Blackstone Group L.P.
Form 10-Q
August 07, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012**

OR

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

Commission File Number: 001-33551

The Blackstone Group L.P.

(Exact name of Registrant as specified in its charter)

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

345 Park Avenue

New York, New York 10154

(Address of principal executive offices)(Zip Code)

(212) 583-5000

(Registrant s telephone number, including area code)

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

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

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

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

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

The number of the Registrant s voting common units representing limited partner interests outstanding as of July 31, 2012 was 417,258,208. The number of the Registrant s non-voting common units representing limited partner interests outstanding as of July 31, 2012 was 101,334,234.

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Forward-Looking Statements

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as outlook, believes, expects, potential, continues, may, wil should, seeks, approximately, predicts, intends, plans, estimates, anticipates or the negative version of these words or other compara Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled Risk Factors in our annual report on Form 10-K for the year ended December 31, 2011 and in this report, as such factors may be updated from time to time in our periodic filings with the United States Securities and Exchange Commission (SEC), which are accessible on the SEC s website at www.sec.gov. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. The forward-looking statements speak only as of the date of this report, and we undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

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

Blackstone Funds, our funds and our investment funds refer to the private equity funds, real estate funds, funds of hedge funds, credit-oriented funds, collateralized loan obligation (CLO) vehicles, and closed-end mutual funds and management investment companies that are managed by Blackstone. Our carry funds refer to the private equity funds, real estate funds and certain of the credit-oriented funds (with multi-year drawdown, commitment-based structures that only pay carry on the realization of an investment) that are managed by Blackstone. Blackstone s Private Equity segment comprises its management of private equity funds (including our sector and regional focused funds), which we refer to collectively as our Blackstone Capital Partners (BCP) funds, and certain multi-asset class investment funds. We refer to our real estate opportunistic funds as our Blackstone Real Estate Partners (BREP) funds and our real estate debt investment funds as our BREDS funds. Our hedge funds refer to our funds of hedge funds, certain of our real estate debt investment funds and certain other credit-oriented funds (including four publicly registered investment companies), which are managed by Blackstone.

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

(a) the fair value of the investments held by our carry funds and our side-by-side investments, plus the capital that we are entitled to call from investors in those funds and side-by-side investments pursuant to the terms of their respective capital commitments, plus the fair value of co-investments managed by us,

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

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

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

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

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

(a) for our Private Equity segment funds and carry funds in our Real Estate segment, which include certain real estate debt investment funds, the amount of capital commitments, remaining invested capital or par value of assets held, depending on the fee terms of the fund,

(b) for our credit-oriented carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,

(c) the remaining invested capital of co-investments managed by us on which we receive fees,

(d)

the net asset value of our funds of hedge funds, hedge funds, certain credit-oriented closed-end registered investment companies, and our closed-end mutual funds,

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

(f) the gross amount of underlying assets of our CLOs at cost, and

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

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

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Financial Condition (Unaudited)

(Dollars in Thousands, Except Unit Data)

	June 30, 2012	December 31, 2011
Assets		
Cash and Cash Equivalents	$ 412,545	$ 754,744
Cash Held by Blackstone Funds and Other	858,607	724,762
Investments (including assets pledged of $115,354 and $101,298 at June 30, 2012 and December 31, 2011, respectively)	19,351,458	15,128,299
Accounts Receivable	586,416	406,140
Reverse Repurchase Agreements	88,524	139,485
Due from Affiliates	800,063	860,514
Intangible Assets, Net	652,874	595,488
Goodwill	1,703,602	1,703,602
Other Assets	458,646	337,396
Deferred Tax Assets	1,229,835	1,258,699
Total Assets	$ 26,142,570	$ 21,909,129
Liabilities and Partners Capital		
Loans Payable	$ 12,110,532	$ 8,867,568
Due to Affiliates	1,763,742	1,811,468
Accrued Compensation and Benefits	977,003	903,260
Securities Sold, Not Yet Purchased	88,153	143,825
Repurchase Agreements	115,987	101,849
Accounts Payable, Accrued Expenses and Other Liabilities	823,413	828,873
Total Liabilities	15,878,830	12,656,843
Commitments and Contingencies		
Redeemable Non-Controlling Interests in Consolidated Entities	1,258,295	1,091,833
Partners Capital		
Partners Capital (common units: 519,754,704 issued and outstanding as of June 30, 2012; 489,430,907 issued and outstanding as of December 31, 2011)	4,413,322	4,281,841
Appropriated Partners Capital	966,931	386,864
Accumulated Other Comprehensive Income	1,932	1,958
Non-Controlling Interests in Consolidated Entities	1,143,290	1,029,270
Non-Controlling Interests in Blackstone Holdings	2,479,970	2,460,520
Total Partners Capital	9,005,445	8,160,453
Total Liabilities and Partners Capital	$ 26,142,570	$ 21,909,129

continued

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Financial Condition (Unaudited)

(Dollars in Thousands)

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

	June 30, 2012	December 31, 2011
Assets		
Cash Held by Blackstone Funds and Other	$ 742,387	$ 598,441
Investments	12,597,840	8,961,960
Accounts Receivable	58,453	33,405
Due from Affiliates	36,289	36,502
Other Assets	55,244	12,031
Total Assets	$ 13,490,213	$ 9,642,339
Liabilities		
Loans Payable	$ 11,045,251	$ 7,801,136
Due to Affiliates	225,103	311,909
Accounts Payable, Accrued Expenses and Other	311,964	244,488
Total Liabilities	$ 11,582,318	$ 8,357,533

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Operations (Unaudited)

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Revenues				
Management and Advisory Fees, Net	$ 488,048	$ 498,040	$ 959,724	$ 910,778
Performance Fees				
Realized				
Carried Interest	55,929	42,750	69,489	136,153
Incentive Fees	11,631	19,013	16,910	21,813
Unrealized				
Carried Interest	84,290	611,158	383,086	1,043,305
Incentive Fees	(16,436)	(670)	50,699	79,584
Total Performance Fees	135,414	672,251	520,184	1,280,855
Investment Income (Loss)				
Realized	5,758	19,303	22,093	32,086
Unrealized	(10,519)	108,711	62,307	216,106
Total Investment Income (Loss)	(4,761)	128,014	84,400	248,192
Interest and Dividend Revenue	9,267	8,848	16,903	18,338
Other	(765)	1,128	(1,972)	3,387
Total Revenues	627,203	1,308,281	1,579,239	2,461,550
Expenses				
Compensation and Benefits Compensation	533,367	699,432	1,028,622	1,358,915
Performance Fee Compensation				
Realized				
Carried Interest	7,898	18,676	15,836	32,243
Incentive Fees	5,576	9,036	9,828	10,012
Unrealized				
Carried Interest	36,815	123,714	121,359	249,670
Incentive Fees	(9,595)	(5,616)	3,183	30,953
Total Compensation and Benefits	574,061	845,242	1,178,828	1,681,793
General, Administrative and Other	135,737	126,118	278,503	255,504
Interest Expense	13,773	14,185	28,291	27,988
Fund Expenses	16,248	(714)	37,990	10,410
Total Expenses	739,819	984,831	1,523,612	1,975,695
Other Income (Loss)				
Net Gains (Losses) from Fund Investment Activities	248,230	(74,654)	536,372	(119,845)
Income Before Provision for Taxes	135,614	248,796	591,999	366,010
Provision for Taxes	41,337	64,199	80,090	103,049

Net Income		94,277		184,597		511,909		262,961
Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities		(17,666)		205		36,594		22,942
Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities		239,934		(92,753)		437,576		(186,546)
Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings		(53,027)		190,908		54,378		297,624
Net Income (Loss) Attributable to The Blackstone Group L.P.	$	(74,964)	$	86,237	$	(16,639)	$	128,941
Net Income (Loss) Per Common Unit Basic and Diluted	$	(0.14)	$	0.18	$	(0.03)	$	0.28
Weighted-Average Common Units Outstanding Basic		528,778,977		476,289,647		517,882,253		462,094,878
Weighted-Average Common Units Outstanding Diluted		528,778,977		483,643,646		517,882,253		468,618,734
Revenues Earned from Affiliates								
Management and Advisory Fees	$	56,133	$	118,916	$	104,117	$	188,954

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in Thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Net Income	$ 94,277	$ 184,597	$ 511,909	$ 262,961
Other Comprehensive Income (Loss), Net of Tax Currency Translation Adjustment	(21,255)	16,985	(23,429)	21,588
Comprehensive Income	73,022	201,582	488,480	284,549
Less:				
Comprehensive Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	(17,666)	205	36,594	22,942
Comprehensive Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities	220,044	(75,297)	414,173	(163,286)
Comprehensive Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings	(53,027)	190,908	54,378	297,624
Comprehensive Income (Loss) Attributable to The Blackstone Group L.P.	$ (76,329)	$ 85,766	$ (16,665)	$ 127,269

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Changes in Partners Capital (Unaudited)

(Dollars in Thousands, Except Unit Data)

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

Balance at June 30, 2012	519,754,704	$ 4,413,322	$ 966,931	$ 1,932	$ 1,143,290	$ 2,479,970	$ 9,005,445	$ 1,258,295

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See notes to condensed consolidated financial statements

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Changes in Partners Capital (Unaudited)

(Dollars in Thousands, Except Unit Data)

	The Blackstone Group L.P.							
	Common Units	**Partners Capital**	**Appro-priated Partners Capital**	**Accumulated Other Compre-hensive Income**	**Non-Controlling Interests in Consolidated Entities**	**Non-Controlling Interests in Blackstone Holdings**	**Total Partners Capital**	**Redeemable Non-Controlling Interests in Consolidated Entities**
Balance at December 31, 2010	416,092,022	$ 3,888,211	$ 470,583	$ 4,302	$ 812,354	$ 2,418,517	$ 7,593,967	$ 659,390
Transition and Acquisition Adjustments Relating to Consolidation of CLO Entities			86,016		114		86,130	
Net Income (Loss)		128,941			(186,546)	297,624	240,019	22,942
Allocation of Income of Consolidated CLO Entities			(368,101)		368,101			
Currency Translation Adjustment				(1,672)	23,260		21,588	
Allocation of Currency Translation Adjustment of Consolidated Collateralized Loan Obligations			23,260		(23,260)			
Capital Contributions					123,599		123,599	363,476
Capital Distributions					(94,690)		(94,690)	(120,136)
Transfer of Non-Controlling Interests in Consolidated Entities					1,600	(1,600)		
Purchase of Interests from Certain Non-Controlling Interest Holders		(2,239)					(2,239)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non- Controlling Interest Holders		49,555					49,555	
Dividend		(196,384)				(285,857)	(482,241)	
Equity-Based Compensation		352,022				498,273	850,295	
Relinquished in Deconsolidation and Liquidation of Partnership								966
Net Delivery of Vested Common Units	6,574,038	(30,920)					(30,920)	
Repurchase of Common Units and Blackstone Holdings Partnership Units						(469)	(469)	
Change in The Blackstone Group L.P. s Ownership Interest		(6,045)				6,045		
	55,683,133	208,257				(208,257)		

Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units								
Balance at June 30, 2011	478,349,193	$ 4,391,398	$ 211,758	$ 2,630	$ 1,024,532	$ 2,724,276	$ 8,354,594	$ 926,638

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Operating Activities		
Net Income	$ 511,909	$ 262,961
Adjustments to Reconcile Net Income 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	(520,599)	7,598
Net Realized Gains on Investments	(97,353)	(296,433)
Changes in Unrealized Gains on Investments Allocable to The Blackstone Group L.P.	(31,230)	(206,735)
Unrealized Depreciation (Appreciation) on Hedge Activities	22,599	(7,278)
Non-Cash Performance Fees	(332,432)	(857,921)
Non-Cash Performance Fee Compensation	150,206	322,878
Equity-Based Compensation Expense	467,005	834,923
Amortization of Intangibles	84,835	82,425
Other Non-Cash Amounts Included in Net Income	24,379	39,807
Cash Flows Due to Changes in Operating Assets and Liabilities:		
Cash Held by Blackstone Funds and Other	152,335	166,464
Cash Relinquished with Deconsolidation and Liquidation of Partnership	20,148	966
Accounts Receivable	(130,775)	3,059
Reverse Repurchase Agreements	50,961	87,450
Due from Affiliates	(20,202)	60,662
Other Assets	(8,051)	68,269
Accrued Compensation and Benefits	31,071	(132,816)
Securities Sold, Not Yet Purchased	(50,143)	(43,302)
Accounts Payable, Accrued Expenses and Other Liabilities	(425,377)	(235,626)
Repurchase Agreements	14,138	14,527
Due to Affiliates	(27,892)	(111,175)
Treasury Cash Management Strategies:		
Investments Purchased	(1,382,392)	(1,755,013)
Cash Proceeds from Sale of Investments	1,356,654	1,733,108
Blackstone Funds Related:		
Investments Purchased	(3,593,721)	(4,378,272)
Cash Proceeds from Sale or Pay Down of Investments	4,080,259	4,712,168
Net Cash Provided by Operating Activities	346,332	372,694
Investing Activities		
Purchase of Furniture, Equipment and Leasehold Improvements	(20,948)	(17,170)
Net Cash Paid for Acquisitions, Net of Cash Acquired	(156,972)	(23,247)
Changes in Restricted Cash	(176)	332
Net Cash Used in Investing Activities	(178,096)	(40,085)

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See notes to condensed consolidated financial statements

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Financing Activities		
Distributions to Non-Controlling Interest Holders in Consolidated Entities	$ (141,769)	$ (214,952)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	297,528	488,094
Purchase of Interests from Certain Non-Controlling Interest Holders	(32)	(2,239)
Net Settlement of Vested Common Units and Repurchase of Common and Holdings Units	(17,239)	(31,390)
Proceeds from Loans Payable	4,899	3,111
Repayment of Loans Payable	(10,115)	(22,445)
Distributions to Unitholders	(390,290)	(482,241)
Blackstone Funds Related:		
Proceeds from Loans Payable	3,981	404
Repayment of Loans Payable	(257,283)	(224,777)
Net Cash Used in Financing Activities	(510,320)	(486,435)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(115)	8
Net Decrease in Cash and Cash Equivalents	(342,199)	(153,818)
Cash and Cash Equivalents, Beginning of Period	754,744	588,621
Cash and Cash Equivalents, End of Period	$ 412,545	$ 434,803
Supplemental Disclosure of Cash Flows Information		
Payments for Interest	$ 42,853	$ 1,970
Payments for Income Taxes	$ 14,752	$ 26,698
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Net Activities Related to Capital Transactions of Consolidated Blackstone Funds	$ (4,377)	$ 5,153
Net Assets Related to the Consolidation of CLO Vehicles	$ 233,541	$ 86,130
In-kind Redemption of Capital	$ (2,017)	$
In-kind Contribution of Capital	$ 2,017	$
Transfer of Interests to Non-Controlling Interest Holders	$ (3,615)	$ 1,600
Change in The Blackstone Group L.P. s Ownership Interest	$ (9,467)	$ (6,045)
Net Settlement of Vested Common Units	$ 91,690	$ 102,894
Conversion of Blackstone Holdings Units to Common Units	$ 91,649	$ 208,257

Exchange of Founders and Non-Controlling Interest Holders Interests in Blackstone Holdings:		
Deferred Tax Asset	$ (76,569)	$ (271,000)
Due to Affiliates	$ 63,826	$ 221,445
Partners Capital	$ 12,743	$ 49,555

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements

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

1. ORGANIZATION

The Blackstone Group L.P., together with its subsidiaries, (Blackstone or the Partnership) is a leading global manager of private capital and provider of financial advisory services. The alternative asset management business includes the management of private equity funds, real estate funds, funds of hedge funds, credit-oriented funds, collateralized loan obligation (CLO) vehicles, separately managed accounts, and registered investment companies (collectively referred to as the Blackstone Funds). Blackstone also provides various financial advisory services, including financial advisory, restructuring and reorganization advisory and fund placement services. Blackstone s business is organized into five segments: private equity, real estate, hedge fund solutions, credit businesses, and financial advisory.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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statements, including these notes, are unaudited and exclude some of the disclosures required in audited financial statements. Management believes it has made all necessary adjustments (consisting of only normal recurring items) so that the condensed consolidated financial statements are presented fairly and that estimates made in preparing its condensed consolidated financial statements are reasonable and prudent. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Partnership s Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission.

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

All intercompany balances and transactions have been eliminated in consolidation.

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

The December 31, 2011 Condensed Consolidated Statement of Financial Condition reflects an increase of $506.2 million to reflect the cumulative effect of a reclassification to Redeemable Non-Controlling Interests in Consolidated Entities. This amount had previously been classified within Non-Controlling Interests in Consolidated Entities but should properly be, and now has been, classified within Redeemable Non-Controlling Interests in Consolidated Entities. In addition, the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2011 reflect an increase to Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities of $0.3 million and $1.1 million, respectively, with a corresponding decrease to Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities to correctly classify the portion of Net Gains (Losses) from Fund Investment Activities attributable to Redeemable Non-Controlling Interests in Consolidated Entities. These immaterial restatements had no impact on Net Income (Loss) Attributable to The Blackstone Group L.P., Net Income (Loss) per Common Unit-Basic or Diluted, or the Condensed Consolidated Statements of Cash Flows.

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

As of June 30, 2012, Blackstone elected to separately present Carried Interest and Incentive Fees in each of the Realized and Unrealized components of Performance Fee Revenue and Performance Fee Compensation in the Condensed Consolidated Statements of Operations. Previously, these amounts were not separately reported. This presentation had no impact on the respective financial statement captions.

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.

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Income (Loss) attributable to Blackstone Holdings, excluding certain costs and expenses borne directly by Blackstone Holdings, is calculated based on the average number of Blackstone Holdings partnership units held by the Founder, other senior managing directors and employees.

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

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

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

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

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

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

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

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Fair Value of Financial Instruments

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

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

Level I Quoted prices are available in active markets for identical financial instruments as of the reporting date. The type of financial instruments in Level I include listed equities, listed derivatives and mutual funds with quoted prices. The Partnership does not adjust the quoted price for these investments, even in situations where Blackstone holds a large position and a sale could reasonably impact the quoted price.

Level II Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and loans, government and agency securities, less liquid and restricted equity securities, certain over-the-counter derivatives where the fair value is based on observable inputs, and certain fund of hedge funds and proprietary investments in which Blackstone has the ability to redeem its investment at net asset value at, or within three months of, the reporting date.

Level III Pricing inputs are unobservable for the financial instruments and includes situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category generally include general and limited partnership interests in private equity and real estate funds, credit-oriented funds, distressed debt and non-investment grade residual interests in securitizations, corporate bonds and loans held within CLO vehicles, certain over the counter derivatives where the fair value is based on unobservable inputs and certain funds of hedge funds 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. Senior and subordinate notes issued by CLO vehicles may also be classified within Level III of the fair value hierarchy.

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

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

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Level II Valuation Techniques

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

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

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

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

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

Level III Valuation Techniques

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

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

Real Estate Investments The fair values of real estate investments are determined by considering projected operating cash flows, sales of comparable assets, if any, and replacement costs among other measures. The methods used to estimate the fair value of real estate investments include the discounted cash flow method

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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.

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

Credit-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.

Credit-Oriented Liabilities Credit-oriented liabilities comprise senior and subordinate loans issued by Blackstone s consolidated CLO vehicles. Such liabilities are valued using a discounted cash flow methodology.

Level III Valuation Process

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

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Investments, at Fair Value

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

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

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

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

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

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

Equity Method Investments

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

Repurchase and Reverse Repurchase Agreements

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

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

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

Securities Sold, Not Yet Purchased

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

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

Derivative Instruments

The Partnership recognizes all derivatives as assets or liabilities on its Condensed Consolidated Statements of Financial Condition at fair value. On the date the Partnership enters into a derivative contract, it designates and documents each derivative contract as one of the following: (a) a hedge of a recognized asset or liability (fair

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value hedge), (b) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge), (c) a hedge of a net investment in a foreign operation, or (d) a derivative instrument not designated as a hedging instrument (freestanding derivative). For a fair value hedge, Blackstone records changes in the fair value of the derivative and, to the extent that it is highly effective, changes in the fair value of the hedged asset or liability attributable to the hedged risk, in current period earnings in General, Administrative and Other in the Condensed Consolidated Statements of Operations. Changes in the fair value of derivatives designated as hedging instruments caused by factors other than changes in the risk being hedged, which are excluded from the assessment of hedge effectiveness, are recognized in current period earnings.

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

For freestanding derivative contracts, the Partnership presents changes in fair value in current period earnings. Changes in the fair value of derivative instruments held by consolidated Blackstone Funds are reflected in Net Gains (Losses) from Funds Investment Activities or, where derivative instruments are held by the Partnership, within Investment Income (Loss), in the Condensed Consolidated Statements of Operations. The fair value of freestanding derivative assets are recorded within Investments and freestanding derivative liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Condensed Consolidated Statements of Financial Condition.

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

Affiliates

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

Distributions

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

Recent Accounting Developments

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

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

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

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

In June 2011, the FASB issued amended guidance on the presentation of comprehensive income. The amendments provided an entity with an option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity was required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. In addition, an entity was required to present on the face of the financial statements reclassification adjustments for items that were reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income were presented. The guidance was effective for fiscal years, and interim periods within those years beginning after December 15, 2011 and was to be applied on a retrospective basis. As the amendments are limited to presentation only, adoption did not have a material impact on the Partnership s financial statements.

In December 2011, the FASB issued a deferral of the effective date for certain disclosures relating to the comprehensive income, specifically with respect to the presentation of reclassifications of items out of accumulated other comprehensive income. The deferral was effective for fiscal years, and interim periods within those years, beginning after December 15, 2011.

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In September 2011, the FASB issued enhanced guidance on testing goodwill for impairment. The amended guidance provides an entity with the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. Under the amended guidance, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The amended guidance includes examples of events or circumstances that an entity must consider in evaluating whether it is more likely than not that the fair value of reporting units is less than its carrying amount. The amended guidance no longer permits the carry forward of detailed calculations of a reporting unit s fair value from a prior year. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The amended guidance is not expected to have a material impact on the Partnership s financial statements.

In December 2011, the FASB issued guidance to enhance disclosures about financial instruments and derivative instruments that are either (a) offset or (b) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset. Under the amended guidance, an entity is required to disclose quantitative information relating to recognized assets and liabilities that are offset or subject to an enforceable master netting arrangement or similar agreement, including (a) the gross amounts of those recognized assets and liabilities, (b) the amounts offset to determine the net amount presented in the statement of financial position, and (c) the net amount presented in the statement of financial position. With respect to amounts subject to an enforceable master netting arrangement or similar agreement which are not offset, disclosure is required of (a) the amounts related to recognized financial instruments and other derivative instruments, (b) the amount related to financial collateral (including cash collateral), and (c) the overall net amount after considering amounts that have not been offset. The guidance is effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods and retrospective application is required. As the amendments are limited to disclosure only, adoption is not expected to have a material impact on the Partnership s financial statements.

3. ACQUISITIONS, GOODWILL AND INTANGIBLE ASSETS

Acquisition of Harbourmaster

On January 5, 2012, Blackstone completed the acquisition of all of the outstanding share capital of Harbourmaster Capital (Holdings) Limited (Harbourmaster), an Island of Jersey entity, in accordance with the sale and purchase agreement entered into on October 6, 2011. The fair value of consideration transferred, comprised entirely of cash, was 181.4 million ($232.0 million). Harbourmaster is a European secured bank loan manager based in Dublin, Ireland. Harbourmaster manages various credit products including CLO vehicles.

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The following is a summary of the estimated fair values of assets acquired and liabilities assumed for the Harbourmaster acquisition:

Purchase Price Cash	$ 232,044
Fair Value of Assets Acquired and Liabilities Assumed	
Assets	
Cash	$ 75,072
Investments in CLOs	9,305
Accounts Receivable	9,329
Other Assets	17,651
Intangible Assets	142,221
	253,578
Liabilities Assumed	
Accounts Payable, Accrued Expenses and Other Liabilities	21,534
Net Assets Acquired	$ 232,044

Harbourmaster s results from the date of acquisition have been included in the Credit Businesses segment.

The Partnership incurred $2.1 million of acquisition-related costs which were expensed as incurred and are reflected within the General, Administrative and Other in the Condensed Consolidated Statement of Operations.

The Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2012 includes the results of Harbourmaster since the date of acquisition, January 5, 2012, through June 30, 2012. Supplemental information on an unaudited pro forma basis, as if the Harbourmaster acquisition had been consummated as of January 1, 2011 is as follows:

	Three Months Ended June 30, 2011 (Unaudited)	Six Months Ended June 30, 2011 (Unaudited)
Total Revenues	$ 1,315,307	$ 2,486,586
Net Income Attributable to The Blackstone Group L.P.	$ 92,904	$ 143,721
Net Income Per Common Unit Basic	$ 0.20	$ 0.31
Net Income Per Common Unit Diluted	$ 0.19	$ 0.31

The results for the period from January 1, 2012 to the acquisition date of January 5, 2012 are not material and, as a result, pro forma unaudited supplemental information has not been provided for the 2012 periods as the amounts are materially consistent with the amounts recognized in the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2012.

The unaudited pro forma supplemental information is based on estimates and assumptions, which the Partnership believes are reasonable. These results are not necessarily indicative of the Partnership s Condensed Consolidated Financial Condition or Statements of Operations in future periods or the results that actually would have been realized had the Partnership and Harbourmaster been a combined entity during the periods presented.

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Goodwill and Intangible Assets

Goodwill has been allocated to each of the Partnership s five segments as follows: Private Equity ($694.5 million), Real Estate ($421.7 million), Hedge Fund Solutions ($172.1 million), Credit Businesses ($346.4 million) and Financial Advisory ($68.9 million).

The carrying value of goodwill was $1.7 billion as of June 30, 2012 and December 31, 2011. As of June 30, 2012 and December 31, 2011, the fair value of the Partnership s operating segments substantially exceeded their respective carrying values.

Intangible Assets, Net consists of the following:

	June 30, 2012	December 31, 2011
Finite-Lived Intangible Assets / Contractual Rights	$ 1,536,244	$ 1,394,023
Accumulated Amortization	(883,370)	(798,535)
Intangible Assets, Net	$ 652,874	$ 595,488

Amortization expense associated with Blackstone s intangible assets was $36.7 million and $84.8 million for the three and six month periods ended June 30, 2012, respectively, and $41.6 million and $82.4 million for the three and six month periods ended June 30, 2011, respectively.

Amortization of Intangible Assets held at June 30, 2012 is expected to be $139.3 million, $88.2 million, $83.3 million, $77.1 million, and $72.8 million for each of the years ending December 31, 2012, 2013, 2014, 2015, and 2016, respectively. Blackstone s intangible assets as of June 30, 2012 are expected to amortize over a weighted-average period of 8.8 years.

4. INVESTMENTS

Investment

Investments consist of the following:

	June 30, 2012	December 31, 2011
Investments of Consolidated Blackstone Funds	$ 14,057,705	$ 10,306,795
Equity Method Investments	2,253,086	2,218,103
Blackstone s Treasury Cash Management Strategies	738,886	685,859
Performance Fees	2,271,290	1,889,152
Other Investments	30,491	28,390
	$ 19,351,458	$ 15,128,299

Blackstone s share of Investments of Consolidated Blackstone Funds totaled $486.1 million and $449.6 million at June 30, 2012 and December 31, 2011, respectively.

At June 30, 2012 and December 31, 2011, consideration was given as to whether any individual investment, including derivative instruments, had a fair value which exceeded 5% of Blackstone s net assets. At June 30, 2012 and December 31, 2011, no investment exceeded the 5% threshold.

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Investments of Consolidated Blackstone Funds

The following table presents the realized and net change in unrealized gains (losses) on investments held by the consolidated Blackstone Funds:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Realized Gains (Losses)	$ (54,791)	$ 36,654	$ (10,441)	$ 106,755
Net Change in Unrealized Gains (Losses)	232,484	(142,941)	388,169	(277,831)
	$ 177,693	$ (106,287)	$ 377,728	$ (171,076)

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Realized and Net Change in Unrealized Gains (Losses) from Blackstone Funds	$ 177,693	$ (106,287)	$ 377,728	$ (171,076)
Interest and Dividend Revenue Attributable to Consolidated Blackstone Funds	70,537	31,633	158,644	51,231
Other Income Net Gains (Losses) from Fund Investment Activities	$ 248,230	$ (74,654)	$ 536,372	$ (119,845)

Equity Method Investments

The Partnership recognized net gains related to its equity method investments of $44.0 million and $183.6 million for the six months ended June 30, 2012 and 2011, respectively.

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

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

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Blackstone s Treasury Cash Management Strategies

The portion of Blackstone s Treasury cash management strategies included in Investments represents the Partnership s liquid investments in government, other investment and non-investment grade securities and other investments. These strategies are primarily managed by third-party institutions. The following table presents the realized and net change in unrealized gains (losses) on investments held by Blackstone s Treasury cash management strategies:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Realized Gains	$ 2,167	$ 1,321	$ 10	$ 1,020
Net Change in Unrealized Gains (Losses)	5,245	1,592	826	2,221
	$ 7,412	$ 2,913	$ 836	$ 3,241

Performance Fees

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

	Private Equity	Real Estate	Hedge Fund Solutions	Credit Businesses	Total
Performance Fees, December 31, 2011	$ 620,359	$ 943,859	$ 1,858	$ 323,076	$ 1,889,152
Performance Fees Allocated as a Result of Changes in Fund Fair Values	(14,305)	388,089	10,375	104,978	489,137
Foreign Exchange Loss		(3,094)			(3,094)
Fund Cash Distributions	(3,349)	(19,110)	(3,843)	(77,603)	(103,905)
Performance Fees, June 30, 2012	$ 602,705	$ 1,309,744	$ 8,390	$ 350,451	$ 2,271,290

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Realized Gains	$ 541	$ 399	$ 796	$ 399
Net Change in Unrealized Gains (Losses)	(2,547)	343	190	1,292
	$ (2,006)	$ 742	$ 986	$ 1,691

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5. NET ASSET VALUE AS FAIR VALUE

A summary of fair value by strategy type alongside the consolidated funds of hedge funds remaining unfunded commitments and ability to redeem such investments as of June 30, 2012 is presented below:

Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Diversified Instruments	$ 145,694	$ 7,724	(a)	(a)
Credit Driven	163,176	1,980	(b)	(b)
Event Driven	99,340		(c)	(c)
Equity	287,075		(d)	(d)
Commodities	46,116		(e)	(e)
	$ 741,401	$ 9,704		

(a) Diversified Instruments include investments in hedge funds that invest across multiple strategies. 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. The remaining 57% of investments within this category represent investments in hedge funds that are in the process of liquidating. Distributions from these funds will be received as underlying investments are liquidated. The time at which this redemption restriction may lapse cannot be estimated.

(b) The Credit Driven category includes investments in hedge funds that invest primarily in domestic and international bonds. Investments representing 65% of the value of the investments in this category may not be redeemed at, or within three months of, the reporting date. Investments representing 18% of the value in the credit driven category are subject to redemption restrictions at the discretion of the investee fund manager who may choose (but may not have exercised such ability) to side-pocket such investments. The remaining 17% of investments within this category are redeemable as of the reporting date.

(c) The Event Driven category includes investments in hedge funds whose primary investing strategy is to identify certain event-driven investments. Withdrawals are not permitted in this category. Distributions will be received as the underlying investments are liquidated.

(d) The Equity category includes investments in hedge funds that invest primarily in domestic and international equity securities. Investments representing 85% of the total value of investments in this category may not be redeemed at, or within three months of, the reporting date. The remaining 15% are subject to redemption restrictions at the discretion of the investee fund manager who may choose (but may not have elected such ability) to side-pocket such investments. As of the reporting date, the investee fund manager had not elected to side-pocket Blackstone s investments.

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

6. DERIVATIVE FINANCIAL INSTRUMENTS

Blackstone enters into derivative contracts in order to hedge its interest rate risk exposure against the effects of interest rate changes. Additionally, Blackstone and the Blackstone Funds enter into derivative contracts in the normal course of business to achieve certain other risk management objectives and for general investment purposes. As a result of the use of derivative contracts, Blackstone and the consolidated Blackstone Funds are exposed to the risk that counterparties will fail to fulfill their contractual obligations. To mitigate such

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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

In June 2012, Blackstone removed the fair value designation of its interest rate swaps that were used to hedge a portion of the interest rate risk on the Partnership s fixed rate borrowings. The impact to the Condensed Consolidated Statements of Operations for the period up through the date of de-designation is reflected within Fair Value Hedges in the table below. Changes in the fair value of the interest rate swaps subsequent to the date of de-designation are reflected within Freestanding Derivatives within Interest Rate Contracts in the table below.

Freestanding Derivatives

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

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

	June 30, 2012				December 31, 2011			
	Assets		Liabilities		Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
Fair Value Hedges								
Interest Rate Swaps	$	$	$	$	$ 450,000	$ 67,668	$	$
Freestanding Derivatives								
Blackstone Other								
Interest Rate Contracts	905,450	52,009	770,950	2,565	221,350	768	502,200	1,291
Foreign Currency Contracts	4,167	173	7,275	125	22,698	1,016	7,293	103
Credit Default Swaps			600	110				
Investments of Consolidated Blackstone Funds								
Foreign Currency Contracts	310,558	38,247	362,534	31,133	177,453	22,016	159,409	7,687
Interest Rate Contracts	176,495	8,203	176,400	4,103	95,482	7,270	191,400	10,867
Freestanding Derivatives	1,396,670	98,632	1,317,759	38,036	516,983	31,070	860,302	19,948
Total	$ 1,396,670	$ 98,632	$ 1,317,759	$ 38,036	$ 966,983	$ 98,738	$ 860,302	$ 19,948

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Fair Value Hedges Interest Rate Swaps				
Hedge Ineffectiveness	$ 1,342	$ 1,164	$ 548	$ 597
Excluded from Assessment of Effectiveness	$ 4,950	$ 7,049	$ (938)	$ (374)
Realized Gain	22,941		22,941	
Freestanding Derivatives				
Realized Gains (Losses)				
Interest Rate Contracts	$ (2,687)	$ (1,538)	$ (2,551)	$ (536)
Foreign Currency Contracts	1,070	(591)	2,795	(1,291)
Other	7	56	7	(22)
Total	$ (1,610)	$ (2,073)	$ 251	$ (1,849)
Net Change in Unrealized Gain (Loss)				
Interest Rate Contracts	$ 1,022	$ 3,087	$ 7,619	$ 1,907
Foreign Currency Contracts	(14,386)	4,536	(665)	4,266
Credit Default Swaps	(45)		(41)	
Other		(21)		(19)
Total	$ (13,409)	$ 7,602	$ 6,913	$ 6,154

Since the inception of the above mentioned hedge designation, Blackstone recognized a $64.2 million increase in the fair value of the hedged borrowing. This basis adjustment will be accreted using the effective interest method through August 15, 2019, the remaining term of the hedged borrowing.

As of June 30, 2012 and December 31, 2011, the Partnership had not designated any derivatives as cash flow hedges or hedges of net investments in foreign operations.

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7. FAIR VALUE OPTION

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

	As of June 30, 2012	As of December 31, 2011
Assets		
Loans and Receivables	$ 104,207	$ 8,555
Assets of Consolidated CLO Vehicles		
Corporate Loans	11,427,207	7,901,020
Corporate Bonds	228,741	153,653
Other	70,564	77,295
	$ 11,830,719	$ 8,140,523
Liabilities		
Liabilities of Consolidated CLO Vehicles		
Senior Secured Notes	$ 10,534,253	$ 7,449,766
Subordinated Notes	701,648	630,236
	$ 11,235,901	$ 8,080,002

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

	Three Months Ended June 30,			
	2012		2011	
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
Assets				
Loans and Receivables	$	$ (402)	$	$ (287)
Assets of Consolidated CLO Vehicles				
Corporate Loans	(63,992)	12,481	22,880	(83,940)
Corporate Bonds	311	(3,386)	102	(1,293)
Other	1,419	6,626		(1,247)
	$ (62,262)	$ 15,319	$ 22,982	$ (86,767)
Liabilities				
Liabilities of Consolidated CLO Vehicles				

Senior Secured Notes	$ 1	$ (21,509)	$ (2,319)	$ (92,519)
Subordinated Notes		42,247		(43,647)
	$ 1	$ 20,738	$ (2,319)	$ (136,166)

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	Six Months Ended June 30, 2012		2011	
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
Assets				
Loans and Receivables	$	$ (396)	$	$ (287)
Assets of Consolidated CLO Vehicles				
Corporate Loans	(24,718)	301,712	65,112	(33,721)
Corporate Bonds	718	9,295	2,149	(1,322)
Other	1,539	10,107	480	4,128
	$ (22,461)	$ 320,718	$ 67,741	$ (31,202)
Liabilities				
Liabilities of Consolidated CLO Vehicles				
Senior Secured Notes	$ (43)	$ (114,712)	$ (7,714)	$ (332,477)
Subordinated Notes		7,764		(67,704)
	$ (43)	$ (106,948)	$ (7,714)	$ (400,181)

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

	As of June 30, 2012	For Financial Assets Past Due (a)		As of December 31, 2011	For Financial Assets Past Due (a)	
	Excess (Deficiency) of Fair Value Over Principal	Fair Value	Excess (Deficiency) of Fair Value Over Principal	Excess (Deficiency) of Fair Value Over Principal	Fair Value	Excess (Deficiency) of Fair Value Over Principal
Loans and Receivables	$ 1,738	$	$	$ (162)	$	$
Assets of Consolidated CLO Vehicles						
Corporate Loans	(837,123)	61,771	(71,836)	(674,496)	17,574	(29,384)
Corporate Bonds	(7,505)			(9,360)	7,560	(2,656)
	$ (842,890)	$ 61,771	$ (71,836)	$ (684,018)	$ 25,134	$ (32,040)

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

As of June 30, 2012 and December 31, 2011, no Loans and Receivables for which the fair value option was elected were past due or in non-accrual status.

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8. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The following tables summarize the valuation of the Partnership s financial assets and liabilities by the fair value hierarchy as of June 30, 2012 and December 31, 2011, respectively:

	June 30, 2012			
	Level I	Level II	Level III	Total
Assets				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	$	$ 3,590	$ 713,287	$ 716,877
Equity Securities	83,439	28,506	212,309	324,254
Partnership and LLC Interests	183	490	547,915	548,588
Debt Instruments		720,111	21,363	741,474
Assets of Consolidated CLO Vehicles				
Corporate Loans		10,426,445	1,000,762	11,427,207
Corporate Bonds		191,512	37,229	228,741
Freestanding Derivatives Foreign Currency Contracts		38,247		38,247
Freestanding Derivatives Interest Rate Contracts		8,203		8,203
Other	328	16,495	7,291	24,114
Total Investments of Consolidated Blackstone Funds	83,950	11,433,599	2,540,156	14,057,705
Blackstone s Treasury Cash Management Strategies	281,089	457,597	200	738,886
Money Market Funds	135,663			135,663
Freestanding Derivatives				
Interest Rate Contracts	609	51,400		52,009
Foreign Currency Contracts		173		173
Loans and Receivables			104,207	104,207
Other Investments	2,977	6,352	21,162	30,491
	$ 504,288	$ 11,949,121	$ 2,665,725	$ 15,119,134
Liabilities				
Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes	$	$	$ 10,534,253	$ 10,534,253
Subordinated Notes			701,648	701,648
Freestanding Derivatives Foreign Currency Contracts		31,133		31,133
Freestanding Derivatives Interest Rate Contracts		4,103		4,103
Freestanding Derivatives				
Interest Rate Contracts	235	2,330		2,565
Foreign Currency Contracts		125		125
Credit Default Swaps		110		110
Securities Sold, Not Yet Purchased		88,153		88,153
	$ 235	$ 125,954	$ 11,235,901	$ 11,362,090

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	December 31, 2011			
	Level I	Level II	Level III	Total
Assets				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	$	$ 5,119	$ 723,951	$ 729,070
Equity Securities	113,007	608	232,172	345,787
Partnership and LLC Interests			492,911	492,911
Debt Instruments		594,276	12,783	607,059
Assets of Consolidated CLO Vehicles				
Corporate Loans		7,259,204	635,944	7,895,148
Corporate Bonds		150,653	3,000	153,653
Freestanding Derivatives Foreign Currency Contracts		22,016		22,016
Freestanding Derivatives Interest Rate Contracts		7,270		7,270
Other	28,900	21,973	3,008	53,881
Total Investments of Consolidated Blackstone Funds	141,907	8,061,119	2,103,769	10,306,795
Blackstone s Treasury Cash Management Strategies	176,297	509,362	200	685,859
Money Market Funds	257,423			257,423
Freestanding Derivatives				
Interest Rate Contracts	159	609		768
Foreign Currency Contracts		1,016		1,016
Derivative Instruments Used as Fair Value Hedges		67,668		67,668
Loans and Receivables			8,555	8,555
Other Investments	8,066	360	19,964	28,390
	$ 583,852	$ 8,640,134	$ 2,132,488	$ 11,356,474
Liabilities				
Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes	$	$	$ 7,449,766	$ 7,449,766
Subordinated Notes			630,236	630,236
Freestanding Derivatives Foreign Currency Contracts		7,687		7,687
Freestanding Derivatives Interest Rate Contracts		10,867		10,867
Freestanding Derivatives				
Interest Rate Contracts	1,105	186		1,291
Foreign Currency Contracts		103		103
Securities Sold, Not Yet Purchased		143,825		143,825
	$ 1,105	$ 162,668	$ 8,080,002	$ 8,243,775

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

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

The following table summarizes the fair value transfers between Level I and Level II:

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Transfers from Level I into Level II (a)	$ 15,924	$ 45,440
Transfers from Level II into Level I (b)	$ 529	$ 801

(a) Transfers out of Level I represent those financial instruments for which restrictions exist and adjustments were made to an otherwise observable price to reflect fair value at the reporting date.

(b) Transfers into Level I represent those financial instruments for which an unadjusted quoted price in an active market became available for the identical asset.

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of June 30, 2012. The disclosure below excludes financial instruments for which fair value is based on unobservable but non-quantitative inputs. Such items include financial instruments for which the determination of fair value is based on prices from prior transactions or third party pricing information without adjustment and financial instruments for which fair value is determined by net asset value.

	Fair Value at June 30, 2012	Valuation Techniques	Unobservable Inputs	Ranges
Financial Assets				
Equity Securities	$ 124,105	Discounted Cash Flows	Discount Rate	8.1% - 25.0%
			Revenue CAGR	1.6% - 83.4%
			Exit Multiple	5.8x - 17.0x
	1,931	Market Comparable Companies	Book Value Multiple	0.8x
			EBITDA Multiple	6.5x - 8.3x
Partnership and LLC Interests	533,520	Discounted Cash Flows	Discount Rate	3.1% - 22.5%
			Revenue CAGR	-5.6% - 62.0%
			Exit Multiple	4.5x - 14.8x
			Exit Capitalization Rate	1.0% - 9.5%
Debt Instruments	8,499	Discounted Cash Flows	Discount Rate	10.7% - 48.0%
			Exit Capitalization Rate	7.5%

			Default Rate	2.0%
			Recovery Rate	70.0%
			Recovery Lag	12 months
			Pre-payment Rate	20.0%
			Reinvestment Rate	3.2%
	772	Market Comparable Companies	EBITDA Multiple	3.5x - 8.3x
Assets of Consolidated CLO Vehicles	128,694	Discounted Cash Flows	Discount Rate	6.0% - 18.0%
	86,555	Market Comparable Companies	EBITDA Multiple	2.0x - 10.6x
			Liquidity Discount	1.0% - 25.0%
Loans and Receivables	104,207	Discounted Cash Flows	Discount Rate	6.8% - 23.3%
Financial Liabilities				
CLOs	$ 11,235,901	Discounted Cash Flows	Default Rate	2.0% - 5.0%
			Recovery Rate	30.0% - 70.0%
			Recovery Lag	12 months
			Pre-payment Rate	5.0% - 20.0%
			Reinvestment Rate	3.2%
			Discount Rate	1.1% - 80.0%

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CAGR	Compound annual growth rate.
EBITDA	Earnings before interest, taxes, depreciation and amortization.
Exit Multiple	Ranges include the last twelve months EBITDA, forward EBITDA and price/earnings exit multiples.

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

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

Since December 31, 2011, there have been no changes in valuation techniques within Level II and Level III that have had a material impact on the valuation of financial instruments.

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

	Level III Financial Assets at Fair Value Three Months Ended June 30,							
	2012				2011			
	Investments of Consolidated Funds	Loans and Receivables	Other Investments	Total	Investments of Consolidated Funds	Loans and Receivables	Other Investments	Total
Balance, Beginning of Period	$ 2,390,276	$ 105,004	$ 21,791	$ 2,517,071	$ 1,741,692	$ 14,034	$ 20,970	$ 1,776,696
Transfer In Due to Consolidation and Acquisition (a)					9,570			9,570
Transfer Out Due to Deconsolidation	(1,599)			(1,599)				
Transfer In to Level III (b)	171,916			171,916	4,607			4,607
Transfer Out of Level III (b)	(59,315)			(59,315)	(112,780)			(112,780)
Purchases	232,684	39,657	100	272,441	308,430	119,861	117,200	545,491
Sales	(173,516)	(41,872)	(541)	(215,929)	(154,861)	(7,719)	(531)	(163,111)
Settlements		(186)		(186)	4,933	(71)		4,862
Realized Gains (Losses), Net	(12,264)		541	(11,723)	(3,764)		531	(3,233)
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	(8,026)	1,604	(529)	(6,951)	40,026	1,003	543	41,572
Balance, End of Period	$ 2,540,156	$ 104,207	$ 21,362	$ 2,665,725	$ 1,837,853	$ 127,108	$ 138,713	$ 2,103,674

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	Level III Financial Assets at Fair Value Six Months Ended June 30, 2012				2011			
	Investments of Consolidated Funds	Loans and Receivables	Other Investments	Total	Investments of Consolidated Funds	Loans and Receivables	Other Investments	Total
Balance, Beginning of Period	$ 2,103,769	$ 8,555	$ 20,164	$ 2,132,488	$ 1,602,371	$ 131,290	$ 19,672	$ 1,753,333
Transfer In Due to Consolidation and Acquisition (a)	122,565			122,565	9,570			9,570
Transfer Out Due to Deconsolidation	(1,599)			(1,599)				
Transfer In to Level III (b)	253,608			253,608	11,162			11,162
Transfer Out of Level III (b)	(103,280)			(103,280)	(134,243)			(134,243)
Purchases	320,312	142,908	100	463,320	436,529	126,090	117,200	679,819
Sales	(229,623)	(49,251)	(541)	(279,415)	(217,826)	(129,900)	(531)	(348,257)
Settlements		(46)		(46)		(1,441)		(1,441)
Realized Gains (Losses), Net	(9,093)		639	(8,454)	4,087		531	4,618
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	83,497	2,041	1,000	86,538	126,203	1,069	1,841	129,113
Balance, End of Period	$ 2,540,156	$ 104,207	$ 21,362	$ 2,665,725	$ 1,837,853	$ 127,108	$ 138,713	$ 2,103,674

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

	Level III Financial Liabilities at Fair Value Three Months Ended June 30,					
	2012			2011		
	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total
Balance, Beginning of Period	$ 10,984,018	$ 857,772	$ 11,841,790	$ 6,023,892	$ 567,436	$ 6,591,328
Transfer In Due to Consolidation and Acquisition (a)				1,829,899	95,567	1,925,466
Issuances	227		227	204		204
Settlements	(140,736)	(238)	(140,974)	(73,830)	(228)	(74,058)
Realized Gains (Losses), Net	(1)		(1)	2,319		2,319
Changes in Unrealized Gains (Losses) Included in Earnings Related to Liabilities Still Held at the Reporting Date	(309,255)	(155,886)	(465,141)	77,043	43,874	120,917
Balance, End of Period	$ 10,534,253	$ 701,648	$ 11,235,901	$ 7,859,527	$ 706,649	$ 8,566,176

	Level III Financial Liabilities at Fair Value Six Months Ended June 30,					
	2012			2011		
	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total
Balance, Beginning of Period	$ 7,449,766	$ 630,236	$ 8,080,002	$ 5,877,957	$ 555,632	$ 6,433,589
Transfer In Due to Consolidation and Acquisition (a)	3,419,084	149,225	3,568,309	1,829,899	95,567	1,925,466
Issuances	4,620	838	5,458	404		404
Settlements	(272,609)	(2,984)	(275,593)	(235,273)	(12,481)	(247,754)
Realized Gains (Losses), Net	43		43	7,715		7,715
Changes in Unrealized Gains (Losses) Included in Earnings Related to Liabilities Still Held at the Reporting Date	(66,651)	(75,667)	(142,318)	378,825	67,931	446,756
Balance, End of Period	$ 10,534,253	$ 701,648	$ 11,235,901	$ 7,859,527	$ 706,649	$ 8,566,176

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(a) Represents the transfer into Level III of financial assets and liabilities held by CLO vehicles as a result of the acquisition of management contracts on May 16, 2011 and the Harbourmaster acquisition on January 5, 2012.

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

9. VARIABLE INTEREST ENTITIES

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

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

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

	June 30, 2012	December 31, 2011
Investments	$ 296,796	$ 238,503
Receivables	80,148	94,050
Total VIE Assets	376,944	332,553
VIE Liabilities	1,142	48
Potential Clawback Obligation	30,803	14,876
Maximum Exposure to Loss	$ 408,889	$ 347,477

10. REVERSE REPURCHASE AND REPURCHASE AGREEMENTS

At June 30, 2012, the Partnership received securities, primarily U.S. and non-U.S. government and agency securities, asset-backed securities and corporate debt, with a fair value of $88.1 million and cash as collateral for reverse repurchase agreements that could be repledged, delivered or otherwise used. Securities with a fair value

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of $88.1 million were repledged, delivered or used to settle Securities Sold, Not Yet Purchased. The Partnership also pledged securities with a carrying value of $115.4 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

11. BORROWINGS

On July 13, 2012, an indirect subsidiary of Blackstone entered into an amendment to the $1.02 billion revolving credit facility (the Credit Facility) with Citibank, N.A., as Administrative Agent. The amendment increased the borrowing capacity from $1.02 billion to $1.1 billion and extended the maturity date of the Credit Facility from April 8, 2016 to July 13, 2017. As of June 30, 2012, Blackstone had no outstanding borrowings under the Credit Facility.

The carrying value and fair value of the Blackstone issued notes as of June 30, 2012 and December 31, 2011 were:

	June 30, 2012		December 31, 2011	
	Carrying Value	Fair Value (a)	Carrying Value	Fair Value (a)
Blackstone Issued 5.875%, $400 Million Par, Notes Due 3/15/2021	$ 398,310	$ 418,480	$ 398,237	$ 404,160
Blackstone Issued 6.625%, $600 Million Par, Notes Due 8/15/2019	$ 660,149	$ 655,260	$ 653,467	$ 640,440

(a) Fair value is determined by broker quote and these notes would be classified as Level II within the fair value hierarchy.

Included within Loans Payable and Due to Affiliates are amounts due to holders of debt securities issued by Blackstone s consolidated CLO vehicles. At June 30, 2012 and December 31, 2011, the Partnership s borrowings through consolidated CLO vehicles consisted of the following:

	June 30, 2012			December 31, 2011		
	Borrowing Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years	Borrowing Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years
Senior Secured Notes	$ 11,927,078	1.66%	4.7	$ 8,250,418	1.96%	4.3
Subordinated Notes	1,424,900	(a)	5.5	1,117,571	(a)	7.2
	$ 13,351,978			$ 9,367,989		

(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 as of June 30, 2012 are amounts due to non-consolidated affiliates of $22.0 million and $317.2 million, respectively. The fair value of Senior Secured and Subordinated Notes as of June 30, 2012 was $10.5 billion and $701.6 million, respectively, of which $15.7 million and $191.1 million represents the amounts due to affiliates.

Included within Senior Secured Notes and Subordinated Notes as of December 31, 2011 are amounts due to non-consolidated affiliates of $101.8 million and $323.6 million, respectively. The fair value of Senior Secured and Subordinated Notes as of December 31, 2011 was $7.4 billion and $630.2 million, respectively, of which $86.9 million and $205.4 million represents the amounts due to affiliates.

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The Loans Payable of the consolidated CLO vehicles are collateralized by assets held by each respective CLO vehicle and assets of one vehicle may not be used to satisfy the liabilities of another. As of June 30, 2012 and December 31, 2011, the fair value of the consolidated CLO assets was $12.5 billion and $8.7 billion, respectively. This collateral consisted of Cash, Corporate Loans, Corporate Bonds and other securities.

Scheduled principal payments for borrowings as of June 30, 2012 were as follows:

	Operating Borrowings	Blackstone Fund Facilities / CLO Vehicles	Total Borrowings
2012	$ 594	$ 7,606	$ 8,200
2013	1,188	85,192	86,380
2014	5,040	289,770	294,810
2015		624,007	624,007
Thereafter	1,000,000	12,362,341	13,362,341
Total	$ 1,006,822	$ 13,368,916	$ 14,375,738

12. INCOME TAXES

Blackstone s effective tax rate was 30.5% and 25.8% for the three months ended June 30, 2012 and 2011, respectively, and 13.5% and 28.2% for the six months ended June 30, 2012 and 2011, respectively. Blackstone s income tax provision was an expense of $41.3 million and an expense of $64.2 million for the three months ended June 30, 2012 and 2011, respectively, and an expense of $80.1 million and an expense of $103.0 million for the six months ended June 30, 2012 and 2011, respectively.

Blackstone s effective tax rate for the three and six months ended June 30, 2012 and 2011 was substantially due to the following: (a) certain corporate subsidiaries are subject to federal, state, local and foreign income taxes as applicable and other subsidiaries are subject to New York City unincorporated business taxes, and (b) a portion of compensation charges are not deductible for tax purposes.

13. NET INCOME (LOSS) PER COMMON UNIT

Basic and diluted net income (loss) per common unit for the three and six months ended June 30, 2012 and June 30, 2011 was calculated as follows:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net Income (Loss) Attributable to The Blackstone Group L.P.	$ (74,964)	$ 86,237	$ (16,639)	$ 128,941
Basic Net Income (Loss) Per Common Unit:				
Weighted-Average Common Units Outstanding	528,778,977	476,289,647	517,882,253	462,094,878

Net Income (Loss) Per Common Unit	$ (0.14)	$ 0.18	$ (0.03)	$ 0.28
Diluted Net Income (Loss) Per Common Unit:				
Weighted-Average Common Units Outstanding	528,778,977	476,289,647	517,882,253	462,094,878
Weighted-Average Unvested Deferred Restricted Common Units		7,353,999		6,523,856
Weighted-Average Diluted Common Units Outstanding	528,778,977	483,643,646	517,882,253	468,618,734
Diluted Net Income (Loss) Per Common Unit	$ (0.14)	$ 0.18	$ (0.03)	$ 0.28

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The following table summarizes the anti-dilutive securities for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Weighted-Average Blackstone Holdings Partnership Units	591,155,160	625,526,089	596,986,114	641,817,877

Unit Repurchase Program

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

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

During the six months ended June 30, 2011, Blackstone repurchased 116,270 vested Blackstone Holdings Partnership Units as part of the unit repurchase program for a total fair value of $2.1 million.

14. EQUITY-BASED COMPENSATION

The Partnership has granted equity-based compensation awards to Blackstone s senior managing directors, non-partner professionals, non-professionals and selected external advisors under the Partnership s 2007 Equity Incentive Plan (the Equity Plan), the majority of which to date were granted in connection with the IPO. The Equity Plan allows for the granting of options, unit appreciation rights or other unit-based awards (units, restricted units, restricted common units, deferred restricted common units, phantom restricted common units or other unit-based awards based in whole or in part on the fair value of the Blackstone Common Units or Blackstone Holdings Partnership Units) which may contain certain service or performance requirements. As of January 1, 2012, the Partnership had the ability to grant 162,195,378 units under the Equity Plan.

For the three and six months ended June 30, 2012, the Partnership recorded compensation expense of $244.6 million and $467.0 million, respectively, in relation to its equity-based awards with corresponding tax benefits of $7.2 million and $12.7 million, respectively. For the three and six months ended June 30, 2011, the Partnership recorded compensation expense of $408.6 million and $834.9 million, respectively, in relation to its equity-based awards with corresponding tax benefits of $4.5 million and $8.7 million, respectively. As of June 30, 2012, there was $2.2 billion of estimated unrecognized compensation expense related to unvested awards. This cost is expected to be recognized over a weighted-average period of 2.9 years.

Total vested and unvested outstanding units, including Blackstone Common Units, Blackstone Holdings Partnership Units and deferred restricted common units, were 1,128,718,375 as of June 30, 2012. Total outstanding unvested phantom units were 221,356 as of June 30, 2012.

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A summary of the status of the Partnership s unvested equity-based awards as of June 30, 2012 and a summary of changes during the period January 1, 2012 through June 30, 2012 is presented below:

	Blackstone Holdings		The Blackstone Group L.P.			
			Equity Settled Awards		Cash Settled Awards	
Unvested Units	Partnership Units	Weighted-Average Grant Date Fair Value	Deferred Restricted Common Units and Options	Weighted-Average Grant Date Fair Value	Phantom Units	Weighted-Average Grant Date Fair Value
Balance, December 31, 2011	89,644,650	$ 29.88	17,635,945	$ 18.50	218,583	$ 13.88
Granted	1,612,611	14.04	1,550,478	13.25	6,736	12.82
Vested	(23,409,788)	30.36	(4,598,271)	19.94	(3,963)	13.33
Forfeited	(2,063,277)	30.58	(619,522)	19.79		
Balance, June 30, 2012	65,784,196	$ 29.30	13,968,630	$ 17.20	221,356	$ 12.22

Units Expected to Vest

The following unvested units, after expected forfeitures, as of June 30, 2012, are expected to vest:

	Units	Weighted-Average Service Period in Years
Blackstone Holdings Partnership Units	61,474,866	2.9
Deferred Restricted Blackstone Common Units and Options	11,895,121	2.6
Total Equity-Based Awards	73,369,987	2.8
Phantom Units	206,333	2.9

15. RELATED PARTY TRANSACTIONS

Affiliate Receivables and Payables

As of June 30, 2012 and December 31, 2011, Due from Affiliates and Due to Affiliates comprised the following:

	June 30,	December 31,

	2012	2011
Due from Affiliates		
Accrual for Potential Clawback of Previously Distributed Carried Interest	$ 160,755	$ 167,415
Primarily Interest Bearing Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees for Investments in Blackstone Funds	150,482	223,281
Amounts Due from Portfolio Companies and Funds	278,602	234,254
Investments Redeemed in Non-Consolidated Funds of Funds	1,522	67,608
Management and Performance Fees Due from Non-Consolidated Funds of Funds	79,647	71,162
Payments Made on Behalf of Non-Consolidated Entities	120,510	87,711
Advances Made to Certain Non-Controlling Interest Holders and Blackstone Employees	8,545	9,083
	$ 800,063	$ 860,514

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	June 30, 2012	December 31, 2011
Due to Affiliates		
Due to Certain Non-Controlling Interest Holders in Connection with the Tax Receivable Agreements	$ 1,167,547	$ 1,112,330
Accrual for Potential Repayment of Previously Received Performance Fees	261,007	266,300
Due to Note-Holders of Consolidated CLO Vehicles	206,842	292,372
Distributions Received on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees	32,055	20,526
Payable to Affiliates for Consolidated Funds in Liquidation	51,760	58,793
Distributions Received on Behalf of Blackstone Entities	35,286	42,620
Payments Made by Non-Consolidated Entities	9,245	18,527
	$ 1,763,742	$ 1,811,468

Interests of the Founder, Senior Managing Directors and Employees

The founder, senior managing directors and employees invest on a discretionary basis in the Blackstone Funds both directly and through consolidated entities. Their investments may be subject to preferential management fee and performance fee arrangements. As of June 30, 2012 and December 31, 2011, the founder s, other senior managing directors and employees investments aggregated $782.3 million and $715.5 million, respectively, and the founder s, other senior managing directors and employees share of the Net Income Attributable to Redeemable Non-Controlling and Non-Controlling Interests in Consolidated Entities aggregated $9.9 million and $61.1 million for the three months ended June 30, 2012 and 2011, respectively, and $43.3 million and $131.9 million for the six months ended June 30, 2012 and 2011, respectively.

Revenues Earned from Affiliates

Management and Advisory Fees earned from affiliates totaled $56.1 million and $118.9 million for the three months ended June 30, 2012 and 2011, respectively. Management and Advisory Fees earned from affiliates totaled $104.1 million and $189.0 million for the six months ended June 30, 2012 and 2011, respectively. Fees relate primarily to transaction and monitoring fees which are made in the ordinary course of business and under terms that would have been obtained from unaffiliated third parties.

Loans to Affiliates

Loans to affiliates consist of interest-bearing advances to certain Blackstone individuals to finance their investments in certain Blackstone Funds. These loans earn interest at Blackstone s cost of borrowing and such interest totaled $1.0 million and $0.6 million for the three months ended June 30, 2012 and 2011, respectively, and $2.3 million and $1.3 million for the six months ended June 30, 2012 and 2011, respectively. No such loans to any director or executive officer of Blackstone have been made or were outstanding since March 22, 2007, the date of Blackstone s initial filing with the Securities and Exchange Commission of a registration statement relating to its initial public offering.

Contingent Repayment Guarantee

Blackstone and its personnel who have received Carried Interest distributions have guaranteed payment on a several basis (subject to a cap) to the Carry Funds of any clawback obligation with respect to the excess Carried Interest allocated to the general partners of such funds and indirectly received thereby to the extent that either

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Blackstone or its personnel fails to fulfill its clawback obligation, if any. The Accrual for Possible Repayment of Previously Received Performance Fees represents amounts previously paid to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Carry Funds were to be liquidated based on the fair value of their underlying investments as of June 30, 2012. See Note 16. Commitments and Contingencies Contingencies Contingent Obligations (Clawback) .

Aircraft and Other Services

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

Tax Receivable Agreements

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

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

Assuming no material changes in the relevant tax law and that the corporate taxpayers earn sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, the expected future payments under the tax receivable agreements (which are taxable to the recipients) will aggregate $1.2 billion over the next 15 years. The after-tax net present value of these estimated payments totals $357.9 million assuming a 15% discount rate and using Blackstone s most recent projections relating to the estimated timing of the benefit to be received. Future payments under the tax receivable agreements in respect of subsequent

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exchanges would be in addition to these amounts. The payments under the tax receivable agreements are not conditioned upon continued ownership of Blackstone equity interests by the pre-IPO owners and the others mentioned above.

Other

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

16. COMMITMENTS AND CONTINGENCIES

Commitments

Investment Commitments

Blackstone had $1.3 billion of investment commitments as of June 30, 2012 representing general partner capital funding commitments to the Blackstone Funds, limited partner capital funding to other funds and Blackstone principal investment commitments. The consolidated Blackstone Funds had signed investment commitments of $53.2 million as of June 30, 2012 which includes $30.3 million of signed investment commitments for portfolio company acquisitions in the process of closing.

Contingencies

Guarantees

Certain of Blackstone s consolidated real estate funds guarantee payments to third parties in connection with the on-going business activities and/or acquisitions of their Portfolio Companies. There is no direct recourse to the Partnership to fulfill such obligations. To the extent that underlying funds are required to fulfill guarantee obligations, the Partnership s invested capital in such funds is at risk. Total investments at risk in respect of guarantees extended by consolidated real estate funds was $4.9 million as of June 30, 2012.

On March 28, 2012, the Blackstone Holdings Partnerships entered into a guaranty agreement with a lending institution in which the Holdings Partnerships guarantee certain loans held by employees for investment in Blackstone funds. The amount guaranteed as of June 30, 2012 was $41.6 million.

Litigation

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

Contingent Obligations (Clawback)

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

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

The following table presents the clawback obligations by segment:

	June 30, 2012			December 31, 2011		
Segment	Blackstone Holdings	Current and Former Personnel	Total	Blackstone Holdings	Current and Former Personnel	Total
Private Equity	$ 69,412	$ 134,336	$ 203,748	$ 68,044	$ 128,756	$ 196,800
Real Estate	30,840	26,411	57,251	30,841	38,659	69,500
Credit Businesses		8	8			
Total	$ 100,252	$ 160,755	$ 261,007	$ 98,885	$ 167,415	$ 266,300

A portion of the Carried Interest paid to current and former Blackstone personnel is held in segregated accounts in the event of a cash clawback obligation. These segregated accounts are not included in the Condensed Consolidated Financial Statements of the Partnership, except to the extent a portion of the assets held in the segregated accounts may be allocated to a consolidated Blackstone fund of hedge funds. At June 30, 2012, $412.1 million was held in segregated accounts for the purpose of meeting any clawback obligations of current and former personnel if such payments are required.

17. SEGMENT REPORTING

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

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

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

Real Estate Blackstone s Real Estate segment primarily comprises its management of general opportunistic real estate funds and internationally focused opportunistic real estate funds. In addition, the segment has debt investment funds targeting non-controlling real estate debt-related investment opportunities in the public and private markets, primarily in the United States and Europe.

Hedge Fund Solutions Blackstone s Hedge Fund Solutions segment is comprised of Blackstone Alternative Asset Management (BAAM), an institutional solutions provider utilizing hedge funds across a variety of strategies.

Credit Businesses Blackstone s Credit Businesses segment is comprised principally of GSO and manages credit-oriented funds, CLOs, credit-focused separately managed accounts and publicly registered debt-focused investment companies.

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

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

Blackstone uses Economic Income (EI) as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its five segments. EI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges arise from Blackstone s IPO and long-term retention programs outside of annual deferred compensation and other corporate actions, including acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration associated with acquisitions. EI presents revenues and expenses on a basis that deconsolidates the investment funds Blackstone manages. Prior to June 30, 2012, EI had been called Economic Net Income. The renaming of this measure did not change any of the previously reported amounts. Economic Net Income (ENI) now represents EI adjusted to include current period taxes. Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes.

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

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The following table presents the financial data for Blackstone s five segments as of and for the three months ended June 30, 2012 and 2011:

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

Total Compensation and Benefits	46,320	114,896	31,394	55,838	61,129	309,577
Other Operating Expenses	30,521	26,560	14,506	15,749	25,702	113,038
Total Expenses	76,841	141,456	45,900	71,587	86,831	422,615
Economic Income (Loss)	$ (65,055)	$ 197,142	$ 26,077	$ 54,715	$ 8,838	$ 221,717

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	Three Months Ended June 30, 2011					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit Businesses	Financial Advisory	Total Segments
Segment Revenues						
Management and Advisory Fees, Net						
Base Management Fees	$ 82,297	$ 97,467	$ 79,290	$ 57,420	$	$ 316,474
Advisory Fees					102,243	102,243
Transaction and Other Fees, Net	52,353	49,288	861	849	210	103,561
Management Fee Offsets	(7,629)	(745)	(196)	(105)		(8,675)
Total Management and Advisory Fees, Net	127,021	146,010	79,955	58,164	102,453	513,603
Performance Fees						
Realized						
Carried Interest	1,362	11,798		29,592		42,752
Incentive Fees		9,034	667	7,762		17,463
Unrealized						
Carried Interest	187,190	433,280		(9,313)		611,157
Incentive Fees		(3,822)	3,441	2,067		1,686
Total Performance Fees	188,552	450,290	4,108	30,108		673,058
Investment Income (Loss)						
Realized	3,021	11,394	12,855	3,236	226	30,732
Unrealized	76,947	37,332	(12,864)	5,437	(15)	106,837
Total Investment Income (Loss)	79,968	48,726	(9)	8,673	211	137,569
Interest and Dividend Revenue	3,197	2,989	472	902	1,723	9,283
Other	665	515	(38)	(47)	33	1,128
Total Revenues	399,403	648,530	84,488	97,800	104,420	1,334,641
Expenses						
Compensation and Benefits						
Compensation	64,633	70,651	31,674	33,071	72,363	272,392
Performance Fee Compensation						
Realized						
Carried Interest	49	5,095		13,531		18,675
Incentive Fees		4,287	253	4,496		9,036
Unrealized						
Carried Interest	29,309	92,392		2,012		123,713
Incentive Fees		(1,371)	2,955	(7,200)		(5,616)
Total Compensation and Benefits	93,991	171,054	34,882	45,910	72,363	418,200
Other Operating Expenses	30,124	22,971	16,075	10,226	19,967	99,363
Total Expenses	124,115	194,025	50,957	56,136	92,330	517,563

Economic Income	$ 275,288	$ 454,505	$ 33,531	$ 41,664	$ 12,090	$ 817,078

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The following table reconciles the Total Segments to Blackstone s Income (Loss) Before Provision for Taxes for the three months ended June 30, 2012 and 2011:

	Three Months Ended June 30, 2012			Three Months Ended June 30, 2011		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	$ 644,332	$ (17,129)(a)	$ 627,203	$ 1,334,641	$ (26,360)(a)	$ 1,308,281
Expenses	$ 422,615	$ 317,204(b)	$ 739,819	$ 517,563	$ 467,268(b)	$ 984,831
Other Income	$	$ 248,230(c)	$ 248,230	$	$ (74,654)(c)	$ (74,654)
Economic Income	$ 221,717	$ (86,103)(d)	$ 135,614	$ 817,078	$ (568,282)(d)	$ 248,796

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

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

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011
Fund Management Fees and Performance Fees Eliminated in Consolidation	$ 15,892	$ 24,416
Fund Expenses Added in Consolidation	17,170	403
Non-Controlling Interests in Income (Loss) of Consolidated Entities	222,268	(92,548)
Transaction-Related Other Income	(7,100)	(6,925)
Total Consolidation Adjustments and Reconciling Items	$ 248,230	$ (74,654)

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011
Economic Income	$ 221,717	$ 817,078
Adjustments		
Amortization of Intangibles	(39,435)	(44,905)
IPO and Acquisition-Related Charges	(268,936)	(430,829)
Non-Controlling Interests in Income (Loss) of Consolidated Entities	222,268	(92,548)

Total Consolidation Adjustments and Reconciling Items	(86,103)	(568,282)
Income Before Provision (Benefit) for Taxes	$ 135,614	$ 248,796

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The following table presents financial data for Blackstone s five segments for the six months ended June 30, 2012 and 2011:

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

Total Compensation and Benefits	98,135	245,907	68,299	132,431	129,089	673,861
Other Operating Expenses	59,402	55,484	28,440	32,845	46,388	222,559
Total Expenses	157,537	301,391	96,739	165,276	175,477	896,420
Economic Income	$ 24,922	$ 464,391	$ 92,434	$ 141,877	$ (1,639)	$ 721,985
Segment Assets as of June 30, 2012	$ 3,736,660	$ 4,495,602	$ 794,310	$ 1,881,416	$ 575,373	$ 11,483,361

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

	Six Months Ended June 30, 2011					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit Businesses	Financial Advisory	Total Segments
Segment Revenues						
Management and Advisory Fees, Net						
Base Management Fees	$ 162,232	$ 192,906	$ 154,902	$ 112,021	$	$ 622,061
Advisory Fees					172,495	172,495
Transaction and Other Fees, Net	87,695	70,831	1,588	1,594	216	161,924
Management Fee Offsets	(15,518)	(1,250)	(320)	(123)		(17,211)
Total Management and Advisory Fees	234,409	262,487	156,170	113,492	172,711	939,269
Performance Fees						
Realized						
Carried Interest	83,751	14,169		38,233		136,153
Incentive Fees		9,256	1,560	8,846		19,662
Unrealized						
Carried Interest	219,727	794,726		28,852		1,043,305
Incentive Fees		2,836	22,694	49,205		74,735
Total Performance Fees	303,478	820,987	24,254	125,136		1,273,855
Investment Income						
Realized	20,928	14,313	14,196	4,471	323	54,231
Unrealized	106,073	98,738	(5,744)	9,969	378	209,414
Total Investment Income	127,001	113,051	8,452	14,440	701	263,645
Interest and Dividend Revenue	6,702	6,277	988	1,355	3,409	18,731
Other	1,476	1,375	66	51	419	3,387
Total Revenues	673,066	1,204,177	189,930	254,474	177,240	2,498,887
Expenses						
Compensation and Benefits						
Compensation	119,557	128,278	59,767	62,620	126,702	496,924
Performance Fee Compensation						
Realized						
Carried Interest	7,767	6,221		18,256		32,244
Incentive Fees		4,391	553	5,066		10,010
Unrealized						
Carried Interest	34,773	193,350		21,545		249,668
Incentive Fees		4,172	8,313	18,469		30,954
Total Compensation and Benefits	162,097	336,412	68,633	125,956	126,702	819,800
Other Operating Expenses	58,837	51,337	29,083	25,583	37,498	202,338
Total Expenses	220,934	387,749	97,716	151,539	164,200	1,022,138

Economic Income	$ 452,132	$ 816,428	$ 92,214	$ 102,935	$ 13,040	$ 1,476,749

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The following table reconciles the Total Segments to Blackstone s Income (Loss) Before Provision for Taxes and Total Assets as of and for the six months ended June 30, 2012 and 2011:

	June 30, 2012 and the Six Months Then Ended			Six Months Ended June 30, 2011		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	$ 1,618,405	$ (39,166)(a)	$ 1,579,239	$ 2,498,887	$ (37,337)(a)	$ 2,461,550
Expenses	$ 896,420	$ 627,192(b)	$ 1,523,612	$ 1,022,138	$ 953,557(b)	$ 1,975,695
Other Income	$	$ 536,372(c)	$ 536,372	$	$ (119,845)(c)	$ (119,845)
Economic Income	$ 721,985	$ (129,986)(d)	$ 591,999	$ 1,476,749	$ (1,110,739)(d)	$ 366,010
Total Assets	$ 11,483,361	$ 14,659,209(e)	$ 26,142,570			

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

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

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

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Fund Management Fees and Performance Fees Eliminated in Consolidation	$ 36,490	$ 33,519
Fund Expenses Added in Consolidation	39,877	12,616
Non-Controlling Interests in Income (Loss) of Consolidated Entities	474,170	(163,604)
Transactional Other Income	(14,165)	(2,376)
Total Consolidation Adjustments and Reconciling Items	$ 536,372	$ (119,845)

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

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Economic Income	$ 721,985	$ 1,476,749
Adjustments		
Amortization of Intangibles	(90,323)	(89,079)

IPO and Acquisition-Related Charges	(513,833)	(858,056)
Non-Controlling Interests in Income (Loss) of Consolidated Entities	474,170	(163,604)
Total Consolidation Adjustments and Reconciling Items	(129,986)	(1,110,739)
Income (Loss) Before Provision for Taxes	$ 591,999	$ 366,010

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

18. SUBSEQUENT EVENTS

On July 13, 2012, an indirect subsidiary of Blackstone amended its revolving credit facility. The amendment is described in Note 11. Borrowings.

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

Unaudited Consolidating Statements of Financial Condition

(Dollars in Thousands)

	June 30, 2012			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
Assets				
Cash and Cash Equivalents	$ 412,545	$	$	$ 412,545
Cash Held by Blackstone Funds and Other	48,699	809,908		858,607
Investments	5,740,450	14,033,943	(422,935)	19,351,458
Accounts Receivable	489,664	96,752		586,416
Reverse Repurchase Agreements	88,524			88,524
Due from Affiliates	790,211	41,211	(31,359)	800,063
Intangible Assets, Net	652,874			652,874
Goodwill	1,703,602			1,703,602
Other Assets	326,957	136,089	(4,400)	458,646
Deferred Tax Assets	1,229,835			1,229,835
Total Assets	$ 11,483,361	$ 15,117,903	$ (458,694)	$ 26,142,570
Liabilities and Partners Capital				
Loans Payable	$ 1,065,281	$ 11,045,251	$	$ 12,110,532
Due to Affiliates	1,489,401	328,808	(54,467)	1,763,742
Accrued Compensation and Benefits	977,003			977,003
Securities Sold, Not Yet Purchased	88,153			88,153
Repurchase Agreements	115,987			115,987
Accounts Payable, Accrued Expenses and Other Liabilities	332,152	495,661	(4,400)	823,413
Total Liabilities	4,067,977	11,869,720	(58,867)	15,878,830
Redeemable Non-Controlling Interests in Consolidated Entities		1,258,295		1,258,295
Partners Capital				
Partners Capital	4,413,322	400,958	(400,958)	4,413,322
Appropriated Partners Capital		966,931		966,931
Accumulated Other Comprehensive Income	1,452	480		1,932
Non-Controlling Interests in Consolidated Entities	520,640	621,519	1,131	1,143,290
Non-Controlling Interests in Blackstone Holdings	2,479,970			2,479,970
Total Partners Capital	7,415,384	1,989,888	(399,827)	9,005,445
Total Liabilities and Partners Capital	$ 11,483,361	$ 15,117,903	$ (458,694)	$ 26,142,570

Included within the assets and liabilities of the Consolidated Operating Partnerships is $1.8 billion representing net accrued performance fees due from the Blackstone Funds. Additional detail on this amount is presented in Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Consolidated Results of Operations *Net Accrued Performance Fees* of this filing.

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THE BLACKSTONE GROUP L.P.

Unaudited Consolidating Statements of Financial Condition-(Continued)

(Dollars in Thousands)

	December 31, 2011			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
Assets				
Cash and Cash Equivalents	$ 754,744	$	$	$ 754,744
Cash Held by Blackstone Funds and Other	46,282	678,480		724,762
Investments	5,289,125	10,282,084	(442,910)	15,128,299
Accounts Receivable	347,241	58,899		406,140
Reverse Repurchase Agreements	139,485			139,485
Due from Affiliates	784,095	107,042	(30,623)	860,514
Intangible Assets, Net	595,488			595,488
Goodwill	1,703,602			1,703,602
Other Assets	325,269	12,127		337,396
Deferred Tax Assets	1,258,699			1,258,699
Total Assets	$ 11,244,030	$ 11,138,632	$ (473,533)	$ 21,909,129
Liabilities and Partners Capital				
Loans Payable	$ 1,066,432	$ 7,801,136	$	$ 8,867,568
Due to Affiliates	1,425,558	437,520	(51,610)	1,811,468
Accrued Compensation and Benefits	903,260			903,260
Securities Sold, Not Yet Purchased	143,825			143,825
Repurchase Agreements	101,849			101,849
Accounts Payable, Accrued Expenses and Other Liabilities	414,080	414,866	(73)	828,873
Total Liabilities	4,055,004	8,653,522	(51,683)	12,656,843
Redeemable Non-Controlling Interests in Consolidated Entities		1,091,833		1,091,833
Partners Capital				
Partners Capital	4,281,841	421,898	(421,898)	4,281,841
Appropriated Partners Capital		386,864		386,864
Accumulated Other Comprehensive Income	1,272	686		1,958
Non-Controlling Interests in Consolidated Entities	445,393	583,829	48	1,029,270
Non-Controlling Interests in Blackstone Holdings	2,460,520			2,460,520
Total Partners Capital	7,189,026	1,393,277	(421,850)	8,160,453
Total Liabilities and Partners Capital	$ 11,244,030	$ 11,138,632	$ (473,533)	$ 21,909,129

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

Blackstone Market Opportunities Fund L.P.

Blackstone Strategic Alliance Fund L.P.

Blackstone Strategic Alliance Fund II L.P.

Blackstone Strategic Equity Fund L.P.

Blackstone Value Recovery Fund L.P.

Blackstone/GSO Secured Trust Ltd

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BTD CP Holdings, LP

GSO Legacy Associates II LLC

GSO Legacy Associates LLC

Shanghai Blackstone Equity Investment Partnership L.P.

Private equity side-by-side investment vehicles

Real estate side-by-side investment vehicles

Mezzanine side-by-side investment vehicles

Collateralized loan obligation vehicles

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

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

Our Business

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

Our business is organized into five business segments:

Private Equity. We are a world leader in private equity investing, having managed six general private equity funds, as well as two sector focused funds and a regionally focused fund, since we established this business in 1987. We refer to these funds collectively as our Blackstone Capital Partners (BCP) funds. We also manage certain multi-asset class investment funds. Through our private equity funds we pursue transactions throughout the world, including leveraged buyout acquisitions of seasoned companies, transactions involving growth equity or start-up businesses in established industries, minority investments, corporate partnerships, distressed debt, structured securities and industry consolidations, in all cases in strictly friendly transactions.

Real Estate. We are a world leader in real estate investing since launching our first real estate fund in 1994. We have managed or continue to manage seven global opportunistic real estate funds, three European focused opportunistic real estate funds, a number of real estate debt investment funds and a Bank of America Merrill Lynch Asia real estate platform. Our real estate opportunity funds are diversified geographically and have made significant investments in lodging, major urban office buildings, shopping centers and a variety of real estate operating companies. Our debt investment funds target high yield real estate debt related investment opportunities in the public and private markets, primarily in the United States and Europe. We refer to our real estate opportunistic funds as our Blackstone Real Estate Partners (BREP) funds and our real estate debt investment funds as our BREDS funds.

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

Credit Businesses. Our Credit Businesses segment is comprised principally of GSO Capital Partners LP (GSO). GSO manages a variety of credit-oriented funds including senior credit-oriented funds, distressed debt funds, mezzanine funds, general credit-oriented funds and collateralized loan obligation (CLO) vehicles. GSO is a world leader in credit-oriented products.

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

We generate revenue from fees earned pursuant to contractual arrangements with funds, fund investors and fund portfolio companies (including management, transaction and monitoring fees), and from financial advisory services, restructuring and reorganization advisory services and fund placement services for alternative investment funds. We invest in the funds we manage and, in most cases, receive a preferred allocation of income

(i.e., a carried interest) or an incentive fee from an investment fund in the event that specified cumulative investment returns are achieved. The composition of our revenues will vary based on market conditions and the cyclicality of the different businesses in which we operate. Net investment gains and investment income generated by the Blackstone Funds, principally private equity and real estate funds, are driven by value created by our operating and strategic initiatives as well as overall market conditions. Our funds initially record fund investments at cost and then such investments are subsequently recorded at fair value. Fair values are affected by changes in the fundamentals of the portfolio company, the portfolio company s industry, the overall economy and other market conditions.

Business Environment

Following a generally positive first quarter for global markets, equity indices declined and volatility increased, driven by increased caution around economic growth and the European sovereign debt situation. The MSCI World index declined 6% and the S&P 500 was down 3%. Credit indices were more mixed, with high grade prices up, and high yield flat-to-down. High yield spreads widened modestly by 40 basis points during the quarter. The Euro weakened against virtually all major currencies. Capital markets activity was mixed, although capital flows into equity mutual funds remain highly challenged, with fourteen straight months of outflows from domestic funds. M&A activity also declined.

Monetary policy remained accommodative throughout much of the world, and several central banks further eased policy late in the quarter as output slowed. In the U.S., unemployment remains persistently high despite record low interest rate levels. Investors are becoming increasingly concerned about policy risks in the second half of the year, and the upcoming U.S. fiscal cliff.

Despite intensified concerns around Europe starting in the month of May, financing conditions for U.S. leveraged buyouts remained generally favorable, particularly for moderately sized deals by seasoned issuers. Defaults remain at historic lows while spreads continue to be above mid-cycle norms, creating an attractive cost of financing for LBO-related issuance.

During the quarter, commercial real estate performance metrics remained healthy. The office sector continues to see improvements in leasing velocity, led primarily by demand from tech and energy tenants. National vacancy levels have declined 30 basis points to 15.7%, falling below 16% for the first time since 2009. The retail sector continues to benefit from favorable trends in tenant sales, combined with severely constrained new supply (particularly for regional malls). Overall vacancy for the retail sector fell to 13.0% during the second quarter. The industrial sector reported an eighth consecutive quarter of positive absorption, and availability currently stands at 13.2%. Trends within the U.S. hotel market continue to improve with RevPAR (Revenue per Available Room) growing 7.9% during the second quarter of 2012.

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

Key Financial Measures and Indicators

Our key financial measures and indicators are discussed below.

Revenues

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other. Please refer to Part I. Item 1. Business Incentive Arrangements / Fee Structure and Part I. Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Revenue Recognition in our 2011 Annual Report on Form 10-K for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

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

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

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

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

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

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

Performance Fees Performance Fees earned on the performance of Blackstone s hedge fund structures (Incentive Fees) are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund s governing agreements. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone s offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Condensed Consolidated Statements of Financial Condition. Incentive fees arising on Blackstone s onshore hedge funds are allocated to the general partner. Accrued but unpaid Incentive Fees on onshore funds as of the reporting date are reflected in Investments in the Condensed Consolidated Statements of Financial Condition. Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback.

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

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

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

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

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

Other Revenue Other Revenue consists of foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars and other revenues.

Expenses

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

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

Compensation and Benefits Performance Fee Performance Fee Compensation and Benefits consists of Carried Interest and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone s firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis.

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

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

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Non-Controlling Interests in Consolidated Entities

Non-Controlling Interests in Consolidated Entities represent the component of Partners Capital in consolidated Blackstone Funds and side-by-side entities held by third party investors and employees. The percentage interests held by third parties and employees is adjusted for general partner allocations and by subscriptions and redemptions in funds of hedge funds and certain credit-oriented funds which occur during the reporting period. In addition, all non-controlling interests in consolidated Blackstone Funds are attributed a share of income (loss) arising from the respective funds and a share of other comprehensive income, if applicable. Income (Loss) is allocated to non-controlling interests in consolidated entities based on the relative ownership interests of third party investors and employees after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group. Non-controlling interests related to funds of hedge funds and certain other credit-oriented funds are subject to annual, semi-annual or quarterly redemption by investors in these funds following the expiration of a specified period of time (typically between one and three years), or may be withdrawn subject to a redemption fee in the funds of hedge funds and certain credit-oriented funds during the period when capital may not be withdrawn. As limited partners in these types of funds have been granted redemption rights, amounts relating to third party interests in such consolidated funds are presented as Redeemable Non-Controlling Interests in Consolidated Entities within the Condensed Consolidated Statements of Financial Condition. When redeemable amounts become legally payable to investors, they are classified as a liability and included in Accounts Payable, Accrued Expenses and Other Liabilities in the Condensed Consolidated Statements of Financial Condition. For all consolidated funds in which redemption rights have not been granted, non-controlling interests are presented within Partners Capital in the Condensed Consolidated Statements of Financial Condition as Non-Controlling Interests in Consolidated Entities.

Non-Controlling Interests in Blackstone Holdings

Non-Controlling Interests in Blackstone Holdings represent the component of Partners Capital in the consolidated Blackstone Holdings Partnerships held by the Founder, other senior managing directors and Blackstone employees.

Certain costs and expenses are borne directly by the Holdings Partnerships. Income (Loss), excluding those costs directly borne by and attributable to the Holdings Partnerships, is attributable to Non-Controlling Interests in Blackstone Holdings. This residual attribution is based on the year to date average percentage of Holdings Partnership units held by the Founder, other senior managing directors and Blackstone employees.

Income Taxes

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

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

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

There remains some uncertainty regarding Blackstone s future taxation levels. Over the past several years, a number of legislative and administrative proposals to change the taxation of Carried Interest have been introduced and, in certain cases, have been passed by the U.S. House of Representatives. On May 28, 2010, the U.S. House of Representatives passed legislation, or May 2010 House bill , that would have, in general, treated income and gains, including gain on sale, attributable to an investment services partnership interest, or ISPI , as income subject to a new blended tax rate that is higher than the capital gains rate applicable to such income under current law, except to the extent such ISPI would have been considered under the legislation to be a qualified capital interest. Our common units and the interests that we hold in entities that are entitled to receive Carried Interest would likely have been classified as ISPIs for purposes of this legislation. In June 2010, the U.S. Senate considered but did not pass legislation that was generally similar to the legislation passed by the U.S. House of Representatives. More recently, Representative Levin and Senator Harkin (and other representatives) separately introduced similar legislation, or 2012 bills , that would tax Carried Interest at ordinary income tax rates (which would be higher than the proposed blended rate under the May 2010 House bill). It is unclear whether or when the U.S. Congress will pass such legislation or what provisions will be included in any final legislation if enacted.

Each of the May 2010 House bill and the 2012 bills also provided that, for taxable years beginning ten years after the date of enactment, income derived with respect to an ISPI that is not a qualified capital interest and that is subject to the foregoing rules would not meet the qualifying income requirements under the publicly traded partnership rules. Therefore, if similar legislation were to be enacted, following such ten-year period, we would be precluded from qualifying as a partnership for U.S. federal income tax purposes or be required to hold all such ISPIs through corporations.

On September 12, 2011, the Obama administration submitted similar legislation to Congress in the American Jobs Act that would tax income and gain, including gain on sale, attributable to an ISPI at ordinary rates, with an exception for certain qualified capital interests. The proposed legislation would also characterize certain income and gain in respect of ISPIs as non-qualifying income under the tax rules applicable to publicly traded partnerships after a ten-year transition period from the effective date, with an exception for certain qualified capital interests. This proposed legislation follows several prior statements by the Obama administration in support of changing the taxation of Carried Interest. In its published revenue proposal for 2013, the Obama administration proposed that the current law regarding the treatment of Carried Interest be changed to subject such income to ordinary income tax. The Obama administration proposed similar changes in its published revenue proposals for 2010, 2011 and 2012.

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

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

federal income tax purposes under the publicly traded partnership rules or force us to hold interests in entities earning income from Carried Interest through taxable subsidiary corporations, this could materially increase our tax liability, and could well result in a reduction in the market price of our common units.

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

On February 22, 2012, the Obama administration announced its framework of key elements to change the U.S. federal income tax rules for businesses. Few specifics were included, and it is unclear what any actual legislation would provide, when it would be proposed or what its prospects for enactment would be. Several parts of the framework, if enacted, could adversely affect us. First, the framework would reduce the deductibility of interest for corporations in some manner not specified. A reduction in interest deductions could increase our tax rate and thereby reduce cash available for distribution to investors or for other uses by us. Such a reduction could also increase the effective cost of financing by companies in which we invest, which could reduce the value of our Carried Interest in respect of such companies. The framework would also reduce the top marginal tax rate on corporations from 35% to 28%. Such a change could increase the effective cost of financing such investments, which could again reduce the value of our Carried Interest. The framework suggests some entities currently treated as partnerships for tax purposes should be subject to an entity-level income tax similar to the corporate income tax. If such a proposal caused us to be subject to additional entity-level taxes, it could reduce cash available for distribution to investors or for other uses by us. Finally, the framework reiterates the President s support for treatment of Carried Interest as ordinary income, as provided in the President s revenue proposal for 2013 described above. Because the framework did not include specifics, its effect on us is unclear.

Economic Income

Blackstone uses Economic Income (EI) as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its five segments. EI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges arise from Blackstone s initial public offering (IPO) and long-term retention programs outside of annual deferred compensation and other corporate actions, including acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration associated with acquisitions. EI presents revenues and expenses on a basis that deconsolidates the investment funds we manage. Prior to June 30, 2012, EI had been called Economic Net Income. The renaming of this measure did not change any of the previously reported amounts. Economic Net Income (ENI) now represents EI adjusted to include current period taxes. Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes.

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Distributable Earnings

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

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

Fee Related Earnings

Blackstone uses Fee Related Earnings (FRE) as a measure to highlight earnings from operations excluding: (a) the income related to performance fees and related performance fee compensation costs, (b) income earned from Blackstone s investments in the Blackstone Funds, and (c) realized and unrealized gains (losses) from other investments except for such gains (losses) from Blackstone s Treasury cash management strategies. Management uses FRE as a measure to assess whether recurring revenue from our businesses is sufficient to adequately cover all of our operating expenses and generate profits. FRE equals contractual fee revenues, investment income from Blackstone s Treasury cash management strategies and interest income, less (a) compensation expenses (which includes amortization of non-IPO and non-acquisition-related equity-based awards, but excludes amortization of IPO and acquisition-related equity-based awards, Carried Interest and incentive fee compensation) and (b) other operating expenses. See Liquidity and Capital Resources Liquidity and Capital Resources below for our discussion of Fee Related Earnings.

Operating Metrics

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

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

(a) the fair value of the investments held by our carry funds and our side-by-side investments, plus the capital that we are entitled to call from investors in those funds and side-by-side investments pursuant to the terms of their respective capital commitments, plus the fair value of co-investments managed by us,

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

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

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

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

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

(a) for our Private Equity segment funds and carry funds in our Real Estate segment, which include certain real estate debt investment funds, the amount of capital commitments, remaining invested capital or par value of assets held, depending on the fee terms of the fund,

(b) for our credit-oriented carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,

(c) the remaining invested capital of co-investments managed by us on which we receive fees,

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

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

(f) the gross amount of underlying assets of our CLOs at cost, and

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

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

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

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

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

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Consolidated Results of Operations

Following is a discussion of our consolidated results of operations for the three and six months ended June 30, 2012 and 2011. For a more detailed discussion of the factors that affected the results of our five business segments (which are presented on a basis that deconsolidates the investment funds we manage) in these periods, see Segment Analysis below.

The following table sets forth information regarding our consolidated results of operations and certain key operating metrics for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	2012 vs. 2011 $	2012 vs. 2011 %	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	2012 vs. 2011 $	2012 vs. 2011 %
	(Dollars in Thousands)							
Revenues								
Management and Advisory Fees, Net	$ 488,048	$ 498,040	$ (9,992)	-2%	$ 959,724	$ 910,778	$ 48,946	5%
Performance Fees								
Realized								
Carried Interest	55,929	42,750	13,179	31%	69,489	136,153	(66,664)	-49%
Incentive Fees	11,631	19,013	(7,382)	-39%	16,910	21,813	(4,903)	-22%
Unrealized								
Carried Interest	84,290	611,158	(526,868)	-86%	383,086	1,043,305	(660,219)	-63%
Incentive Fees	(16,436)	(670)	(15,766)	N/M	50,699	79,584	(28,885)	-36%
Total Performance Fees	135,414	672,251	(536,837)	-80%	520,184	1,280,855	(760,671)	-59%
Investment Income (Loss)								
Realized	5,758	19,303	(13,545)	-70%	22,093	32,086	(9,993)	-31%
Unrealized	(10,519)	108,711	(119,230)	N/M	62,307	216,106	(153,799)	-71%
Total Investment Income (Loss)	(4,761)	128,014	(132,775)	N/M	84,400	248,192	(163,792)	-66%
Interest and Dividend Revenue	9,267	8,848	419	5%	16,903	18,338	(1,435)	-8%
Other	(765)	1,128	(1,893)	N/M	(1,972)	3,387	(5,359)	N/M
Total Revenues	627,203	1,308,281	(681,078)	-52%	1,579,239	2,461,550	(882,311)	-36%
Expenses								
Compensation and Benefits								
Compensation	533,367	699,432	(166,065)	-24%	1,028,622	1,358,915	(330,293)	-24%
Performance Fee Compensation								
Realized								
Carried Interest	7,898	18,676	(10,778)	-58%	15,836	32,243	(16,407)	-51%
Incentive Fees	5,576	9,036	(3,460)	-38%	9,828	10,012	(184)	-2%
Unrealized								
Carried Interest	36,815	123,714	(86,899)	-70%	121,359	249,670	(128,311)	-51%
Incentive Fees	(9,595)	(5,616)	(3,979)	-71%	3,183	30,953	(27,770)	-90%
Total Compensation and Benefits	574,061	845,242	(271,181)	-32%	1,178,828	1,681,793	(502,965)	-30%
General, Administrative and Other	135,737	126,118	9,619	8%	278,503	255,504	22,999	9%
Interest Expense	13,773	14,185	(412)	-3%	28,291	27,988	303	1%
Fund Expenses	16,248	(714)	16,962	N/M	37,990	10,410	27,580	N/M
Total Expenses	739,819	984,831	(245,012)	-25%	1,523,612	1,975,695	(452,083)	-23%
Other Income (Loss)								
	248,230	(74,654)	322,884	N/M	536,372	(119,845)	656,217	N/M

Net Gains (Losses) from Fund Investment Activities								
Income Before Provision for Taxes	135,614	248,796	(113,182)	-45%	591,999	366,010	225,989	62%
Provision for Taxes	41,337	64,199	(22,862)	-36%	80,090	103,049	(22,959)	-22%
Net Income	94,277	184,597	(90,320)	-49%	511,909	262,961	248,948	95%
Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	(17,666)	205	(17,871)	N/M	36,594	22,942	13,652	60%
Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities	239,934	(92,753)	332,687	N/M	437,576	(186,546)	624,122	N/M
Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings	(53,027)	190,908	(243,935)	N/M	54,378	297,624	(243,246)	-82%
Net Income (Loss) Attributable to The Blackstone Group L.P.	$ (74,964)	$ 86,237	$ (161,201)	N/M	$ (16,639)	$ 128,941	$ (145,580)	N/M

N/M Not meaningful.

Revenues

Total Revenues were $627.2 million for the three months ended June 30, 2012, a decrease of $681.1 million compared to Total Revenues for the three months ended June 30, 2011 of $1.3 billion. This decrease in revenues was primarily driven by a decrease of $536.8 million in Performance Fees and a decrease of $132.8 million in Investment Income (Loss). These decreases were largely driven by the volatility in the public markets as a result of global economic uncertainty.

Total Revenues were $1.6 billion for the six months ended June 30, 2012, a decrease of $882.3 million compared to Total Revenues for the six months ended June 30, 2011 of $2.5 billion. The decrease in revenues was primarily attributable to a decrease of $760.7 million in Performance Fees and a $163.8 million decrease in Investment Income (Loss), partially offset by a $48.9 million increase in Management and Advisory Fees. The decreases were largely driven by the volatility in the public markets as a result of global economic uncertainty.

Expenses

Expenses were $739.8 million for the three months ended June 30, 2012, a decrease of $245.0 million, or 25%, compared to $984.8 million for the three months ended June 30, 2011. The decrease was primarily attributable to a decrease of $271.2 million in Compensation and Benefits. Performance Fee Compensation decreased $105.1 million from the prior year period due to the reversals of Performance Fee accruals related to the decline in Performance Fees. Compensation decreased $166.1 million from the prior year period to $533.4 million primarily due to a decline in equity compensation resulting from the vesting of certain IPO awards in 2011. General, Administrative and Other expenses were $135.7 million for the current quarter, an increase of $9.6 million, driven primarily by the levels of business activity and headcount.

Expenses were $1.5 billion for the six months ended June 30, 2012, a decrease of $452.1 million, or 23%, compared to $2.0 billion for the six months ended June 30, 2011. The decrease was primarily attributable to a decrease of $503.0 million in Compensation and Benefits across the segments. Compensation decreased $330.3 million from the prior year period to $1.0 billion principally due to the absence of equity-based compensation expense discussed above. General, Administrative and Other expenses were $278.5 million for the current year period, an increase of $23.0 million driven by the same factors as for the quarterly period noted above.

Other Income

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

Other Income (Loss) was $248.2 million for the three months ended June 30, 2012, an increase of $322.9 million compared to $(74.7) million for the three months ended June 30, 2011. The change was principally driven by increases in unrealized gains relating to the consolidated CLO vehicles. This increase was due to a greater demand in the market from the first quarter of 2011 for the underlying investments held by the consolidated CLO vehicles which raised asset values as well as the consolidation of the CLO vehicles from the Harbourmaster and Allied Irish Banks acquisitions.

Other Income (Loss) was $536.4 million for the six months ended June 30, 2012, an increase of $656.2 million compared to $(119.8) million for the six months ended June 30, 2011. The change was principally driven by the same factors discussed above for the three month period.

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Provision for Taxes

Blackstone s Provision for Taxes for the three months ended June 30, 2012 and 2011 was $41.3 million and $64.2 million, respectively. This results in an effective tax rate of 30.5% and 25.8%, respectively, based on our Income Before Provision for Taxes of $135.6 million and $248.8 million, respectively. The 4.7% increase in the effective tax rate resulted mainly due to the impact of the portion of equity-based compensation that is not deductible for tax purposes and the foreign tax provision.

Blackstone s Provision for Taxes for the six months ended June 30, 2012 and 2011 was $80.1 million and $103.0 million, respectively. This results in an effective tax rate of 13.5% and 28.2%, respectively, based on our Income Before Provision for Taxes of $592.0 million and $366.0 million, respectively.

Two principal factors contributed to the 14.7% decrease in the effective tax rate for the six months ended June 30, 2012 compared to the six months ended June 30, 2011. First, the GAAP equity-based compensation expense exceeds the tax deductible equity-based compensation expense. The tax expense attributable to equity-based compensation was $37.5 million for the six months ended June 30, 2012 compared to $57.8 million for the six months ended June 30, 2011. This decrease reduced our effective tax rate by 9.5% for the six months ended June 30, 2012 compared to the corresponding prior year period. Second, state and local taxes, net of federal benefit where applicable, were $19.8 million for the six months ended June 30, 2012 compared to $33.9 million for the six months ended June 30, 2011. This decrease in state and local taxes reduced our effective tax rate by 5.9% for the six months ended June 30, 2012 compared to the corresponding prior year period. The reduction was due to less income subject to New York State and New York City taxes in the six months ended June 30, 2012 compared to the six months ended June 30, 2011.

Non-Controlling Interests in Consolidated Entities

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

Net income (Loss) Attributed to Non-Controlling Interests in Blackstone Holdings is derived from the Income (Loss) before Provision (Benefits) for Taxes, excluding the Net Gains (Losses) from Fund Investment Activities and the percentage allocation of the income between Blackstone Holdings and the Blackstone Group L.P.

For the quarter ended June 30, 2012, the Net Loss Attributed to the Non-Controlling Interests in Blackstone Holdings was primarily driven by the reduction in revenues resulting from the variance in Performance Fees.

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Operating Metrics

The following tables present certain operating metrics for the three and six months ended June 30, 2012 and 2011. For a description of how Assets Under Management and Fee-Earning Assets Under Management are determined, please see Key Financial Measures and Indicators Operating Metrics Assets Under Management and Fee-Earning Assets Under Management :

	Three Months Ended									
	June 30, 2012					June 30, 2011				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit Businesses	Total	Private Equity	Real Estate	Hedge Fund Solutions	Credit Businesses	Total
	(Dollars in Thousands)									
e-Earning ssets Under anagement										
lance, ginning of riod	$ 37,323,635	$ 36,647,462	$ 40,543,772	$ 41,746,577	$ 156,261,446	$ 35,892,804	$ 26,454,012	$ 35,847,002	$ 25,838,878	$ 124,032,696
flows, cluding ommitments	298,933	2,499,061	1,218,854	1,760,420	5,777,268	24,867	1,477,485	2,201,583	3,468,704	7,172,639
utflows, cluding stributions		(61,337)	(774,950)	(825,462)	(1,661,749)	(65,161)	(72,376)	(585,403)	(839,624)	(1,562,564
alizations	(455,862)	(447,054)		(133,487)	(1,036,403)	(98,616)	(78,799)		(481,040)	(658,455
t Inflows utflows)	(156,929)	1,990,670	443,904	801,471	3,079,116	(138,910)	1,326,310	1,616,180	2,148,040	4,951,620
arket ppreciation epreciation)	(7,254)	(162,009)	(826,497)	(698,281)	(1,694,041)	24,346	138,678	(218,673)	72,539	16,890
lance, End Period (e)	$ 37,159,452	$ 38,476,123	$ 40,161,179	$ 41,849,767	$ 157,646,521	$ 35,778,240	$ 27,919,000	$ 37,244,509	$ 28,059,457	$ 129,001,206
crease ecrease)	$ (164,183)	$ 1,828,661	$ (382,593)	$ 103,190	$ 1,385,075	$ (114,564)	$ 1,464,988	$ 1,397,507	$ 2,220,579	$ 4,968,510
crease ecrease)	0%	5%	-1%	0%	1%	0%	6%	4%	9%	4

	Six Months Ended									
	June 30, 2012					June 30, 2011				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit Businesses	Total	Private Equity	Real Estate	Hedge Fund Solutions	Credit Businesses	Total
	(Dollars in Thousands)									
e-Earning ssets Under anagement										
lance, ginning of riod	$ 37,237,791	$ 31,236,540	$ 37,819,636	$ 30,462,786	$ 136,756,753	$ 24,188,555	$ 26,814,714	$ 33,159,795	$ 25,337,158	$ 109,500,222
flows, cluding ommitments	798,480	8,391,945	2,664,813	13,477,969	25,333,207	14,289,311	1,765,481	4,654,003	4,502,501	25,211,296

utflows, cluding stributions		(67,482)	(1,126,168)	(1,329,829)	(2,523,479)	(2,173,599)	(199,962)	(973,429)	(1,544,048)	(4,891,038)
alizations	(876,475)	(1,057,641)		(732,150)	(2,666,266)	(555,155)	(878,191)		(713,332)	(2,146,678)
t Inflows utflows)	(77,995)	7,266,822	1,538,645	11,415,990	20,143,462	11,560,557	687,328	3,680,574	2,245,121	18,173,580
arket ppreciation epreciation)	(344)	(27,239)	802,898	(29,009)	746,306	29,128	416,958	404,140	477,178	1,327,404
lance, End Period (e)	$ 37,159,452	$ 38,476,123	$ 40,161,179	$ 41,849,767	$ 157,646,521	$ 35,778,240	$ 27,919,000	$ 37,244,509	$ 28,059,457	$ 129,001,206
crease ecrease)	$ (78,339)	$ 7,239,583	$ 2,341,543	$ 11,386,981	$ 20,889,768	$ 11,589,685	$ 1,104,286	$ 4,084,714	$ 2,722,299	$ 19,500,984
crease ecrease)	0%	23%	6%	37%	15%	48%	4%	12%	11%	18

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	Three Months Ended									
	June 30, 2012					June 30, 2011				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit Businesses	Total	Private Equity	Real Estate	Hedge Fund Solutions	Credit Businesses	Total
	(Dollars in Thousands)									
sets Under anagement										
lance, ginning of riod	$ 47,624,013	$ 48,322,760	$ 43,351,275	$ 50,776,119	$ 190,074,167	$ 43,955,392	$ 34,990,590	$ 39,542,086	$ 31,475,397	$ 149,963,465
flows, cluding ommitments)	859,801	1,946,272	1,230,645	1,620,906	5,657,624	240,871	1,523,362	1,919,856	3,686,847	7,370,936
tflows, cluding stributions)	(1,660)	(69,354)	(823,325)	(1,169,518)	(2,063,857)	(55,703)	(73,024)	(695,179)	(746,773)	(1,570,679)
alizations)	(403,199)	(860,679)		(187,884)	(1,451,762)	(91,605)	(526,701)		(812,214)	(1,430,520)
t Inflows	454,942	1,016,239	407,320	263,504	2,142,005	93,563	923,637	1,224,677	2,127,860	4,369,737
arket preciation epreciation))	(1,445,403)	886,951	(869,649)	(520,240)	(1,948,341)	2,679,346	1,691,333	(188,544)	187,836	4,369,971
lance, End Period (e)	$ 46,633,552	$ 50,225,950	$ 42,888,946	$ 50,519,383	$ 190,267,831	$ 46,728,301	$ 37,605,560	$ 40,578,219	$ 33,791,093	$ 158,703,173
crease ecrease)	$ (990,461)	$ 1,903,190	$ (462,329)	$ (256,736)	$ 193,664	$ 2,772,909	$ 2,614,970	$ 1,036,133	$ 2,315,696	$ 8,739,708
crease ecrease)	-2%	4%	-1%	-1%	0%	6%	7%	3%	7%	6

	Six Months Ended									
	June 30, 2012					June 30, 2011				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit Businesses	Total	Private Equity	Real Estate	Hedge Fund Solutions	Credit Businesses	Total
	(Dollars in Thousands)									
sets Under anagement										
lance, ginning of riod	$ 45,863,673	$ 42,852,669	$ 40,534,768	$ 36,977,394	$ 166,228,504	$ 29,319,136	$ 33,165,124	$ 34,587,292	$ 31,052,368	$ 128,123,920
flows, cluding ommitments)	1,937,934	6,691,244	2,696,590	15,816,166	27,141,934	15,101,669	2,332,893	6,641,032	4,501,066	28,576,660
tflows, cluding stributions)	(2,736)	(85,756)	(1,200,411)	(1,871,043)	(3,159,946)	(64,682)	(249,487)	(1,103,213)	(1,533,205)	(2,950,587)
alizations)	(1,217,408)	(1,461,224)		(791,094)	(3,469,726)	(1,824,063)	(1,381,489)		(1,117,497)	(4,323,049)
t Inflows	717,790	5,144,264	1,496,179	13,154,029	20,512,262	13,212,924	701,917	5,537,819	1,850,364	21,303,024
arket preciation)	52,089	2,229,017	857,999	387,960	3,527,065	4,196,241	3,738,519	453,108	888,361	9,276,229

alance, End Period (e)	$ 46,633,552	$ 50,225,950	$ 42,888,946	$ 50,519,383	$ 190,267,831	$ 46,728,301	$ 37,605,560	$ 40,578,219	$ 33,791,093	$ 158,703,173
crease	$ 769,879	$ 7,373,281	$ 2,354,178	$ 13,541,989	$ 24,039,327	$ 17,409,165	$ 4,440,436	$ 5,990,927	$ 2,738,725	$ 30,579,253
crease	2%	17%	6%	37%	14%	59%	13%	17%	9%	24

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

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

(c) Realizations represent realizations from the disposition of assets.

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

(e) Fee-Earning Assets Under Management and Assets Under Management as of June 30, 2012 included $292.7 million and $529.5 million, respectively, from a joint venture in which we are the minority interest holder.

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Fee-Earning Assets Under Management

Fee-Earning Assets Under Management were $157.6 billion at June 30, 2012, an increase of $1.4 billion, or 1%, compared to $156.3 billion at March 31, 2012. Inflows of $5.8 billion were primarily related to (a) inflows of $298.9 million in our Private Equity segment primarily related to additional capital raised for our energy focused fund, Blackstone Energy Partners (BEP), (b) inflows of $2.5 billion in our Real Estate segment primarily related to additional closings of commitments in BREP VII, (c) inflows of $1.2 billion in our Hedge Fund Solutions segment primarily related to growth in its commingled and customized investment products and long only solutions business, and (d) inflows of $1.8 billion in our Credit Businesses segment principally due to limited partner capital invested in our carry funds and inflows across our long only platform. Outflows of $1.7 billion were primarily attributable to (a) outflows of $825.5 million in our Credit Businesses segment, due primarily to the returns of capital to investors of certain CLO vehicles post their reinvestment periods, and (b) outflows of $775.0 million in our Hedge Fund Solutions segment as a result of, in general, the liquidity needs of limited partners. Realizations of $1.0 billion were driven by (a) realizations of $455.9 million in our Private Equity segment that were primarily a result of the dispositions of investments in funds which earn fees based on remaining invested capital, and (b) realizations of $447.1 million in our Real Estate segment primarily due to realizations from various investments within the real estate segment s funds. Net market depreciation of $1.7 billion was principally due to declines and increased volatility in the global markets during the second quarter of 2012.

BAAM had net inflows of $1.3 billion from July 1 through August 1, 2012.

Fee-Earning Assets Under Management were $157.6 billion at June 30, 2012, an increase of $20.9 billion, or 15%, compared to $136.8 billion at December 31, 2011. Inflows of $25.3 billion were primarily related to (a) inflows of $798.5 million in our Private Equity segment primarily due to additional capital raised for our energy focused fund, BEP, and the final close for our BCP VI fund, (b) inflows of $8.4 billion in our Real Estate segment primarily due to additional closings of commitments in BREP VII, (c) inflows of $2.7 billion in our Hedge Fund Solutions segment mainly from BAAM s customized and commingled investment products, and (d) inflows of $13.5 billion in our Credit Businesses segment primarily due to the $9.4 billion acquisition of Harbourmaster on January 5, 2012. Outflows of $2.5 billion were primarily attributable to (a) outflows of $1.3 billion in our Credit Businesses segment principally due to returns of capital to investors of certain CLO vehicles post their reinvestment periods, and (b) outflows of $1.1 billion in our Hedge Fund Solutions segment primarily due to liquidity needs of limited partners. Realizations of $2.7 billion were driven by (a) realizations of $1.1 billion in our Real Estate segment primarily due to realizations from various investments within the BREP and BREDS funds, (b) realizations of $876.5 million in our Private Equity segment primarily as a result of the dispositions of investments in funds which earn fees based on remaining invested capital, and (c) realizations of $732.1 million in our Credit Businesses segment principally due to returns of capital due to realizations in the carry funds.

Assets Under Management

Assets Under Management were $190.3 billion at June 30, 2012, an increase of $193.7 million, compared to $190.1 billion at March 31, 2012. Inflows of $5.7 billion were primarily related to (a) inflows of $859.8 million in our Private Equity segment due to the closing on a multi-asset class investment fund and additional closings on our BEP fund, (b) inflows of $1.9 billion in our Real Estate segment primarily related to additional closings of commitments in BREP VII, (c) inflows of $1.2 billion in our Hedge Fund Solutions segment due to growth in its commingled and customized investment products, and (d) inflows of $1.6 billion in our Credit Businesses segment driven by inflows across our long only platform. Net market depreciation of $1.9 billion was principally due to declines and increased volatility in the global markets during the second quarter of 2012. Outflows of $2.1 billion and realizations of $1.5 billion across the segments were due to the same reasons noted in Fee-Earning Assets Under Management above.

Assets Under Management were $190.3 billion at June 30, 2012, an increase of $24.0 billion, or 14%, compared to $166.2 billion at December 31, 2011. Inflows of $27.1 billion were primarily related to (a) inflows

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of $1.9 billion in our Private Equity segment driven by the closing on a multi-asset class investment fund and additional closings on our BEP fund, (b) inflows of $6.7 billion in our Real Estate segment primarily due to additional closings of commitments in BREP VII, (c) inflows of $2.7 billion in our Hedge Fund Solutions segment due to growth in its commingled and customized investment products, and (d) inflows of $15.8 billion in our Credit Businesses segment primarily due to the $9.6 billion acquisition of Harbourmaster on January 5, 2012. Outflows of $3.2 billion and realizations of $3.5 billion across the segments were due to the same reasons noted in Fee-Earning Assets Under Management above.

Limited Partner Capital Invested

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	2012 vs. 2011 $	2012 vs. 2011 %	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	2012 vs. 2011 $	2012 vs. 2011 %
	(Dollars in Thousands)							
Capital Deployed								
Limited Partner Capital Invested								
Private Equity	$ 102,899	$ 667,341	$ (564,422)	-85%	$ 745,943	$ 1,320,623	$ (574,680)	-44%
Real Estate	1,855,108	2,785,188	(930,080)	-33%	2,998,663	3,439,616	(440,953)	-13%
Hedge Fund Solutions		49,409	(49,409)	-100%	4,661	246,051	(241,390)	-98%
Credit Businesses	445,616	152,882	292,734	191%	1,373,789	307,180	1,066,609	N/M
Total	$ 2,403,623	$ 3,654,820	$ (1,251,197)	-34%	$ 5,123,056	$ 5,313,470	$ (190,414)	-4%

Limited Partner Capital Invested was $2.4 billion for the three months ended June 30, 2012, a decrease of $1.3 billion, or 34%, from $3.7 billion for the three months ended June 30, 2011. Limited Partner Capital Invested was $5.1 billion for the six months ended June 30, 2012, a decrease of $0.2 billion, or 4%, compared to $5.3 billion for the six months ended June 30, 2011. The change for the six month period primarily reflected an increase of $1.1 billion in our Credit Businesses segment due to limited partner capital invested in our mezzanine and rescue lending funds, partially offset by decreases of $574.7 million in our Private Equity segment due to timing of transactions being closed and $441.0 million in our Real Estate segment due to the acquisition of the U.S. assets of Brixmor (formerly known as Centro) during the second quarter of 2011.

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Net Accrued Performance Fees

The following table presents the accrued performance fees, net of compensation, of the Blackstone Funds as of June 30, 2012 and 2011:

	June 30, 2012	June 30, 2011
	(Dollars in Millions)	
Private Equity		
BCP IV Carried Interest	$ 532	$ 684
Other Carried Interest	1	
Total Private Equity	533	684
Real Estate		
BREP V Carried Interest	377	271
BREP VI Carried Interest	530	326
BREP VII Carried Interest	22	
BREP Int l I Carried Interest	7	8
BREP EU III Carried Interest	53	7
BREDS Carried Interest	15	11
BREDS Incentive Fees	4	6
Asia Platform Incentive Fees	27	21
Total Real Estate	1,035	650
Hedge Fund Solutions		
Incentive Fees	12	15
Total Hedge Fund Solutions	12	15
Credit Businesses		
Carried Interest	106	86
Incentive Fees	70	104
Total Credit Businesses	176	190
Total Blackstone		
Carried Interest	1,643	1,393
Incentive Fees	113	146
Net Accrued Performance Fees	$ 1,756	$ 1,539

(a) Net accrued performance fees are presented net of compensation and does not include clawback amounts, if any, which are disclosed in Note 16. Commitments and Contingencies Contingencies Contingent Obligations (Clawback) in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements of this filing.

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

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Investment Record

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

The following table presents the investment record of our significant draw down funds from inception through June 30, 2012:

Fund			Unrealized Investments			Realized Investments		Total Investments		Net IRR (c)	
(Investment Period)	Committed Capital	Available Capital (a)	Value	MOIC (b)	% Public	Value	MOIC (b)	Value	MOIC (b)	Realized	Total
	(Dollars in Thousands, Except Where Noted)										
Private Equity											
BCP I (Oct 1987 / Oct 1993)	$ 859,081	$	$	N/A		$ 1,741,738	2.6x	$ 1,741,738	2.6x	19%	19%
BCP II (Oct 1993 / Aug 1997)	1,361,100			N/A		3,256,351	2.5x	3,256,351	2.5x	32%	32%
BCP III (Aug 1997 / Nov 2002)	3,973,378	167,776	20,150	0.5x	100%	9,160,904	2.3x	9,181,054	2.3x	14%	14%
Non-Contributed Funds	6,193,559	167,776	20,150	0.5x	100%	14,158,993	2.4x	14,179,143	2.4x	19%	19%
BCOM (June 2000 / Jun 2006)	2,137,330	202,433	420,861	0.5x	49%	2,407,519	1.8x	2,828,380	1.3x	18%	6%
BCP IV (Nov 2002 / Dec 2005)	6,773,138	293,165	4,966,740	1.7x	62%	14,253,335	3.1x	19,220,075	2.6x	60%	37%
BCP V (Dec 2005 / Jan 2011)	20,995,132	1,249,114	17,791,758	1.0x	16%	3,481,145	1.7x	21,272,904	1.1x	31%	1%
BCP VI (Jan 2011 / Jan 2016) (d)	15,219,872	12,273,206	1,738,542	1.0x	2%	N/A	N/A	1,738,542	1.0x	N/A	N/M
BEP (Aug 2011 / Aug 2017) (d)	1,493,971	595,115	349,006	1.0x		N/A	N/A	349,006	1.0x	N/A	N/M
Contributed Funds	46,619,443	14,613,033	25,266,907	1.1x	24%	20,141,999	2.5x	45,408,907	1.4x	44%	10%
Total Private Equity	$ 52,813,002	$ 14,780,809	$ 25,287,057	1.1x	24%	$ 34,300,992	2.5x	$ 59,588,050	1.6x	23%	14%
Real Estate											
Dollar											
Pre-BREP	$ 140,714	$	$	N/M		$ 345,190	2.5x	$ 345,190	2.5x	33%	33%
BREP I (Sep 1994 / Oct 1996)	380,708			N/M		1,327,708	2.8x	1,327,708	2.8x	40%	40%
BREP II (Oct 1996 / Mar 1999)	1,198,339			N/M		2,524,866	2.1x	2,524,866	2.1x	19%	19%
BREP III (Apr 1999 / Apr 2003)	1,522,708		2,161	0.1x		3,323,362	2.4x	3,325,523	2.3x	22%	21%
Non-Contributed Funds	3,242,469		2,161	0.1x		7,521,126	2.3x	7,523,287	2.3x	25%	25%
BREP IV (Apr 2003 / Dec 2005)	2,198,694		1,336,058	0.8x	6%	2,856,053	2.5x	4,192,111	1.5x	82%	14%
BREP V (Dec 2005 / Feb 2007)	5,538,579	243,769	6,967,522	1.5x		2,013,265	1.8x	8,980,787	1.6x	90%	9%
	11,055,826	863,812	14,483,754	1.4x	5%	839,657	2.0x	15,323,411	1.4x	42%	9%

BREP VI (Feb 2007 / Aug 2011)											
BREP VII (Aug 2011 / Feb 2017) (e)	11,095,933	9,024,471	2,510,074	1.1x		122,580	1.2x	2,632,654	1.1x	81%	33%
BREDS Drawdown (Various)	2,707,949	736,212	2,220,735	1.1x		807,258	1.3x	3,027,993	1.2x	23%	13%
BREP Co-Investment (Various) (f)			3,782,359	1.4x	1%	424,343	1.3x	4,206,702	1.4x	10%	11%
Contributed Funds	32,596,981	10,868,264	31,300,502	1.3x	2%	7,063,156	1.9x	38,363,658	1.4x	34%	10%
Total Dollar	$ 35,839,450	$ 10,868,264	$ 31,302,663	1.3x	2%	$ 14,584,282	2.1x	$ 45,886,945	1.5x	27%	15%
Euro											
BREP Int l (Jan 2001 / Sep 2005)	824,172		106,093	1.1x		1,223,776	2.2x	1,329,869	2.0x	26%	23%
BREP Int l II (Sep 2005 / Jun 2008)	1,626,942	82,162	1,150,816	0.9x		172,038	1.5x	1,322,854	1.0x	16%	-3%
BREP Europe III (Jun 2008 / Dec 2013)	3,194,504	2,165,390	1,620,362	1.5x		15,712	2.8x	1,636,074	1.5x	49%	22%
Total Euro	5,645,618	2,247,552	2,877,271	1.2x		1,411,526	2.1x	4,288,797	1.4x	25%	8%
Total Real Estate	$ 42,958,303	$ 13,720,124	$ 34,924,920	1.3x	2%	$ 16,325,236	2.1x	$ 51,250,156	1.5x	27%	14%
Credit Businesses											
Mezzanine (Jul 2007 / Jul 2012)	$ 6,120,000	$ 3,264,616	$ 3,759,438	1.2x		$ 1,433,168	1.6x	$ 5,192,605	1.3x	N/A	17%
Rescue Lending (May 2009 / May 2013)	3,253,143	1,325,640	2,519,227	1.2x		1,079,902	1.1x	3,599,129	1.2x	N/A	13%
Total Credit Businesses	$ 9,373,143	$ 4,590,256	$ 6,278,665	1.2x		$ 2,513,070	1.4x	$ 8,791,734	1.2x	N/A	N/A

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

N/M Not meaningful.
N/A Not applicable.
(a) Available Capital represents total investable capital commitments, including side-by-side, adjusted for certain expenses and expired or recallable capital, less invested capital. This amount is not reduced by outstanding commitments to investments. Additionally, the Real Estate segment has $1.2 billion of Available Capital that has been reserved for add-on investments in funds that are fully invested.
(b) Multiple of Invested Capital (MOIC) represents carrying value, before management fees, expenses and Carried Interest, divided by invested capital.
(c) Net Internal Rate of Return (IRR) represents the annualized inception to June 30, 2012 IRR on total invested capital based on realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest.
(d) Returns for BCP VI and BEP are not meaningful as a material portion of the funds capital has yet to be invested.
(e) BREP VII commenced its investment period in August 2011 and as of August 6, 2012 continues to raise capital.
(f) BREP Co-Investment represents co-investment capital raised for various BREP investments. The Net IRR reflected is calculated by aggregating each co-investment s realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest.

The Private Equity June 30, 2012 inception to date net IRR on a realized / partially realized basis for the following funds were BCP I, 19%; BCP II, 32%; BCP III, 14%; BCOM, 17%; BCP IV, 44%; and BCP V, 6%.

The Real Estate June 30, 2012 inception to date net IRR on a realized / partially realized basis for the following funds were Pre-BREP, 33%; BREP I, 40%; BREP II, 19%; BREP III, 22%; BREP Int l, 26%; BREP IV, 65%; BREP Int l II, 8%; BREP V, 60%; BREP VI, 39% and BREP Co-Investment, 11%.

Segment Analysis

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

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

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Private Equity

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	2012 vs. 2011 $	2012 vs. 2011 %	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	2012 vs. 2011 $	2012 vs. 2011 %
	(Dollars in Thousands)							
Segment Revenues								
Management Fees, Net								
Base Management Fees	$ 87,475	$ 82,297	$ 5,178	6%	$ 173,264	$ 162,232	$ 11,032	7%
Transaction and Other Fees, Net	14,951	52,353	(37,402)	-71%	33,048	87,695	(54,647)	-62%
Management Fee Offsets	(672)	(7,629)	6,957	91%	(4,454)	(15,518)	11,064	71%
Total Management Fees, Net	101,754	127,021	(25,267)	-20%	201,858	234,409	(32,551)	-14%
Performance Fees								
Realized								
Carried Interest	28,781	1,362	27,419	N/M	32,714	83,751	(51,037)	-61%
Unrealized								
Carried Interest	(87,893)	187,190	(275,083)	N/M	(53,842)	219,727	(273,569)	N/M
Total Performance Fees	(59,112)	188,552	(247,664)	N/M	(21,128)	303,478	(324,606)	N/M
Investment Income (Loss)								
Realized	(6,195)	3,021	(9,216)	N/M	7,716	20,928	(13,212)	-63%
Unrealized	(28,337)	76,947	(105,284)	N/M	(11,868)	106,073	(117,941)	N/M
Total Investment Income (Loss)	(34,532)	79,968	(114,500)	N/M	(4,152)	127,001	(131,153)	N/M
Interest and Dividend Revenue	3,114	3,197	(83)	-3%	5,534	6,702	(1,168)	-17%
Other	562	665	(103)	-15%	347	1,476	(1,129)	-76%
Total Revenues	11,786	399,403	(387,617)	-97%	182,459	673,066	(490,607)	-73%
Expenses								
Compensation and Benefits								
Compensation	53,775	64,633	(10,858)	-17%	106,322	119,557	(13,235)	-11%
Performance Fee Compensation								
Realized								
Carried Interest	804	49	755	N/M	1,124	7,767	(6,643)	-86%
Unrealized								
Carried Interest	(8,259)	29,309	(37,568)	N/M	(9,311)	34,773	(44,084)	N/M
Total Compensation and Benefits	46,320	93,991	(47,671)	-51%	98,135	162,097	(63,962)	-39%
Other Operating Expenses	30,521	30,124	397	1%	59,402	58,837	565	1%
Total Expenses	76,841	124,115	(47,274)	-38%	157,537	220,934	(63,397)	-29%
Economic Income (Loss)	$ (65,055)	$ 275,288	$ (340,343)	N/M	$ 24,922	$ 452,132	$ (427,210)	-94%

N/M Not meaningful.

Revenues

Revenues were $11.8 million for the three months ended June 30, 2012, a decrease of $387.6 million compared to $399.4 million for the three months ended June 30, 2011. The decrease in revenues was attributed to decreases in Performance Fees, Investment Income and Total Management Fees of $247.7 million, $114.5 million and $25.3 million, respectively.

Performance Fees, which are determined on a fund by fund basis, were $(59.1) million for the three months ended June 30, 2012, principally due to a net loss in our BCP IV portfolio. While the current year quarter returns were unfavorably impacted by the public share prices of Kosmos Energy and TRW Automotive Holdings consistent with declines in the broader public markets, the previous year returns were driven by our publicly traded portfolio companies. On a realized basis, Performance Fees were $27.4 million greater than the second quarter of 2011 as BCP IV was able to execute the sale of a portion of its holdings in Team Health Holdings, generating a 3.1 times multiple of invested capital.

Investment Income (Loss) was $(34.5) million compared to $80.0 million for the three months ended June 30, 2011. Volatile markets unfavorably impacted our public holdings during the current year period while public holdings and our energy investments drove returns during the three months ended June 30, 2011. At June 30, 2012, the unrealized value and cumulative realized proceeds, before Carried Interest, fees and expenses, of our contributed private equity funds represented 1.4 times investors original investments. On a realized basis, this multiple was 2.5 times investors original investments for contributed funds.

Total Management Fees were $101.8 million for the three months ended June 30, 2012, a decrease of $25.3 million compared to $127.0 million for the three months ended June 30, 2011, driven by lower Transaction and Other Fees, partially offset by higher Base Management Fees and lower Management Fee Offsets. Base Management Fees were $87.5 million for the three months ended June 30, 2012, an increase of $5.2 million compared to $82.3 million for the three months ended June 30, 2011, principally as a result of fees generated from our BEP fund, which commenced its investment period during the third quarter of 2011. Transaction and Other Fees were $15.0 million for the three months ended June 30, 2012, a decrease of $37.4 million compared to $52.4 million for the three months ended June 30, 2011. The quarter ended June 30, 2011 included an accelerated monitoring fee received in connection with the initial public offering of Freescale Semiconductor as well as fees earned from new investments made during the period. Management Fee Offsets relate to a reduction of management fees payable by our limited partners in BCP VI based on the amount they reimbursed Blackstone for placement fees.

Revenues were $182.5 million for the six months ended June 30, 2012, a decrease of $490.6 million compared to $673.1 million for the six months ended June 30, 2011. The decrease in revenues was attributed to decreases in Performance Fees, Investment Income and Total Management Fees of $324.6 million, $131.2 million, and $32.6 million, respectively.

Performance Fees, which are determined on a fund by fund basis, were $(21.1) million for the six months ended June 30, 2012, a decrease of $324.6 million, compared to $303.5 million for the six months ended June 30, 2011, principally due to lower performance in the BCP IV portfolio driven by the decline in share prices of Kosmos Energy and Vanguard Health Systems, partially offset by increases in the values of Team Health Holdings and TRW Automotive Holdings, two additional public holdings. The comparative 2011 quarter returns were driven by investments in the energy sector and our public holdings.

Investment Income (Loss) was $(4.2) million, a decrease of $131.2 million, compared to $127.0 million for the six months ended June 30, 2011, driven by BCOM, BCP IV and BCP V, which had significant appreciation during the six months ended June 30, 2011 outpacing the returns during the current year period.

Total Management Fees were $201.9 million for the six months ended June 30, 2012, a decrease of $32.6 million compared to $234.4 million for the six months ended June 30, 2011, driven by a decrease in Transaction and Other Fees, and partially offset by an increase in Base Management Fees and reduced Management Fee Offsets. Base Management Fees were $173.3 million for the six months ended June 30, 2012, an increase of $11.0 million compared to $162.2 million for the six months ended June 30, 2011, principally as a result of fees generated from BEP, which commenced its investment period during the third quarter of 2011. Transaction and Other Fees were $33.0 million for the six months ended June 30, 2012, a decrease of $54.6 million compared to $87.7 million for the six months ended June 30, 2011. Transaction and Other Fees for

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the six months ended June 30, 2011 included one time fees earned from the accelerated termination of management advisory service agreements related to Nielsen Holdings and Freescale Semiconductor, two portfolio companies that completed initial public offerings, as well as fees generated from new investment activity. Management Fee Offsets relate to a reduction of management fees payable by our limited partners in BCP VI based on the amount they reimbursed Blackstone for placement fees.

Expenses

Expenses were $76.8 million for the three months ended June 30, 2012, a decrease of $47.3 million compared to $124.1 million for the three months ended June 30, 2011. The $47.3 million decrease was primarily attributed to a $36.8 million decrease in Performance Fee Compensation and a $10.9 million decrease in Compensation. Performance Fee Compensation decreased as a result of the decreases in Performance Fees revenue described above. Compensation decreased as a portion of it is related to the segment s results, exclusive of Performance Fees and Investment Income. Other Operating Expenses were relatively flat over the same prior year period.

Expenses were $157.5 million for the six months ended June 30, 2012, a decrease of $63.4 million, compared to $220.9 million for the six months ended June 30, 2011. The $63.4 million decrease was primarily attributed to a $50.7 million decrease in Performance Fee Compensation and a $13.2 million decrease in Compensation. Performance Fee Compensation decreased as a result of the decrease in Performance Fees revenue. Compensation decreased as a result of the decreased Management Fees revenue described above. Other Operating Expenses were relatively flat over the same prior year period.

Fund Returns

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

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

	Three Months Ended June 30,				Six Months Ended June 30,				June 30, 2012 Inception to Date			
	2012		2011		2012		2011		Realized		Total	
Fund (a)	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
BCP IV	-6%	-4%	17%	15%	-1%	-1%	30%	27%	78%	60%	51%	37%
BCP V	-4%	-4%	7%	7%	1%	1%	10%	10%	49%	31%	2%	1%
BCP VI (b)	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/A	N/A	N/M	N/M
BEP (b)	N/M	N/M	N/A	N/A	N/M	N/M	N/A	N/A	N/A	N/A	N/M	N/M

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

N/M Not meaningful.
N/A Not applicable.
(a) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and Carried Interest allocations.
(b) Returns for BCP VI and BEP are not meaningful as a material portion of the funds capital has yet to be invested.

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The Private Equity segment has three active contributed funds with closed investment periods: BCP IV, BCP V and BCOM. As of June 30, 2012, BCP IV was above its Carried Interest threshold (i.e., the preferred return payable to its limited partners before the general partner is eligible to receive Carried Interest) and would still be above its Carried Interest threshold even if all remaining investments were valued at zero. BCP V is currently below its Carried Interest threshold. BCOM is currently below its Carried Interest threshold but has generated inception-to-date positive returns. We are entitled to retain previously realized Carried Interest up to 20% of BCOM s net gains. As a result, Performance Fees are recognized from BCOM on current period gains and losses.

The following table presents the Carried Interest status of our private equity funds out of their investment period which are currently not generating performance fees as of June 30, 2012:

	Gain to Cross Carried Interest Threshold (a)	
Funds out of the Investment Period	**Amount**	**% Change in Total Enterprise Value (b)**
	(Dollars in Millions)	
BCP V (Dec 2005 / Jan 2011)	$ 6,421	13%

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

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

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Real Estate

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

	Three Months Ended June 30,		2012 vs. 2011		Six Months Ended June 30,		2012 vs. 2011	
	2012	2011	$	%	2012	2011	$	%
	(Dollars in Thousands)							
Segment Revenues								
Management Fees, Net								
Base Management Fees	$ 127,817	$ 97,467	$ 30,350	31%	$ 275,619	$ 192,906	$ 82,713	43%
Transaction and Other Fees, Net	25,151	49,288	(24,137)	-49%	39,563	70,831	(31,268)	-44%
Management Fee Offsets	(5,357)	(745)	(4,612)	N/M	(13,984)	(1,250)	(12,734)	N/M
Total Management Fees, Net	147,611	146,010	1,601	1%	301,198	262,487	38,711	15%
Performance Fees								
Realized								
Carried Interest	13,539	11,798	1,741	15%	22,156	14,169	7,987	56%
Incentive Fees	7,766	9,034	(1,268)	-14%	7,765	9,256	(1,491)	-16%
Unrealized								
Carried Interest	144,510	433,280	(288,770)	-67%	366,010	794,726	(428,716)	-54%
Incentive Fees	(1,526)	(3,822)	2,296	60%	6,388	2,836	3,552	125%
Total Performance Fees	164,289	450,290	(286,001)	-64%	402,319	820,987	(418,668)	-51%
Investment Income (Loss)								
Realized	9,067	11,394	(2,327)	-20%	16,879	14,313	2,566	18%
Unrealized	14,944	37,332	(22,388)	-60%	40,856	98,738	(57,882)	-59%
Total Investment Income (Loss)	24,011	48,726	(24,715)	-51%	57,735	113,051	(55,316)	-49%
Interest and Dividend Revenue	3,277	2,989	288	10%	5,829	6,277	(448)	-7%
Other	(590)	515	(1,105)	N/M	(1,299)	1,375	(2,674)	N/M
Total Revenues	338,598	648,530	(309,932)	-48%	765,782	1,204,177	(438,395)	-36%
Expenses								
Compensation and Benefits								
Compensation	76,576	70,651	5,925	8%	145,465	128,278	17,187	13%
Performance Fee Compensation								
Realized								
Carried Interest	3,401	5,095	(1,694)	-33%	7,478	6,221	1,257	20%
Incentive Fees	3,871	4,287	(416)	-10%	3,873	4,391	(518)	-12%
Unrealized								
Carried Interest	31,677	92,392	(60,715)	-66%	85,952	193,350	(107,398)	-56%
Incentive Fees	(629)	(1,371)	742	54%	3,139	4,172	(1,033)	-25%
Total Compensation and Benefits	114,896	171,054	(56,158)	-33%	245,907	336,412	(90,505)	-27%
Other Operating Expenses	26,560	22,971	3,589	16%	55,484	51,337	4,147	8%
Total Expenses	141,456	194,025	(52,569)	-27%	301,391	387,749	(86,358)	-22%
Economic Income	$ 197,142	$ 454,505	$ (257,363)	-57%	$ 464,391	$ 816,428	$ (352,037)	-43%

N/M Not meaningful.

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Revenues

Revenues were $338.6 million for the three months ended June 30, 2012, a decrease of $309.9 million compared to $648.5 million for the three months ended June 30, 2011. The decrease in revenues was primarily attributable to a decrease of $286.0 million in Performance Fees and a decrease of $24.7 million in Investment Income.

Performance Fees, which are determined on a fund by fund basis, were $164.3 million for the three months ended June 30, 2012, a decrease of $286.0 million compared to $450.3 million for the three months ended June 30, 2011. Performance Fees continued to benefit from the strong performance of our Real Estate carry funds. However, year over year comparison were negatively impacted by a decrease in the net appreciation of our BREP V and BREP VI carry funds investments and the catch-up provision of the Real Estate funds profit allocations in the prior year period. For the three months ended June 30, 2012, the carrying value of assets for Blackstone s contributed Real Estate funds, including fee-paying co-investments, increased 2.9% driven by the continued strengthening of operating fundamentals, particularly in our hospitality, office and retail holdings where occupancy rose during the quarter. As of June 30, 2012, the unrealized value and cumulative proceeds, before carried interest, fees and expenses, of our contributed Real Estate carry funds represented 1.4 times investors original investments. On a realized basis, this multiple was 1.9 times investors original investments.

Investment Income was $24.0 million for the three months ended June 30, 2012, a decrease of $24.7 million compared to $48.7 million for the three months ended June 30, 2011. The decrease in Investment Income was primarily driven by the year over year decrease in the net appreciation of investments related to the BREP VI fund, in which Blackstone owns a greater share of such investments.

Total Management Fees were $147.6 million for the three months ended June 30, 2012, an increase of $1.6 million compared to $146.0 million for the three months ended June 30, 2011. Base Management Fees were $127.8 million for the three months ended June 30, 2012, an increase of $30.4 million compared to $97.5 million for the three months ended June 30, 2011, which was primarily related to fees generated from the commencement of BREP VII. Transaction and Other Fees were $25.2 million for the three months ended June 30, 2012, a decrease of $24.1 million compared to $49.3 million for the three months ended June 30, 2011, which was primarily related to a decrease in the size of completed transactions.

Revenues were $765.8 million for the six months ended June 30, 2012, a decrease of $438.4 million compared to $1.2 billion for the six months ended June 30, 2011. The decrease in revenues was primarily attributed to a decrease of $418.7 million in Performance Fees and a decrease of $55.3 million in Investment Income, partially offset by an increase of $38.7 million in Total Management Fees.

Performance Fees, which are determined on a fund by fund basis, were $402.3 million for the six months ended June 30, 2012, a decrease of $418.7 million compared to $821.0 million for the six months ended June 30, 2011. Performance Fees continued to benefit from the strong performance of our Real Estate carry funds. However, year over year comparison were negatively impacted by a decrease in the net appreciation of our BREP V and BREP VI carry funds investments and the catch-up provision of the Real Estate funds profit allocations in the prior year period. For the six months ended June 30, 2012, the carrying value of assets for Blackstone s contributed Real Estate funds, including fee-paying co-investments, increased 6.7% driven by the continued strengthening of operating fundamentals, particularly in our hospitality, office and retail holdings where occupancy rose during the first half of the year.

Investment Income was $57.7 million for the six months ended June 30, 2012, a decrease of $55.3 million compared to $113.1 million for the six months ended June 30, 2011. The decrease in Investment Income was primarily driven by the year over year decrease in the net appreciation of investments related to the BREP VI fund, in which Blackstone owns a greater share of such investments.

Total Management Fees were $301.2 million for the six months ended June 30, 2012, an increase of $38.7 million compared to $262.5 million for the six months ended June 30, 2011. Base Management Fees were

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$275.6 million for the six months ended June 30, 2012, an increase of $82.7 million compared to $192.9 million for the six months ended June 30, 2011, which was primarily related to fees generated from the commencement of BREP VII. Transaction and Other Fees were $39.6 million for the six months ended June 30, 2012, a decrease of $31.3 million compared to $70.8 million for the six months ended June 30, 2011, which was primarily related to a decrease in the size of completed transactions.

Expenses

Expenses were $141.5 million for the three months ended June 30, 2012, a decrease of $52.6 million, compared to $194.0 million for the three months ended June 30, 2011. The decrease was primarily attributed to a $62.1 million decrease in Performance Fee Compensation, a result of a decrease in Performance Fees revenue, partially offset by an increase in Compensation of $5.9 million to $76.6 million. Compensation rose primarily due to an increase in headcount. Other Operating Expenses increased $3.6 million for the three months ended June 30, 2012, principally due to depreciation, professional expense and other expenses.

Expenses were $301.4 million for the six months ended June 30, 2012, a decrease of $86.4 million, compared to $387.7 million for the six months ended June 30, 2011. The decrease was primarily attributed to a $107.7 million decrease in Performance Fee Compensation, a result of a decrease in Performance Fees revenue, partially offset by an increase in Compensation of $17.2 million to $145.5 million. Compensation rose primarily due to an increase in headcount. Other Operating Expenses increased $4.1 million for the six months ended June 30, 2012, principally due to depreciation, professional expense and other expenses.

Fund Returns

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

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

	Three Months Ended June 30,				Six Months Ended June 30,				June 30, 2012 Inception to Date			
	2012		2011		2012		2011		Realized		Total	
Fund (a)	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BREP International (b)	11%	7%	28%	21%	10%	7%	28%	21%	35%	26%	33%	23%
BREP IV	5%	3%	8%	6%	7%	4%	15%	11%	118%	82%	25%	14%
BREP V	6%	4%	10%	7%	10							