters could have a material effect on Blackstone's financial results in any particular period.

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 alleged 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. On July 28, 2014, Blackstone entered into a settlement agreement to resolve all of plaintiffs' claims without any admission of wrongdoing. The settlement agreement provides for a settlement payment to the class that was substantially covered by insurance and did not have a material effect on our consolidated financial statements. On August 7, 2014, plaintiffs filed a motion for preliminary approval of the settlement agreement, and the agreement was preliminarily approved by the court on September 29, 2014. The court entered a final judgment approving the settlement on March 2, 2015. No notice of appeal was filed by April 6, 2015, and the settlement agreement is now final. We consider the matter closed.

The SEC has publicly indicated that it is specifically focused on private equity practices regarding fees and other conflicts of interest, including, among other things, the widespread industry practice of receiving fees from portfolio companies in connection with the termination of monitoring agreements upon the initial public offering or disposition of such companies. The SEC had reviewed our historical monitoring fee practices in 2011-2012 in their regular exam process. Following this exam, we expanded the disclosure that was already being made to private equity investors regarding such fees. In June 2014, we voluntarily modified our monitoring fee practices in ways that are beneficial to our private equity investors, including eliminating any such payments beyond the year of sale for full dispositions and limiting payments following IPOs. Recently, the SEC has informally requested additional information about our historical monitoring fee termination practices. The SEC also has asked for additional information about certain pre-2011 practices relating to the application of disparate vendor discounts to Blackstone and to our funds that were changed in 2011 and had also been previously reviewed by the SEC in 2012. We are in discussions with the SEC regarding a potential resolution of these matters.

**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, 2014 and in our subsequently filed Quarterly Reports on Form 10-Q, all of which are accessible on the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov).

See Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Business Environment in this report for a discussion of the conditions in the financial markets and economic conditions affecting our businesses. This discussion updates, and should be read together with, the risk factor entitled Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments made by our investment funds, reducing the ability of our investment



**Table of Contents**

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, 2014.

The risks described in our Annual Report on 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 March 31, 2015, no units were repurchased. As of March 31, 2015, 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 Blackstone Holdings Partnership Units.

**Unregistered Sales of Equity Securities**

On April 23, 2015, we issued 2,854,268 common units to 17 current or former personnel as partial consideration in connection with the acquisition by us of GSO. The common units were not registered under the Securities Act and were issued in reliance upon the exemption from registration provided by Section 4(a)(2) of the Securities Act on the basis that the such issuance did not involve any public offering.

**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 (ITRA), 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.

**Table of Contents****ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
10.1	Form of Performance Earn Out Letter Agreement by and among Blackstone Holdings I L.P., GSO Holdings I L.L.C. and each of the GSO individuals party thereto.
10.2	Performance Earn Out Side Letter by and between Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P. and Bennett J. Goodman dated February 24, 2015.
10.3	Form of Deferred Holdings Unit Agreement between The Blackstone Group L.P. and each GSO participant party thereto.
10.4	Aircraft Dry Lease Agreement between 113CS LLC and Blackstone Administrative Services Partnership L.P. dated as of January 15, 2015.
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.

**Table of Contents**

**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: May 8, 2015

**The Blackstone Group L.P.**

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

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