

Blackstone Group L.P.  
Form 10-Q  
May 10, 2010  
[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, 2010**  
**OR**

**..    TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934 FOR THE TRANSITION PERIOD FROM                      TO**  
**Commission File Number: 001-33551**

**The Blackstone Group L.P.**

(Exact name of Registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of

**20-8875684**  
(I.R.S. Employer

incorporation or organization)

Identification No.)

**345 Park Avenue**

**New York, New York 10154**

(Address of principal executive offices)(Zip Code)

**(212) 583-5000**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

The number of the Registrant's voting common units representing limited partner interests outstanding as of April 30, 2010 was 238,179,676.

The number of the Registrant's non-voting common units representing limited partner interests outstanding as of April 30, 2010 was 109,083,468.

**Table of Contents****TABLE OF CONTENTS**

	<b>Page</b>
<b>PART I FINANCIAL INFORMATION</b>	
ITEM 1. <u>FINANCIAL STATEMENTS</u>	1
Unaudited Condensed Consolidated Financial Statements March 31, 2010 and 2009:	
<u>Condensed Consolidated Statements of Financial Condition as of March 31, 2010 and December 31, 2009</u>	1
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2010 and 2009</u>	2
<u>Condensed Consolidated Statement of Changes in Partners' Capital for the Three Months Ended March 31, 2010</u>	3
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2010 and 2009</u>	4
<u>Notes to Condensed Consolidated Financial Statements</u>	6
ITEM 1A. <u>UNAUDITED SUPPLEMENTAL PRESENTATION OF STATEMENTS OF FINANCIAL CONDITION</u>	41
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	43
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	85
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	87
<b>PART II OTHER INFORMATION</b>	
ITEM 1. <u>LEGAL PROCEEDINGS</u>	88
ITEM 1A. <u>RISK FACTORS</u>	88
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	89
ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	89
ITEM 4. <u>(REMOVED AND RESERVED)</u>	89
ITEM 5. <u>OTHER INFORMATION</u>	89
ITEM 6. <u>EXHIBITS</u>	89
<u>SIGNATURES</u>	90
<b>Forward-Looking Statements</b>	

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to, among other things, our operations and financial performance.

You can identify these forward-looking statements by the use of words such as outlook, believes, expects, potential, continues, may, will, should, seeks, approximately, predicts, intends, plans, estimates, anticipates or the negative version of these words or other comparable words.

Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled Risk Factors in our annual report on Form 10-K for the year ended December 31, 2009 and in this report, as such factors may be updated from time to time in our periodic filings with the SEC, which are accessible on the SEC's website at [www.sec.gov](http://www.sec.gov). These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

## **Table of Contents**

In this report, references to Blackstone, the Partnership, we, us or our refer (1) prior to the consummation of our reorganization into a holding partnership structure in June 2007 as described under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Significant Transactions Reorganization, to Blackstone Group, which comprised certain consolidated and combined entities historically under the common ownership of (a) our two founders, Mr. Stephen A. Schwarzman and Mr. Peter G. Peterson, and our other senior managing directors, (b) selected other individuals engaged in some of our businesses and (c) a subsidiary of American International Group, Inc., to whom we refer collectively as our Predecessor Owners or pre-IPO owners, and (2) after our reorganization, to The Blackstone Group L.P. and its consolidated subsidiaries. Unless the context otherwise requires, references in this report to the ownership of our founders and other Blackstone personnel include the ownership of personal planning vehicles and family members of these individuals.

Blackstone Funds, our funds and our investment funds refer to the private equity funds, real estate funds, funds of hedge funds, credit-oriented funds, CLOs, and closed-end mutual funds that are managed by Blackstone. Our carry funds refer to the private equity funds, real estate funds and certain of the credit-oriented funds (with multi-year drawdown, commitment-based structures that only receive carry on the realization of an investment) that are managed by Blackstone. Our hedge funds refer to our funds of hedge funds, certain of our real estate debt investment funds and our other credit-oriented funds that are managed by Blackstone.

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

- (a) the fair value of the investments held by our carry funds plus the capital that we are entitled to call from investors in those funds pursuant to the terms of their capital commitments to those funds (plus the fair value of co-investments arranged by us that were made by limited partners of our funds in portfolio companies of such funds and on which we receive fees or a carried interest allocation);
- (b) the net asset value of our funds of hedge funds, hedge funds and our closed-end mutual funds;
- (c) the fair value of assets we manage pursuant to separately managed accounts; and
- (d) the amount of capital raised for our CLOs.

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

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

- (a) for our Blackstone Capital Partners (BCP) and Blackstone Real Estate Partners (BREP) funds where the investment period has not expired, the amount of capital commitments;
- (b) for our BCP and BREP funds where the investment period has expired, the remaining amount of invested capital;
- (c) for our real estate debt investment funds, the remaining amount of invested capital;
- (d) for our credit-oriented carry funds, the amount of invested capital (which may be calculated to include leverage) or net asset value;

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

ii

**Table of Contents**

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

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

(h) the gross amount of assets of our CLOs at cost.

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

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

**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)**

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 627,257	\$ 952,096
Cash Held by Blackstone Funds and Other (\$247,097)	276,540	86,084
Investments (\$5,060,043)	7,671,574	3,565,483
Accounts Receivable (\$71,331)	377,936	306,307
Due from Affiliates (\$29,586)	740,074	759,907
Intangible Assets, Net	879,965	919,477
Goodwill	1,703,602	1,703,602
Other Assets (\$2,440)	184,193	172,556
Deferred Tax Assets	1,025,176	943,512
<b>Total Assets</b>	<b>\$ 13,486,317</b>	<b>\$ 9,409,024</b>
<b>Liabilities and Partners' Capital</b>		
Loans Payable (\$3,341,458)	\$ 3,973,091	\$ 657,623
Due to Affiliates (\$226,723)	1,645,573	1,410,066
Accrued Compensation and Benefits	423,403	488,945
Accounts Payable, Accrued Expenses and Other Liabilities (\$139,416)	448,329	308,857
<b>Total Liabilities</b>	<b>6,490,396</b>	<b>2,865,491</b>
<b>Commitments and Contingencies</b>		
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<b>545,348</b>	<b>526,311</b>
<b>Partners' Capital</b>		
Partners' Capital (common units: 342,549,885 issued and outstanding as of March 31, 2010; 319,939,772 issued and outstanding as of December 31, 2009)	3,438,347	3,376,707
Appropriated Partners' Capital	298,164	
Accumulated Other Comprehensive Income	1,709	2,420
Non-Controlling Interests in Consolidated Entities	571,958	540,283
Non-Controlling Interests in Blackstone Holdings	2,140,395	2,097,812
<b>Total Partners' Capital</b>	<b>6,450,573</b>	<b>6,017,222</b>
<b>Total Liabilities and Partners' Capital</b>	<b>\$ 13,486,317</b>	<b>\$ 9,409,024</b>

Asset and liability amounts in parentheses represent the portion of the March 31, 2010 consolidated balance attributable to Blackstone Fund entities which are variable interest or voting interest entities.

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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>2010</b>	<b>2009</b>
<b>Revenues</b>		
Management and Advisory Fees	\$ 354,820	\$ 341,172
Performance Fees and Allocations		
Realized	54,049	646
Unrealized	131,779	(214,894)
Total Performance Fees and Allocations	185,828	(214,248)
Investment Income (Loss)		
Realized	5,726	(69)
Unrealized	149,220	(82,384)
Total Investment Income (Loss)	154,946	(82,453)
Interest and Dividend Revenue	8,895	2,127
Other	(3,250)	(1,684)
<b>Total Revenues</b>	<b>701,239</b>	<b>44,914</b>
<b>Expenses</b>		
Compensation and Benefits		
Base Compensation	924,950	920,213
Performance Fee Related		
Realized	7,741	2,189
Unrealized	54,600	(110,055)
Total Compensation and Benefits	987,291	812,347
General, Administrative and Other	106,379	105,600
Interest Expense	7,185	1,399
Fund Expenses	(141)	3,012
<b>Total Expenses</b>	<b>1,100,714</b>	<b>922,358</b>
<b>Other Income (Loss)</b>		
Net Gains (Losses) from Fund Investment Activities	171,804	(34,763)
<b>Income (Loss) Before Provision for Taxes</b>	<b>(227,671)</b>	<b>(912,207)</b>
<b>Provision for Taxes</b>	<b>9,635</b>	<b>17,731</b>
<b>Net Income (Loss)</b>	<b>(237,306)</b>	<b>(929,938)</b>
<b>Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	<b>23,969</b>	<b>2,596</b>
<b>Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities</b>	<b>135,966</b>	<b>(41,031)</b>
<b>Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings</b>	<b>(275,864)</b>	<b>(659,929)</b>
<b>Net Income (Loss) Attributable to The Blackstone Group L.P.</b>	<b>\$ (121,377)</b>	<b>\$ (231,574)</b>

Net Loss Attributable to The Blackstone Group L.P.

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<b>Per Common Unit    Basic and Diluted</b>			
Common Units		\$	(0.36)
Common Units Entitled to Priority Distributions		\$	(0.84)
Common Units Not Entitled to Priority Distributions		\$	(1.14)
<b>Weighted-Average Common Units Outstanding    Basic and Diluted</b>			
Common Units			333,433,864
Common Units Entitled to Priority Distributions			273,624,497
Common Units Not Entitled to Priority Distributions			1,627,540
<b>Revenues Earned from Affiliates</b>			
Management and Advisory Fees		\$	38,767
		\$	20,284

See notes to condensed consolidated financial statements.

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

(Dollars in Thousands, Except Unit Data)

	Common Units	Partners Capital	Appropriated Partners Capital	Accumulated Other Comprehensive Income (Loss)	Non- Controlling Interests in Consolidated Entities	Non- Controlling Interests in Blackstone Holdings	Total Partners Capital	Redeemable Non- Controlling Interests in Consolidated Entities	Comprehensive Income (Loss)
<b>Balance at December 31, 2009</b>	319,939,772	\$ 3,376,707	\$	\$ 2,420	\$ 540,283	\$ 2,097,812	\$ 6,017,222	\$ 526,311	\$ (2,387,985)
Transition Adjustment Relating to Consolidation of CLO Entities			217,573		58		217,631		
Net Income (Loss)		(121,377)	80,591		55,375	(275,864)	(261,275)	23,969	(159,485)
Currency Translation Adjustment				(711)			(711)		(711)
Net Unrealized Gain on Cash Flow Hedges								735	
Capital Contributions					3,550		3,550	5,000	
Capital Distributions		(98,770)			(15,530)	(170,778)	(285,078)	(14,229)	
Transfer of Non-Controlling Interests in Consolidated Entities					(11,778)	11,778			
Purchase of Interests from Certain Non-Controlling Interest Holders		(152)					(152)		
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		19,906					19,906		
Equity-Based Compensation Relinquished in Deconsolidation of Partnership		223,395				525,574	748,969		
Net Delivery of Vested Common Units	2,964,369	(8,291)					(8,291)		
Repurchase of Common Units and Blackstone Holdings Partnership Units	(84,888)	(1,198)					(1,198)		
		(5,551)				5,551			

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Change in The  
Blackstone Group  
L.P.'s Ownership  
Interest

Conversion of  
Blackstone Holdings  
Partnership Units to  
Blackstone Common  
Units

19,730,632

53,678

(53,678)

**Balance at**

**March 31, 2010**

342,549,885

\$ 3,438,347

\$ 298,164

\$ 1,709

\$ 571,958

\$ 2,140,395

\$ 6,450,573

\$ 545,348

\$ (2,548,181)

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)

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Operating Activities</b>		
Net Income (Loss)	\$ (237,306)	\$ (929,938)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Blackstone Funds Related:		
Unrealized Depreciation (Appreciation) on Investments Allocable to Non-Controlling Interests in Consolidated Entities	(198,141)	104,942
Net Realized (Gains) Losses on Investments	(29,801)	53,190
Changes in Unrealized (Gains) Losses on Investments Allocable to Blackstone Group	(146,597)	78,218
Unrealized Depreciation on Hedge Activities	6,083	
Non-Cash Performance Fees and Allocations	(99,172)	101,770
Non-Cash Performance Fee Related Compensation	62,341	(107,866)
Equity-Based Compensation Expense	723,145	738,045
Amortization of Intangibles	39,512	39,513
Other Non-Cash Amounts Included in Net Income	6,503	6,006
Cash Flows Due to Changes in Operating Assets and Liabilities:		
Cash Held by Blackstone Funds and Other	(37,117)	839,819
Cash Relinquished with Deconsolidation of Partnership	3,562	
Accounts Receivable	(12,112)	83,605
Due from Affiliates	(52,798)	431,312
Other Assets	(8,841)	53,455
Accrued Compensation and Benefits	(92,748)	(156,351)
Accounts Payable, Accrued Expenses and Other Liabilities	23,089	(840,631)
Due to Affiliates	(30,073)	(212,332)
Short Term Investments Purchased	(313,507)	
Cash Proceeds from Sale of Investments	239,918	
Blackstone Funds Related:		
Investments Purchased	(515,914)	(181,552)
Cash Proceeds from Sale of Investments	690,474	454,677
Net Cash Provided by Operating Activities	20,500	555,882
<b>Investing Activities</b>		
Purchase of Furniture, Equipment and Leasehold Improvements	(6,974)	(4,482)
Changes in Restricted Cash	(146)	2,438
Net Cash Used in Investing Activities	(7,120)	(2,044)
<b>Financing Activities</b>		
Distributions to Non-Controlling Interest Holders in Consolidated Entities	(37,040)	(40,432)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	3,773	94,674

continued...

See notes to condensed consolidated financial statements.



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

(Dollars in Thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Purchase of Interests from Certain Non-Controlling Interest Holders	(152)	(2,479)
Net Settlement of Vested Common Units and Repurchase of Common and Holdings Units	(9,489)	(27,934)
Proceeds from Loans Payable	972	819
Repayment of Loans Payable	(26,735)	(305,920)
Distributions to Unitholders	(269,548)	
Net Cash Provided by (Used in) Financing Activities	(338,219)	(281,272)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ (324,839)</b>	<b>\$ 272,566</b>
Cash and Cash Equivalents, Beginning of Period	952,096	503,737
Cash and Cash Equivalents, End of Period	\$ 627,257	\$ 776,303
<b>Supplemental Disclosure of Cash Flows Information</b>		
Payments for Interest	\$ 663	\$ 653
Payments for Income Taxes	\$ 24,281	\$ 9,594
<b>Supplemental Disclosure of Non-Cash Financing Activities</b>		
Net Activities Related to Capital Transactions of Consolidated Blackstone Funds	\$ 2,288	\$
Net Assets Related to the Consolidation of CLO Vehicles	\$ 217,631	\$
Reduction of Due to Limited Partners Account to Fund Sidepocket Investment	\$ (1)	\$ (2,442)
Contributions Related to Transfers by Affiliated Partners	\$ 1	\$ 2,442
In-kind Redemption of Capital	\$	\$ (907,373)
In-kind Contribution of Capital	\$	\$ 907,373
Transfer of Interests to Non-Controlling Interest Holders	\$ (11,778)	\$ 15,069
Change in The Blackstone Group L.P.'s Ownership Interest	\$ (5,551)	\$
Net Settlement of Vested Common Units	\$ 22,969	\$ 922
Conversion of Blackstone Holdings Units to Common Units	\$ 53,678	\$ 7,080
Exchange of Founders' and Non-Controlling Interest Holders' Interests in Blackstone Holdings: Deferred Tax Asset	\$ 83,403	\$ 9,789
Due to Affiliates	\$ (63,497)	\$ (8,321)

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Partners	Capital		\$	19,906	\$	1,468
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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, funds of hedge funds, credit-oriented funds, collateralized loan obligation ( CLO ) vehicles, separately managed accounts and publicly traded closed-end mutual funds (collectively referred to as the Blackstone Funds ). Blackstone also provides various financial advisory services, including financial advisory, restructuring and reorganization advisory and fund placement services. Blackstone s business is organized into four segments: private equity; real estate; credit and marketable alternatives; and financial advisory.

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

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

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

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

**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)**

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

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

All intercompany balances and transactions have been eliminated in consolidation.

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

In the second quarter of 2009, Blackstone elected to disaggregate Investment Income and Other between Investment Income (Loss) and Interest Income and Other. Investment Income (Loss) represents the income (loss) from Blackstone's proprietary and equity method investments, and Interest Income and Other represents primarily interest and dividend income.

In the fourth quarter of 2009, Blackstone elected to disaggregate Compensation and Benefits into Base Compensation and Performance Fee Related Compensation. Blackstone then disaggregated Investment Income (Loss), Performance Fees and Allocations, and Compensation and Benefits - Performance Fee Related into their realized and unrealized components. Blackstone also disaggregated Interest Income and Other between Interest and Dividend Revenue and Other. Interest and Dividend Revenue includes income earned in the form of interest and dividends and Other includes foreign currency exchange gains (losses) and other income.

In the first quarter of 2010, Blackstone elected to separately present performance fee related unrealized and realized compensation expense as an Adjustment to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities in the Condensed Consolidated Statements of Cash Flows. Previously, amounts were included in Cash Flows Due to Changes in Operating Assets and Liabilities within Due to Affiliates, Due from Affiliates and/or Accrued Compensation and Benefits. The reclassification has no impact on Net Cash Provided by Operating Activities.

**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.

**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 addition, the Partnership consolidates all variable interest entities ( VIE ) in which it is the primary beneficiary. An enterprise is determined to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a variable interest entity that most significantly impact the entity's business and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. The revised consolidation rules require an analysis to (a) determine whether an entity in which the Partnership holds a variable interest is a variable interest entity and (b) whether the Partnership's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., management and performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment. Where the variable interest entities have qualified for the deferral of the revised consolidation rules as discussed in Recent Accounting Developments, the analysis is based on previous consolidation rules. These rules require an analysis to (a) determine whether an entity in which the Partnership holds a variable interest is a variable interest entity and (b) whether the Partnership's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., management and performance related fees), would be expected to absorb a majority of the variability of the entity. Under both guidelines, the Partnership determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a variable interest entity and reconsiders that conclusion continuously. In evaluating whether the Partnership is the primary beneficiary, Blackstone evaluates its economic interests in the entity held either directly by the Partnership or indirectly through employees. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that the Partnership is not the primary beneficiary, a quantitative analysis may also be performed. Investments and redemptions (either by the Partnership, affiliates of the Partnership or third parties) or amendments to the governing documents of the respective Blackstone Funds could affect an entity's status as a VIE or the determination of the primary beneficiary. At each reporting date, the Partnership assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

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

**Fair Value of Financial Instruments**

GAAP establishes a 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 and listed derivatives. The Partnership does not adjust the quoted price for these investments, even in situations where Blackstone holds a large position and a sale could reasonably impact the quoted price.

Level II Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category

**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)**

include corporate bonds and loans, less liquid and restricted equity securities, certain over-the-counter derivatives where the fair value is based on observable inputs, and certain fund of hedge funds investments in which Blackstone has the ability to redeem its investment at net asset value at, or within three months of, the reporting date.

**Level III** Pricing inputs are unobservable for the financial instruments and includes situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category generally include general and limited partnership interests in private equity and real estate funds, credit-oriented funds, distressed debt and non-investment grade residual interests in securitizations, collateralized loan obligations, certain over the counter derivatives where the fair value is based on unobservable inputs and certain funds of hedge funds which use net asset value per share to determine fair value in which Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date. Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date if an investee fund manager has the ability to limit the amount of redemptions, and/or the ability to side-pocket investments, irrespective of whether such ability has been exercised.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

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

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

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

**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)**

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

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

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

**Investments, at Fair Value**

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

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

For certain instruments, the Partnership has elected the fair value option. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. The Partnership has applied the fair value option for certain loans and receivables and certain investments in private debt and equity securities, that otherwise would not have been carried at fair value with gains and losses recorded in net income, to consistently account for principal investments held by the Partnership. Loans extended to third parties are recorded within Accounts Receivable within the Condensed Consolidated Statements of Financial Condition. Debt and equity securities for which the fair value option has been elected are recorded within Investments. The methodology for measuring the fair value of such investments is consistent with the methodology applied to private equity, real estate, credit-oriented and funds of hedge funds investments. Changes in the fair value of such instruments are recognized in Investment Income (Loss) in the Condensed Consolidated Statements of Operations. Interest

**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)**

income on interest bearing loans and receivables and debt securities on which the fair value option has been elected is based on stated coupon rates adjusted for the accretion of purchase discounts and the amortization of purchase premiums. This interest income is recorded within Interest and Dividend Revenue.

In addition, the Partnership has elected the fair value option for the assets and liabilities of certain CLO vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of revised variable interest entity consolidation rules. The transition adjustment resulting from the difference between the fair value of assets and liabilities on the effective date is presented within the Condensed Consolidated Statement of Changes in Partners' Capital as Appropriated Partners' Capital. Assets of the consolidated CLOs are presented within Investments within the Condensed Consolidated Statements of Financial Condition and Liabilities within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by non-consolidated affiliates. Changes in the fair value of consolidated CLO assets and liabilities and related interest, dividend and other income subsequent to adoption are presented within Net Gains (Losses) from Fund Investment Activities and are attributable to Non-Controlling Interests in Consolidated Entities in the Condensed Consolidated Statements of Operations.

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

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

**Equity Method Investments**

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

**Derivative Instruments**

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

**Table of Contents**

**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

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

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

**Cash Distribution Policy**

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

In most years the aggregate amounts of distributions to unitholders will not equal Distributable Earnings for that year. Distributable Earnings will only be a starting point for the determination of the amount to be distributed to unitholders because, as noted above, in determining the amount to be distributed Blackstone will subtract from Distributable Earnings any amounts determined by its general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its business and its funds, to comply with applicable law, any of its debt instruments or other agreements, or to provide for future distributions to its unitholders for any ensuing quarter.

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

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

First, Blackstone Holdings makes distributions to partners, including The Blackstone Group L.P.'s wholly-owned subsidiaries. If Blackstone Holdings makes such distributions, the limited partners of Blackstone Holdings will be entitled to receive equivalent distributions pro rata based on their partnership interests in Blackstone Holdings (except as set forth in the following paragraph);

Second, The Blackstone Group L.P.'s wholly-owned subsidiaries distribute to The Blackstone Group L.P. the share of such distributions, net of the taxes and amounts under the tax receivable agreement payable by such wholly-owned subsidiaries; and

Third, The Blackstone Group L.P. distributes the net share of such distributions to the common unitholders on a pro rata basis.

## **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)**

As a result of the expiration on December 31, 2009 of the distribution priority previously accorded to holders of Blackstone common units, the Partnership no longer has two classes of equity. The calculation of net loss per common unit is presented using one class of equity for the period ended March 31, 2010, as shown in Note 12. Net Loss Per Common Unit.

Because the wholly-owned subsidiaries of The Blackstone Group L.P. must pay taxes and make payments under the tax receivable agreements described in Note 14. Related Party Transactions, the amounts ultimately distributed by The Blackstone Group L.P. to common unitholders in respect of fiscal 2010 and subsequent years are expected to be different, and likely less, on a per unit basis, than the amounts distributed by the Blackstone Holdings partnerships to the Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships in respect of their Blackstone Holdings partnership units.

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

#### **Recent Accounting Developments**

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



**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 dedicated funds are financed by third parties with Blackstone acting as an intermediary which fail condition (b) above. Such employee funds are currently consolidated as it is concluded that Blackstone is the primary beneficiary based on its implicit interest. The incremental impact of the revised consolidation rules has resulted in the consolidation of certain CLO vehicles managed by Blackstone. Additional disclosures relating to Blackstone's involvement with VIEs are presented in Note 9. Variable Interest Entities of the Partnership's financial statements.

In January 2010, the FASB issued guidance on improving disclosures about fair value measurements. The guidance requires additional disclosure on transfers in and out of Levels I and II fair value measurements in the fair value hierarchy and the reasons for such transfers. In addition, for fair value measurements using significant unobservable inputs (Level III), the reconciliation of beginning and ending balances shall be presented on a gross basis, with separate disclosure of gross purchases, sales, issuances and settlements and transfers in and transfers out of Level III. The new guidance also requires enhanced disclosures on the fair value hierarchy to disaggregate disclosures by each class of assets and liabilities. In addition, an entity is required to provide further disclosures on valuation techniques and inputs used to measure fair value for fair value measurements that fall in either Level II or Level III. The guidance is effective for interim and annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level III fair value measurements, which are effective for fiscal years beginning after December 15, 2010. The Partnership adopted the guidance, excluding the reconciliation of Level III activity, with the issuance of its March 31, 2010 financial statements. As the guidance is limited to enhanced disclosures, adoption did not have a material impact on the Partnership's financial statements.

**3. GOODWILL AND INTANGIBLE ASSETS**

The carrying value of goodwill was \$1.7 billion as of March 31, 2010 and December 31, 2009. No indicators of impairment have been identified during the three month period ended March 31, 2010.

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

The following table outlines changes to the carrying amount of Intangible Assets as of March 31, 2010 and December 31, 2009:

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Finite-Lived Intangible Assets / Contractual Rights	\$ 1,348,370	\$ 1,348,370
Accumulated Amortization	(468,405)	(428,893)
<b>Intangible Assets, Net</b>	<b>\$ 879,965</b>	<b>\$ 919,477</b>

Amortization expense associated with Blackstone's intangible assets was \$39.5 million for each of the three months ended March 31, 2010 and 2009, and is included in General, Administrative and Other in the accompanying Condensed Consolidated Statements of Operations.

Amortization of Intangible Assets held at March 31, 2010 is expected to be \$158.0 million for the years ending December 31, 2010 and 2011 and \$103.2 million, \$51.7 million, and \$50.3 million for the years ending December 31, 2012, 2013, and 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)**

**4. INVESTMENTS**

**Investments**

Investments consists of the following:

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Investments of Consolidated Blackstone Funds	\$ 5,060,043	\$ 1,306,445
Equity Method Investments	1,268,308	1,104,701
High Grade Liquid Debt Strategies	637,943	534,777
Performance Fees and Allocations	676,263	554,463
Other Investments	29,017	65,097
	<b>\$ 7,671,574</b>	<b>\$ 3,565,483</b>

Blackstone's share of Investments of Consolidated Blackstone Funds totaled \$424.9 million and \$407.1 million at March 31, 2010 and December 31, 2009, respectively.

At March 31, 2010 and December 31, 2009, consideration was given as to whether any individual investment, including derivative instruments, had a fair value which exceeded 5% of Blackstone's net assets. At March 31, 2010 and December 31, 2009, no investments exceeded the 5% threshold.

**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 a condensed summary of the investments held by the consolidated Blackstone Funds that are reported at fair value. These investments are presented as a percentage of Investments of Consolidated Blackstone Funds:

Geographic Region / Instrument Type / Industry Description or Investment Strategy	Fair Value		Percentage of Investments of Consolidated Blackstone Funds	
	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009
<b>United States and Canada</b>				
Investment Funds, principally related to credit and marketable alternatives				
Credit Driven	\$ 238,655	\$ 277,388	4.7%	21.3%
Diversified Investments	319,934	300,907	6.4%	23.1%
Equity	82,512	80,956	1.6%	6.2%
Event-Driven	101,866	95,760	2.0%	7.4%
Other	353	408		
Investment Funds Total (Cost: 2010 \$765,170; 2009 \$819,638)	743,320	755,419	14.7%	58.0%
Equity Securities, principally related to credit and marketable alternatives and private equity funds				
Manufacturing	34,955	21,491	0.7%	1.7%
Services	88,157	86,600	1.7%	6.7%
Natural Resources	974	649		
Real Estate Assets	830	462		
Equity Securities Total (Cost: 2010 \$111,902; 2009 \$112,364)	124,916	109,202	2.4%	8.4%
Partnership and LLC Interests, principally related to private equity and real estate funds				
Real Estate Assets	152,331	149,523	3.0%	11.5%
Services	106,947	87,406	2.1%	6.7%
Manufacturing	33,367	25,691	0.7%	2.0%
Natural Resources	504	357		
Partnership and LLC Interests Total (Cost: 2010 \$425,585; 2009 \$426,678)	293,149	262,977	5.8%	20.2%
Debt Instruments, principally related to credit and marketable alternatives				
Credit Driven	29,018	29,330	0.7%	2.2%

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Manufacturing	3,339	3,203	0.1%	0.2%
Services	8,289	7,837	0.2%	0.6%
Real Estate Assets	2,472	2,458		0.2%
Debt Instruments Total				
(Cost: 2010 \$37,767; 2009 \$37,983)	43,118	42,828	1.0%	3.2%
Assets of Consolidated CLO Vehicles				
Corporate Loans	2,602,727		51.4%	
Corporate Bonds	103,885		2.1%	
Other	12,706		0.3%	
Assets of Consolidated CLO Vehicles Total				
(Cost: 2010 \$2,692,037; 2009 \$ )	2,719,318		53.8%	
United States and Canada Total				
(Cost: 2010 \$4,032,461; 2009 \$1,396,663)	3,923,821	1,170,426	77.7%	89.8%

**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)**

Geographic Region / Instrument Type / Industry Description or Investment Strategy	Fair Value		Percentage of Investments of Consolidated Blackstone Funds	
	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009
<b>Europe</b>				
Equity Securities, principally related to private equity funds				
Manufacturing	\$ 3,236	\$ 2,681	0.1%	0.2%
Real Estate Assets	744	365		
Services	31,106	31,711	0.6%	2.4%
Equity Securities Total (Cost: 2010 \$40,396; 2009 \$40,353)	35,086	34,757	0.7%	2.6%
Partnership and LLC Interests, principally related to private equity and real estate funds				
Services	30,552	29,270	0.6%	2.2%
Real Estate Assets	10,327	10,741	0.2%	0.8%
Partnership and LLC Interests Total (Cost: 2010 \$48,339; 2009 \$48,334)	40,879	40,011	0.8%	3.0%
Debt Instruments, principally related to credit and marketable alternatives				
Manufacturing	530	544		
Services	1,296	1,259		0.1%
Debt Instruments Total (Cost: 2010 \$1,576; 2009 \$1,623)	1,826	1,803		0.1%
Assets of Consolidated CLO Vehicles				
Corporate Loans	997,812		19.7%	
Assets of Consolidated CLO Vehicles Total (Cost: 2010 \$1,077,333; 2009 \$ )	997,812		19.7%	
<b>Europe Total (Cost: 2010 \$1,167,644; 2009 \$90,310)</b>	<b>1,075,603</b>	<b>76,571</b>	<b>21.2%</b>	<b>5.7%</b>
<b>Asia</b>				
Equity Securities, principally related to credit and marketable alternatives and private equity funds				
Services	11,438	8,031	0.2%	0.6%
Manufacturing	10,157	10,501	0.2%	0.8%
Real Estate Assets	270			
Diversified Investments	4,562	6,262	0.1%	0.5%
Equity Securities Total (Cost: 2010 \$21,918; 2009 \$20,794)	26,427	24,794	0.5%	1.9%
Partnership and LLC Interests, principally related to private equity and real estate funds				
Manufacturing	1,403	1,183		0.1%

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Real Estate Assets	456	457		
Services	102	82		
Partnership and LLC Interests Total (Cost: 2010 \$1,691; 2009 \$1,833)	1,961	1,722		0.1%
Debt Instruments, principally related to private equity funds (Cost: 2010 \$112; 2009 \$114)	107	111		
<b>Asia Total (Cost: 2010 \$23,721; 2009 \$22,741)</b>	<b>28,495</b>	<b>26,627</b>	<b>0.5%</b>	<b>2.0%</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)

Geographic Region / Instrument Type / Industry Description or Investment Strategy	Fair Value		Percentage of Investments of Consolidated Blackstone Funds	
	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009
<b>Other</b>				
Equity Securities, principally related to private equity funds				
Natural Resources	\$ 1,594	\$ 1,583		0.1%
Services	3,849	4,560	0.1%	0.3%
Equity Securities Total (Cost: 2010 \$2,788; 2009 \$2,777)	5,443	6,143	0.1%	0.4%
Partnership and LLC Interests, principally related to private equity and real estate funds				
Natural Resources	26,586	26,586	0.5%	2.0%
Services	95	92		
Partnership and LLC Interests Total (Cost: 2010 \$9,242; 2009 \$9,249)	26,681	26,678	0.5%	2.0%
<b>Other Total</b> (Cost: 2010 \$12,030; 2009 \$12,026) principally related to private equity funds	32,124	32,821	0.6%	2.5%
<b>Total Investments of Consolidated Blackstone Funds</b> (Cost: 2010 \$5,235,856; 2009 \$1,521,740)	\$ 5,060,043	\$ 1,306,445	100.0%	100.0%

Net Gains (Losses) from Fund Investment Activities on the Condensed Consolidated Statements of Operations include net realized gains (losses) from realizations and sales of investments and the net change in unrealized gains (losses) resulting from changes in the fair value of the consolidated Blackstone Funds' investments. The following table presents the realized and net change in unrealized gains (losses) on investments held by the consolidated Blackstone Funds:

	Three Months Ended March 31,	
	2010	2009
Realized Gains (Losses)	\$ (23,524)	\$ (60,353)
Net Change in Unrealized Gains (Losses)	184,684	4,253
	\$ 161,160	\$ (56,100)

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

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		Three Months Ended March 31,	
		2010	2009
Realized and Net Change in Unrealized Gains (Losses) from Blackstone Funds		\$ 161,160	\$ (56,100)
Reclassification to Investment Income (Loss) and Other Attributable to Blackstone Side-by-Side Investment Vehicles		(17,453)	16,817
Interest and Dividend Revenue Attributable to Consolidated Blackstone Funds		13,676	11,895
Investment Income Attributable to Non-Controlling Interest Holders		14,421	(7,375)
Other Income	Net Gains (Losses) from Fund Investment Activities	\$ 171,804	\$ (34,763)



**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)****Equity Method Investments**

The Partnership recognized net gains (losses) related to its equity method investments of \$132.7 million and \$(59.5) million for the three months ended March 31, 2010 and 2009, respectively.

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

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

	<b>As of and for the Three Months Ended March 31, 2010</b>			
	<b>Private Equity</b>	<b>Real Estate</b>	<b>Credit and Marketable Alternatives</b>	<b>Total</b>
<b>Statement of Financial Condition</b>				
<b>Assets</b>				
Investments	\$ 20,883,069	\$ 9,334,773	\$ 16,376,235	\$ 46,594,077
Other Assets	170,333	743,556	2,444,242	3,358,131
<b>Total Assets</b>	<b>\$ 21,053,402</b>	<b>\$ 10,078,329</b>	<b>\$ 18,820,477</b>	<b>\$ 49,952,208</b>
<b>Liabilities and Partners' Capital</b>				
Debt	\$ 319,470	\$ 224,238	\$ 1,334,791	\$ 1,878,499
Other Liabilities	55,432	204,089	828,042	1,087,563
<b>Total Liabilities</b>	<b>374,902</b>	<b>428,327</b>	<b>2,162,833</b>	<b>2,966,062</b>
Partners' Capital	20,678,500	9,650,002	16,657,644	46,986,146
<b>Total Liabilities and Partners' Capital</b>	<b>\$ 21,053,402</b>	<b>\$ 10,078,329</b>	<b>\$ 18,820,477</b>	<b>\$ 49,952,208</b>
<b>Statement of Income</b>				
Interest Income	\$ 5	\$ 6,139	\$ 133,291	\$ 139,435
Other Income	151,778	38,252	10,554	200,584
Interest Expense	(1,553)	(733)	(19,114)	(21,400)
Other Expenses	(5,037)	(21,051)	(36,175)	(62,263)
<b>Net Realized and Unrealized Gain (Loss) from Investments</b>	<b>2,852,369</b>	<b>1,181,963</b>	<b>70,411</b>	<b>4,104,743</b>
<b>Net Income (Loss)</b>	<b>\$ 2,997,562</b>	<b>\$ 1,204,570</b>	<b>\$ 158,967</b>	<b>\$ 4,361,099</b>

**High Grade Liquid Debt Strategies**

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High Grade Liquid Debt Strategies represents the Partnership's liquid investments in government and other investment grade securities, managed by third party institutions. The Partnership has managed its credit risk through diversification of its investments among major financial institutions, all of which have investment grade ratings.

**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)**

During the three months ended March 31, 2010, the Partnership recognized realized gains (losses) of \$1.4 million and net change in unrealized gains (losses) of \$2.8 million. There were no realized gains (losses) or net change in unrealized gains (losses) for the three months ended March 31, 2009.

**Performance Fees and Allocations**

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

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Performance Fees and Allocations		
Private Equity	\$ 483,902	\$ 425,615
Real Estate	15,910	7,900
Credit and Marketable Alternatives	176,451	120,948
	<b>\$ 676,263</b>	<b>\$ 554,463</b>

**Other Investments**

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

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Realized Gains (Losses)	\$ 1,179	\$ (1,666)
Net Change in Unrealized Gains	470	141
	<b>\$ 1,649</b>	<b>\$ (1,525)</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)****5. NET ASSET VALUE AS FAIR VALUE**

Certain of the consolidated Blackstone funds of hedge funds and credit-oriented funds measure their investments in underlying funds at fair value using NAV per share without adjustment. The terms of the investee's partnership agreements and offering memoranda 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 a liquidity restriction. Redemptions are generally not permitted until the investments within a side pocket are liquidated or it is deemed that the conditions existing at the time that required the investment to be included in the side pocket no longer exist. As the timing of either of these events is uncertain, the timing at which the Partnership may redeem an investment held in a side pocket cannot be estimated. A summary of fair value by strategy type alongside the consolidated funds of hedge funds' remaining unfunded commitments and ability to redeem such investments as of March 31, 2010 is presented below.

Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Diversified Instruments	\$ 319,934	\$ 10,919	(a)	(a)
Credit Driven	236,282	29,558	(b)	(b)
Event Driven	101,866		(c)	(c)
Equity	82,512		(d)	(d)
	\$ 740,594	\$ 40,477		

- (a) Diversified Instruments includes investments in hedge funds that invest across multiple strategies. Investments representing 98% of the value of the investments in this category are subject to redemption restrictions at the discretion of the investee fund manager who may choose (but may not have exercised such ability) to side-pocket such investments. As of the reporting date, the investee fund manager had elected to side-pocket 12% of Blackstone's investments. The time at which this redemption restriction may lapse cannot be estimated. The remaining 2% of investments within this category represent investments in hedge funds that are in the process of liquidating. Distributions from these funds will be received as underlying investments are liquidated.
- (b) The Credit Driven category includes investments in hedge funds that invest primarily in domestic and international bonds. Investments representing 43% of the value of the investments in this category may not be redeemed at, or within three months of, the reporting date. Of this balance, 10% of investments are redeemable after July 1, 2010, on an annual basis, subject to a 60-day notice period. 37% of the value of the investments in the credit driven category are subject to redemption restrictions at the discretion of the investee fund manager who may choose (but may not have exercised such ability) to side-pocket such investments. As of the reporting date, the investee fund manager had elected to side-pocket 11% of Blackstone's investments. 18% of investments within this category represent an investment in a fund of hedge funds that is in the process of liquidating. Distributions from this fund will be received as underlying investments are liquidated. The remaining 2% of investments within this category are redeemable as of the reporting date.
- (c) Included within the Event Driven category are 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.

**Table of Contents**

**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

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

- (d) The Equity category includes investments in hedge funds that invest primarily in domestic and international equity securities. Investments representing 44% of the total value of investments in this category may not be redeemed at, or within three months of, the reporting date. The remaining 56% are subject to redemption restrictions at the discretion of the investee fund manager who may choose (but may not have elected such ability) to side-pocket such investments. As of the reporting date, the investee fund manager had not elected to side-pocket Blackstone's investments.

**6. DERIVATIVE FINANCIAL INSTRUMENTS**

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

**Fair Value Hedges**

The Partnership uses interest rate swaps to hedge all or a portion of the interest rate risk associated with its fixed rate borrowings. The Partnership has designated these financial instruments as fair value hedges. Changes in fair value of the derivative and, to the extent that it is highly effective, changes in the fair value of the hedged liability, are recorded within General, Administrative and Other in the Condensed Consolidated Statements of Operations. The fair value of the derivative instrument is reflected within Other Assets in the Condensed Consolidated Statements of Financial Condition.

**Free Standing Derivatives**

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

**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 aggregate notional amount and fair value of the derivative financial instruments.

	March 31, 2010				December 31, 2009			
	Assets		Liabilities		Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
<b>Fair Value Hedges</b>								
Interest Rate Swaps	\$	\$	\$ 450,000	\$ 30	\$	\$	\$ 450,000	\$ 19
<b>Free Standing Derivatives</b>								
Free Standing Derivatives	11,913	159	969	275	2,039	653	656	4
<b>Total</b>	<b>\$ 11,913</b>	<b>\$ 159</b>	<b>\$ 450,969</b>	<b>\$ 305</b>	<b>\$ 2,039</b>	<b>\$ 653</b>	<b>\$ 450,656</b>	<b>\$ 23</b>

Where hedge accounting is applied, hedge effectiveness testing is performed at least monthly to monitor ongoing effectiveness of the hedge relationships. During the three months ended March 31, 2010, the amount of ineffectiveness related to the interest rate swap hedges was a gain of \$0.9 million. During the three months ended March 31, 2010, the portion of hedging instruments gain or loss excluded from the assessment of effectiveness for its fair value hedges was a loss of \$7.0 million. The Partnership had no derivatives designated as fair value hedges during the quarter ended March 31, 2009.

During the three months ended March 31, 2010, the Partnership recognized \$0.3 million of realized loss and \$(0.1) million net change in unrealized gains (losses) related to free standing derivative instruments. Amounts recognized for the three months ended March 31, 2009 were not material.

As of March 31, 2010 and December 31, 2009, the Partnership had not designated any derivatives as cash flow hedges or hedges of net investments in foreign operations.

**7. FAIR VALUE OPTION**

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

	March 31, 2010	December 31, 2009	Three Months Ended March 31, 2010	
			Realized Gain (Loss)	Net Change in Unrealized Gains (Losses)
<b>Assets</b>				
Loans and Receivables	\$ 65,972	\$ 68,550	\$ 81	\$ (80)
Debt Securities		26,466	(16)	
Equity Securities	548	1,905		
<b>Assets of Consolidated CLOs</b>				
Corporate Loans	3,600,539		(5,687)	63,685
Corporate Bonds	103,885		(42)	14,876

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Other	12,706		702	828
	\$ 3,783,650	\$ 96,921	\$ (4,962)	\$ 79,309

## **Liabilities**

Liabilities of Consolidated CLOs				
Senior Secured Notes	\$ 3,254,543	\$	\$	\$ 16,685
Subordinated Notes	281,146			(19,602)
	\$ 3,535,689	\$	\$	\$ (2,917)

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

The Partnership held no financial instruments on which the fair value option was elected during the three months ended March 31, 2009.

As of March 31, 2010, the fair value of Loans and Receivables and Corporate Bonds for which the fair value option was elected exceeded the principal amounts due by \$0.9 million. The uncollected principal balance on Corporate Loans exceeded the fair value by \$240.9 million. No Loans and Receivables or Corporate Bonds for which the fair value option was elected were past due and no Loans and Receivables were placed in non-accrual status. The fair value of Corporate Loans that were more than one day past due as of March 31, 2010 was \$6.4 million. The principal balance related to such past due Corporate Loans exceeded the fair value by \$5.6 million. Included within the Other category are structured finance obligations with contractual principal balances. The uncollected principal balance of such obligations exceeded the fair value by \$1.8 million. No obligations were past due.

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

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

The following tables summarize the valuation of the Partnership's financial assets and liabilities by the fair value hierarchy as of March 31, 2010 and December 31, 2009, respectively:

	March 31, 2010			
	Level I	Level II	Level III	Total
<b>Assets</b>				
Investments of Consolidated Blackstone Funds				
Investment Funds	\$	\$ 3,731	\$ 739,589	\$ 743,320
Equity Securities	98,246	689	92,937	191,872
Partnership and LLC Interests	16,015		346,655	362,670
Debt Instruments	107	31,102	13,842	45,051
Assets of Consolidated CLO Vehicles		3,538,452	178,678	3,717,130
Total Investments of Blackstone Consolidated Funds	114,368	3,573,974	1,371,701	5,060,043
High Grade Liquid Debt Strategies	404,428	233,515		637,943
Loans and Receivables			65,972	65,972
Other Investments (a)	9,366	1,443	18,207	29,016
	\$ 528,162	\$ 3,808,932	\$ 1,455,880	\$ 5,792,974
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles	\$	\$	\$ 3,535,689	\$ 3,535,689
Derivative Instruments Used as Fair Value Hedges		30		30
Free Standing Derivatives, Net		98		98
Other Liabilities	573			573
	\$ 573	\$ 128	\$ 3,535,689	\$ 3,536,390





# 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, 2009			
	Level I	Level II	Level III	Total
<b>Assets</b>				
Investments of Consolidated Blackstone Funds	\$ 80,610	\$ 33,355	\$ 1,192,463	\$ 1,306,428
High Grade Liquid Debt Strategies	398,487	136,290		534,777
Loans and Receivables			68,550	68,550
Free Standing Derivative Instruments, Net	2	279	368	649
Other Investments (b)	8,711	10,176	46,210	65,097
	\$ 487,810	\$ 180,100	\$ 1,307,591	\$ 1,975,501
<b>Liabilities</b>				
Derivative Instruments Used for Fair Value Hedges	\$	\$ 19	\$	\$ 19
Securities Sold, Not Yet Purchased	357			357
	\$ 357	\$ 19	\$	\$ 376

- (a) Included within Level III of Other Investments are investments in equity securities of \$0.5 million for which the fair value option has been elected.
- (b) Included within Level III of Other Investments are investments in debt and equity securities of \$26.5 million and \$1.9 million, respectively, for which the fair value option has been elected.
- There were no significant transfers between Level I and Level II during the three months ending March 31, 2010.

The following table summarizes the valuation methodology used in the determination of the fair value of financial instruments for which Level III inputs were used as of March 31, 2010.

Valuation Methodology	Private Equity	Real Estate	Credit and Marketable Alternatives	Financial Advisory	Total
Third-Party Fund Managers			50%		50%
Specific Valuation Metrics	20%	15%	14%	1%	50%
	20%	15%	64%	1%	100%

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

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

	Level III Financial Assets at Fair Value Three Months Ended March 31,				2009		
	Investments of Consolidated Funds	Loans and Receivables	Other Investments	Total	Investments of Consolidated Funds	Other Investments	Total
Balance, Beginning of Period	\$ 1,192,464	\$ 68,549	\$ 46,578	\$ 1,307,591	\$ 1,521,912	\$ 16,095	\$ 1,538,007
Transfer In (Out) of Level III, Net	146,147			146,147	(52)		(52)
Purchases (Sales), Net	(39,222)	(2,575)	(29,216)	(71,013)	(308,170)	(637)	(308,807)
Realized Gains (Losses), Net	967	81	454	1,502	(5,222)		(5,222)
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	71,345	(83)	391	71,653	(33,282)		(33,282)
Balance, End of Period	\$ 1,371,701	\$ 65,972	\$ 18,207	\$ 1,455,880	\$ 1,175,186	\$ 15,458	\$ 1,190,644

	Level III Financial Liabilities at Fair Value Three Months Ended March 31, 2010		
	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total
Balance, Beginning of Period	\$	\$	\$
Transfer In (Out) of Level III, Net	3,271,228	261,544	3,532,772
Purchases (Sales), Net			
Realized Gains (Losses), Net			
Changes in Unrealized Gains (Losses) Included in Earnings Related to Liabilities Still Held at the Reporting Date	(16,685)	19,602	2,917
Balance, End of Period	\$ 3,254,543	\$ 281,146	\$ 3,535,689

For the three months ended March 31, 2010, the transfer out, net, of Level III financial assets was principally due to the initial public offering of one of the private equity portfolio company investments. For the three months ended March 31, 2010, the transfer in, net, of Level III financial liabilities was principally due to the consolidation of various CLO vehicles.

**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)****9. VARIABLE INTEREST ENTITIES**

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

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

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
<b>Gross Assets</b>		
Consolidated Blackstone Funds Excluding CLO Vehicles	\$ 762,021	\$ 741,024
Consolidated CLO Vehicles	3,961,562	
	<b>\$ 4,723,583</b>	<b>\$ 741,024</b>
<b>Gross Liabilities</b>		
Consolidated Blackstone Funds Excluding CLO Vehicles	\$ 40,732	\$ 37,974
Consolidated CLO Vehicles	3,665,353	
	<b>\$ 3,706,085</b>	<b>\$ 37,974</b>

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

The Partnership holds variable interests in certain VIEs which are not consolidated as it is determined that the Partnership is not the primary beneficiary. The Partnership's involvement with such entities is in the form of direct equity interests and fee arrangements. As of March 31, 2010, assets and liabilities recognized in the Partnership's Condensed Consolidated Statement of Financial Condition related to the Partnership's interest in these non-consolidated VIEs were \$236.0 million and zero, respectively. Assets consisted of \$102.5 million of investments and \$133.5 million of receivables. The assets under management of VIEs in which Blackstone was not the primary beneficiary but in which Blackstone held a variable interest was \$28.0 billion as of March 31, 2010. As of December 31, 2009, assets and liabilities recognized in the Partnership's Condensed Consolidated Statement of Financial Condition related to the Partnership's interest in these non-consolidated VIEs were \$133.9 million and \$0.1 million, respectively. Assets consisted of \$21.7 million of investments and \$112.2 million of receivables. The Partnership's maximum exposure to loss relating to non-consolidated VIEs as of March 31, 2010 and December 31, 2009 was \$237.7 million and \$133.9 million, respectively. The maximum exposure to loss represents the loss of assets recognized by Blackstone relating to non-consolidated entities and any clawback obligation relating to previously distributed carried interest.

**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)****10. BORROWINGS**

On March 23, 2010, an indirect, wholly-owned subsidiary of Blackstone entered into a new \$1.07 billion revolving credit facility (the "Credit Facility") with Citibank, N.A., as Administrative Agent. The Credit Facility provides for revolving credit borrowings, with a final maturity date of March 23, 2013. Interest on the borrowings is based on an adjusted LIBOR rate or alternate base rate, in each case plus a margin, and undrawn commitments bear a commitment fee. Borrowings may also be made in U.K. Sterling or Euros, in each case subject to certain sub-limits. The Credit Facility contains customary representations, covenants and events of default. Financial covenants consist of a maximum net leverage ratio and a requirement to keep a minimum amount of fee generating assets under management, each tested quarterly. The Credit Facility is unsecured. As of March 31, 2010, the Partnership had no outstanding borrowings under this Credit Facility.

Included within Loans Payable and Due to Affiliates are amounts due to holders of debt securities issued by Blackstone's consolidated CLO vehicles. As of March 31, 2010, the Partnership's borrowings through consolidated CLO vehicles consisted of the following:

	<b>Borrowing Outstanding</b>	<b>Weighted Average Interest Rate</b>	<b>Weighted Average Remaining Maturity in Years</b>
Senior Secured Notes	\$ 3,551,937	1.56%	5.6
Subordinated Notes	559,854	(a)	8.9
	<b>\$ 4,111,791</b>		

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

Included within Senior Secured Notes and Subordinated Notes are amounts due to non-consolidated affiliates of \$80.8 million and \$275.7 million, respectively. The fair value of Senior Secured and Subordinated Notes as of March 31, 2010 was \$3.3 billion and \$281.1 million, respectively, of which \$52.1 million and \$148.5 million represents the amounts Due to Affiliates. The contractual maturities of these loans are greater than five years.

The Loans Payable of t