Blackstone Group L.P.
Form 10-Q
August 06, 2010
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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, 2010**

OR

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

Commission File Number: 001-33551

The Blackstone Group L.P.

(Exact name of Registrant as specified in its charter)

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 30, 2010 was 254,485,146. The number of the Registrant s non-voting common units representing limited partner interests outstanding as of July 30, 2010 was 109,083,468.

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Forward-Looking Statements

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as outlook, believes, expects, potential, continues, may, wil should, seeks, approximately, predicts, intends, plans, estimates, anticipates or the negative version of these words or other compara Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled Risk Factors in our annual report on Form 10-K for the year ended December 31, 2009 and in this report, as such factors may be updated from time to time in our periodic filings with the SEC, which are accessible on the SEC s website at www.sec.gov. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

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

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

(a) the fair value of the investments held by our carry funds plus the capital that we are entitled to call from investors in those funds pursuant to the terms of their capital commitments to those funds (plus the fair value of co-investments arranged by us that were made by limited partners of our funds in portfolio companies of such funds and on which we receive fees or a carried interest allocation);

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

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

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

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

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

(a) for our Blackstone Capital Partners (BCP) and Blackstone Real Estate Partners (BREP) funds where the investment period has not expired, the amount of capital commitments;

(b) for our BCP and BREP funds where the investment period has expired, the remaining amount of invested capital;

(c) for our real estate debt investment funds, the remaining amount of invested capital;

(d) for our credit-oriented carry funds, the amount of invested capital (which may be calculated to include leverage) or net asset value;

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

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

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

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

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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.

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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, 2010	December 31, 2009
Assets		
Cash and Cash Equivalents	$ 506,739	$ 952,096
Cash Held by Blackstone Funds and Other ($339,072)	390,176	86,084
Investments ($7,516,622)	10,501,480	3,565,483
Accounts Receivable ($120,781)	411,316	306,307
Due from Affiliates ($36,229)	753,229	759,907
Intangible Assets, Net	860,634	919,477
Goodwill	1,703,602	1,703,602
Other Assets ($58,348)	259,965	172,556
Deferred Tax Assets	1,086,168	943,512
Total Assets	$ 16,473,309	$ 9,409,024
Liabilities and Partners Capital		
Loans Payable ($5,696,085)	$ 6,352,671	$ 657,623
Due to Affiliates ($265,128)	1,748,093	1,410,066
Accrued Compensation and Benefits	574,665	488,945
Accounts Payable, Accrued Expenses and Other Liabilities ($273,143)	671,300	308,857
Total Liabilities	9,346,729	2,865,491
Commitments and Contingencies		
Redeemable Non-Controlling Interests in Consolidated Entities	542,487	526,311
Partners Capital		
Partners Capital (common units: 355,111,330 issued and outstanding as of June 30, 2010; 319,939,772 issued and outstanding as of December 31, 2009)	3,465,288	3,376,707
Appropriated Partners Capital	373,731	
Accumulated Other Comprehensive Income	1,610	2,420
Non-Controlling Interests in Consolidated Entities	608,010	540,283
Non-Controlling Interests in Blackstone Holdings	2,135,454	2,097,812
Total Partners Capital	6,584,093	6,017,222
Total Liabilities and Partners Capital	$ 16,473,309	$ 9,409,024

Asset and liability amounts in parentheses represent the portion of the June 30, 2010 consolidated balance attributable to Blackstone Fund entities which are variable interest or voting interest entities.

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, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Revenues				
Management and Advisory Fees	$ 406,062	$ 340,829	$ 760,882	$ 682,001
Performance Fees and Allocations				
Realized	51,750	4,810	105,799	5,456
Unrealized	(19,299)	66,361	112,480	(148,533)
Total Performance Fees and Allocations	32,451	71,171	218,279	(143,077)
Investment Income (Loss)				
Realized	10,225	1,346	15,951	1,277
Unrealized	95,043	(12,295)	244,263	(94,679)
Total Investment Income (Loss)	105,268	(10,949)	260,214	(93,402)
Interest and Dividend Revenue	6,952	2,294	15,847	4,421
Other	(645)	3,071	(3,895)	1,387
Total Revenues	550,088	406,416	1,251,327	451,330
Expenses				
Compensation and Benefits				
Base Compensation	967,711	962,082	1,892,661	1,882,295
Performance Fee Related				
Realized	22,879	(463)	30,620	1,726
Unrealized	(892)	(23,868)	53,708	(133,923)
Total Compensation and Benefits	989,698	937,751	1,976,989	1,750,098
General, Administrative and Other	121,183	112,276	227,562	217,876
Interest Expense	7,682	87	14,867	1,486
Fund Expenses	9,203	1,592	9,062	4,604
Total Expenses	1,127,766	1,051,706	2,228,480	1,974,064
Other Income (Loss)				
Net Gains (Losses) from Fund Investment Activities	(59,250)	58,304	112,554	23,541
Income (Loss) Before Provision for Taxes	(636,928)	(586,986)	(864,599)	(1,499,193)
Provision for Taxes	19,392	10,885	29,027	28,616
Net Income (Loss)	(656,320)	(597,871)	(893,626)	(1,527,809)
Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	(421)	37,638	23,548	40,234
Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities	(57,873)	3,959	78,093	(37,072)
Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings	(404,706)	(475,184)	(680,570)	(1,135,113)

Net Income (Loss) Attributable to The Blackstone Group L.P.	$ (193,320)	$ (164,284)	$ (314,697)	$ (395,858)
Net Loss Attributable to The Blackstone Group L.P. Per Common Unit Basic and Diluted				
Common Units	$ (0.55)		$ (0.91)	
Common Units Entitled to Priority Distributions		$ (0.60)		$ (1.44)
Common Units Not Entitled to Priority Distributions		$ (0.90)		$ (2.04)
Weighted-Average Common Units Outstanding Basic and Diluted				
Common Units	354,399,780		344,084,390	
Common Units Entitled to Priority Distributions		275,199,027		274,416,111
Common Units Not Entitled to Priority Distributions		385,796		1,003,238
Revenues Earned from Affiliates				
Management and Advisory Fees	$ 37,347	$ 25,181	$ 76,114	$ 45,465

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statement of Changes in Partners Capital (Unaudited)

(Dollars in Thousands, Except Unit Data)

	Common Units	Partners Capital	Appropriated Partners Capital	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interests in Consolidated Entities	Non-Controlling Interests in Blackstone Holdings	Total Partners Capital	Redeemable Non-Controlling Interests in Consolidated Entities	Comprehensive Income (Loss)
Balance at December 31, 2009	319,939,772	$ 3,376,707	$	$ 2,420	$ 540,283	$ 2,097,812	$ 6,017,222	$ 526,311	$ (2,387,985)
Transition and Acquisition Adjustments Relating to Consolidation of CLO Entities			400,006		53		400,059		
Net Income (Loss)		(314,697)	(17,189)		95,282	(680,570)	(917,174)	23,548	(893,626)
Currency Translation Adjustment			(9,086)	(810)			(9,896)		(9,896)
Net Unrealized Gain on Investment Activity								641	
Reclassification of Capital Due to Non-Controlling Interest Holders					(60,197)		(60,197)		
Capital Contributions					78,007		78,007	32,099	
Capital Distributions		(134,512)			(28,743)	(244,782)	(408,037)	(42,577)	
Transfer of Non-Controlling Interests in Consolidated Entities					(16,675)	16,675			
Purchase of Interests from Certain Non-Controlling Interest Holders		(138)					(138)		
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		25,211					25,211		
Equity-Based Compensation		456,466				1,023,813	1,480,279		

Relinquished in Deconsolidation of Partnership								2,465	
Net Delivery of Vested Common Units	5,270,608	(20,045)					(20,045)		
Repurchase of Common Units and Blackstone Holdings Partnership Units	(84,888)	(1,198)					(1,198)		
Change in The Blackstone Group L.P. s Ownership Interest		(5,393)				5,393			
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	29,985,838	82,887				(82,887)			
Balance at June 30, 2010	355,111,330	$ 3,465,288	$ 373,731	$ 1,610	$ 608,010	$ 2,135,454	$ 6,584,093	$ 542,487	$ (3,291,507)

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)

	For the Six Months Ended June 30, 2010	For the Six Months Ended June 30, 2009
Operating Activities		
Net Income (Loss)	$ (893,626)	$ (1,527,809)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Blackstone Funds Related:		
Unrealized Depreciation (Appreciation) on Investments Allocable to Non-Controlling Interests in Consolidated Entities	(125,290)	39,431
Net Realized (Gains) Losses on Investments	(99,565)	91,559
Changes in Unrealized (Gains) Losses on Investments Allocable to Blackstone Group	(234,015)	92,976
Unrealized Depreciation on Hedge Activities	32,935	
Non-Cash Performance Fees and Allocations	(92,215)	12,271
Non-Cash Performance Fee Related Compensation	84,328	(132,198)
Equity-Based Compensation Expense	1,466,979	1,500,566
Amortization of Intangibles	80,334	79,024
Other Non-Cash Amounts Included in Net Income	12,678	12,032
Cash Flows Due to Changes in Operating Assets and Liabilities:		
Cash Held by Blackstone Funds and Other	(61,739)	836,410
Cash Relinquished with Deconsolidation of Partnership	2,465	
Accounts Receivable	(45,883)	66,762
Due from Affiliates	(129,431)	500,106
Other Assets	(104,221)	72,459
Accrued Compensation and Benefits	2,167	(105,830)
Accounts Payable, Accrued Expenses and Other Liabilities	220,984	(906,952)
Due to Affiliates	(17,285)	(251,064)
Short Term Investments Purchased	(722,882)	
Cash Proceeds from Sale of Investments	448,340	
Blackstone Funds Related:		
Investments Purchased	(1,595,325)	(261,084)
Cash Proceeds from Sale of Investments	1,797,107	573,927
Net Cash Provided by Operating Activities	26,840	692,586
Investing Activities		
Purchase of Furniture, Equipment and Leasehold Improvements	(18,807)	(12,893)
Net Cash Paid for Acquisition of Management Contracts	(21,492)	
Changes in Restricted Cash	26	1,399
Net Cash Used in Investing Activities	(40,273)	(11,494)
Financing Activities		
Distributions to Non-Controlling Interest Holders in Consolidated Entities	(71,320)	(45,373)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	89,938	99,049

continued...

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Cash Flows (Unaudited) (Continued)

(Dollars in Thousands)

	For the Six Months Ended June 30, 2010	2009
Purchase of Interests from Certain Non-Controlling Interest Holders	$ (140)	$ (6,258)
Net Settlement of Vested Common Units and Repurchase of Common and Holdings Units	(21,243)	(56,142)
Proceeds from Loans Payable	3,312	1,218
Repayment of Loans Payable	(53,177)	(310,172)
Distributions to Unitholders	(379,294)	(82,572)
Net Cash Provided by (Used in) Financing Activities	(431,924)	(400,250)
Net Increase (Decrease) in Cash and Cash Equivalents	(445,357)	280,842
Cash and Cash Equivalents, Beginning of Period	952,096	503,737
Cash and Cash Equivalents, End of Period	$ 506,739	$ 784,579
Supplemental Disclosure of Cash Flows Information		
Payments for Interest	$ 1,366	$ 1,456
Payments for Income Taxes	$ 42,813	$ 27,726
Supplemental Disclosure of Non-Cash Financing Activities		
Net Activities Related to Capital Transactions of Consolidated Blackstone Funds	$ 4,794	$ 3,936
Net Assets Related to the Consolidation of CLO Vehicles	$ 400,059	$
Reclassification of Capital Due to Non-Controlling Interest Holders	$ (60,197)	$
Reduction of Due to Limited Partners Account to Fund Sidepocket Investment	$ 1	$ (5)
Contributions Related to Transfers by Affiliated Partners	$ (1)	$ 5
In-kind Redemption of Capital	$ (14,862)	$ (907)
In-kind Contribution of Capital	$ 41,053	$ 907
Transfer of Interests to Non-Controlling Interest Holders	$ (16,675)	$ 15,438
Change in The Blackstone Group L.P. s Ownership Interest	$ (5,393)	$
Net Settlement of Vested Common Units	$ 116,610	$ 135,491
Conversion of Blackstone Holdings Units to Common Units	$ 82,887	$ 11,306
Exchange of Founders and Non-Controlling Interest Holders Interests in Blackstone Holdings:		

Deferred Tax Asset	$ (145,080)	$ (15,674)
Due to Affiliates	$ 119,869	$ 13,323
Partners Capital	$ 25,211	$ 2,351

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, separately managed accounts and publicly traded closed-end mutual funds (collectively referred to as the Blackstone Funds). Blackstone also provides various financial advisory services, including financial advisory, restructuring and reorganization advisory and fund placement services. Blackstone s business is organized into four segments: private equity; real estate; credit and marketable alternatives; and financial advisory.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements (Continued)

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

preparing its condensed consolidated financial statements are reasonable and prudent. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Partnership s Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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

All intercompany balances and transactions have been eliminated in consolidation.

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

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

Consolidation

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

In addition, the Partnership consolidates all variable interest entities (VIE) in which it is the primary beneficiary. An enterprise is determined to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a variable interest entity that most significantly impact the entity s business and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. The revised consolidation rules require an analysis to (a) determine whether an entity in which the Partnership holds a variable interest is a variable interest entity and (b) whether the Partnership s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., management and performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment. Where the variable interest entities have qualified for the deferral of the revised consolidation rules as discussed in Recent Accounting Developments , the analysis is based on previous consolidation rules. These rules require an analysis to (a) determine whether an entity in which the Partnership holds a variable interest is a variable interest entity and (b) whether the Partnership s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., management and performance related fees), would be expected to absorb a majority of the variability of the entity. Under both guidelines, the Partnership determines whether it is the primary beneficiary of a VIE at the

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements (Continued)

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

time it becomes involved with a variable interest entity and reconsiders that conclusion continuously. In evaluating whether the Partnership is the primary beneficiary, Blackstone evaluates its economic interests in the entity held either directly by the Partnership or indirectly through employees. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that the Partnership is not the primary beneficiary, a quantitative analysis may also be performed. Investments and redemptions (either by the Partnership, affiliates of the Partnership or third parties) or amendments to the governing documents of the respective Blackstone Funds could affect an entity s status as a VIE or the determination of the primary beneficiary. At each reporting date, the Partnership assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

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

Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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

Investments, at Fair Value

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

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

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

In addition, the Partnership has elected the fair value option for the assets and liabilities of certain collateralized loan obligations (CLO) vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of revised variable interest entity consolidation rules. The Partnership has also elected the fair value option for CLO vehicles consolidated as of April 1, 2010 as a result of the acquisitions of CLO management contracts as described in Note 3. Acquisitions, Goodwill and Intangibles. The transition adjustment resulting from the difference between the fair value of assets and liabilities for each of these events is presented within the Condensed Consolidated Statement of Changes in Partners Capital as Appropriated Partners Capital. Assets of the consolidated CLOs are presented within Investments within the Condensed Consolidated Statements of Financial Condition and Liabilities within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by non-consolidated affiliates. Changes in the fair value of consolidated CLO assets and liabilities and related interest, dividend and other income subsequent to adoption are presented within Net Gains (Losses) from Fund Investment Activities and are attributable to Non-Controlling Interests in Consolidated Entities in the Condensed Consolidated Statements of Operations.

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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 are reported at fair value, the carrying value of the Partnership s equity method investments are at fair value.

Derivative Instruments

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

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

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

Cash Distribution Policy

Blackstone s current intention is to distribute to its common unitholders substantially all of The Blackstone Group L.P. s net after-tax share of annual Distributable Earnings in excess of amounts determined by Blackstone s general partner to be necessary or appropriate to provide for the conduct of the Partnership s business, to make appropriate investments in the business and funds, to comply with applicable law, any of Blackstone s debt instruments or other agreements, or to provide for future distributions to Blackstone s common unitholders for any ensuing quarter. Because Blackstone will not know what Distributable Earnings will be for

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any fiscal year until the end of such year, the Partnership expects that the first three quarterly distributions in respect of any given year will be based on the anticipated annualized Net Fee Related Earnings only. As such, the distribution for the first three quarters will likely be smaller than the final quarterly distribution in respect of such year. Blackstone expects to also reflect realized Performance Fees and Allocations net of related compensation and realized net investment income in its determination of the amount of the fourth quarter distribution.

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

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

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

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

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

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

As a result of the expiration on December 31, 2009 of the distribution priority previously accorded to holders of Blackstone common units, the Partnership no longer has two classes of equity. The calculation of net loss per common unit is presented using one class of equity for the period ended June 30, 2010, as shown in Note 12. Net Loss Per Common Unit.

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

In addition, the partnership agreements of the Blackstone Holdings partnerships provide for cash distributions, which are referred to as tax distributions, to the partners of such partnerships if the wholly-owned subsidiaries of The Blackstone Group L.P. which are the general partners of the Blackstone Holdings partnerships determine that the taxable income of the relevant partnership will give rise to taxable income for the partners. Generally, these tax distributions will be computed based on the Partnership s estimate of the net

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taxable income of the relevant partnership allocable to a partner multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. federal, state and local income tax rate prescribed for an individual or corporate resident in New York, New York (taking into account the nondeductibility of certain expenses and the character of the Partnership s income). The Blackstone Holdings partnerships will make tax distributions only to the extent distributions from such partnerships for the relevant year were otherwise insufficient to cover such estimated assumed tax liabilities.

Recent Accounting Developments

On January 1, 2010, the Partnership adopted guidance issued by the Financial Accounting Standards Board (FASB) on issues related to variable interest entities (VIEs). The amendments significantly affect the overall consolidation analysis, changing the approach taken by companies in identifying which entities are VIEs and in determining which party is the primary beneficiary. The guidance requires continuous assessment of the reporting entity s involvement with such VIEs. The revised guidance also enhances the disclosure requirements for a reporting entity s involvement with VIEs, including presentation on the Condensed Consolidated Statements of Financial Condition of assets and liabilities of consolidated VIEs which meet the separate presentation criteria and disclosure of assets and liabilities recognized in the Condensed Consolidated Statements of Financial Condition and the maximum exposure to loss for those VIEs in which a reporting entity is determined to not be the primary beneficiary but in which it has a variable interest. The guidance provides a limited scope deferral for a reporting entity s interest in an entity that meets all of the following conditions: (a) the entity has all the attributes of an investment company as defined under AICPA Audit and Accounting Guide, *Investment Companies*, or does not have all the attributes of an investment company but is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with the AICPA Audit and Accounting Guide, *Investment Companies*, (b) the reporting entity does not have explicit or implicit obligations to fund any losses of the entity that could potentially be significant to the entity, and (c) the entity is not a securitization entity, asset-backed financing entity or an entity that was formerly considered a qualifying special-purpose entity. The reporting entity is required to perform a consolidation analysis for entities that qualify for the deferral in accordance with previously issued guidance on variable interest entities. Blackstone s involvement with its funds is such that all three of the above conditions are met with the exception of certain CLO vehicles which fail condition (c) above and certain funds in which leveraged employee interests in dedicated funds are financed by third parties with Blackstone acting as an intermediary which fail condition (b) above. Such employee funds are currently consolidated as it is concluded that Blackstone is the primary beneficiary based on its implicit interest. The incremental impact of the revised consolidation rules has resulted in the consolidation of certain CLO vehicles managed by Blackstone. Additional disclosures relating to Blackstone s involvement with VIEs are presented in Note 9. Variable Interest Entities of the Partnership s financial statements.

In January 2010, the FASB issued guidance on improving disclosures about fair value measurements. The guidance requires additional disclosure on transfers in and out of Levels I and II fair value measurements in the fair value hierarchy and the reasons for such transfers. In addition, for fair value measurements using significant unobservable inputs (Level III), the reconciliation of beginning and ending balances shall be presented on a gross basis, with separate disclosure of gross purchases, sales, issuances and settlements and transfers in and transfers out of Level III. The new guidance also requires enhanced disclosures on the fair value hierarchy to disaggregate disclosures by each class of assets and liabilities. In addition, an entity is required to provide further disclosures on valuation techniques and inputs used to measure fair value for fair value measurements that fall in either Level II or Level III. The guidance is effective for interim and annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level III fair value measurements, which are effective for fiscal years beginning after December 15, 2010. The

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Partnership adopted the guidance, excluding the reconciliation of Level III activity, with the issuance of its March 31, 2010 financial statements. As the guidance is limited to enhanced disclosures, adoption did not have a material impact on the Partnership s financial statements.

In April 2010, the FASB issued guidance on the accounting for stock awards to employees of a foreign operation or employees whose pay is denominated in a currency other than the one in which the equity security trades. The guidance clarifies that share-based payment awards with an exercise price denominated in the currency of a market in which a substantial portion of the entity s equity securities trade shall not be considered to contain a condition that is not a market, performance, or service condition. Such an award shall not be classified as a liability if it otherwise qualifies for equity classification. The guidance is effective for fiscal years and interim periods ending after December 15, 2010. Blackstone makes share-based payment awards to employees in foreign operations. The guidance is not expected to have a material impact on the Partnership s financial statements.

3. ACQUISITION, GOODWILL AND INTANGIBLE ASSETS

Acquisition

On April 1, 2010, the Partnership, through GSO Capital Partners LP, completed the acquisition of management agreements relating to eight collateralized debt obligations (CDO) and CLO vehicles previously managed by Callidus Capital Management LLC for a total consideration of $21.5 million. The assets acquired are finite-lived contractual rights.

Pursuant to GAAP consolidation rules, the Partnership has been identified as the primary beneficiary in the CDO and CLO vehicles underlying the acquired management agreements. As a result, the CDO and CLO vehicles have been consolidated in the Partnership s financial statements from April 1, 2010. The results of the acquired CDO and CLO vehicles from the date of acquisition have been included in the Condensed Consolidated Statements of Operations within Net Gain (Losses) from Fund Investment Activities and Fund Expenses, as applicable.

Goodwill and Intangible Assets

The carrying value of goodwill was $1.7 billion as of June 30, 2010 and December 31, 2009. No indicators of impairment have been identified during the six months ended June 30, 2010.

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

Intangible Assets, Net consists of the following:

	June 30, 2010	December 31, 2009
Finite-Lived Intangible Assets / Contractual Rights	$ 1,348,370	$ 1,348,370
Contractual Rights Acquired	21,491	
Accumulated Amortization	(509,227)	(428,893)
Intangible Assets, Net	$ 860,634	$ 919,477

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Amortization expense associated with Blackstone s intangible assets was $40.8 million and $80.3 million for the three and six month periods ended June 30, 2010, respectively, and $39.5 million and $79.0 million for the three and six month periods ended June 30, 2009, respectively. Amortization expense is included within General, Administrative and Other in the accompanying Condensed Consolidated Statements of Operations.

Amortization of Intangible Assets held at June 30, 2010 is expected to be $162.0 million for the years ending December 31, 2010 and $163.3 million, $108.5 million, $56.9 million, and $52.1 million for each of the years ending December 31, 2011, 2012, 2013, and 2014, respectively.

4. INVESTMENTS
Investments

Investments consists of the following:

	June 30, 2010	December 31, 2009
Investments of Consolidated Blackstone Funds	$ 7,516,622	$ 1,306,445
Equity Method Investments	1,431,441	1,104,701
High Grade Liquid Debt Strategies	843,692	534,777
Performance Fees and Allocations	680,317	554,463
Other Investments	29,408	65,097
	$ 10,501,480	$ 3,565,483

Blackstone s share of Investments of Consolidated Blackstone Funds totaled $376.1 million and $407.1 million at June 30, 2010 and December 31, 2009, respectively.

At June 30, 2010 and December 31, 2009, consideration was given as to whether any individual investment, including derivative instruments, had a fair value which exceeded 5% of Blackstone s net assets. At June 30, 2010 and December 31, 2009, no investments exceeded the 5% threshold.

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Investments of Consolidated Blackstone Funds

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

Geographic Region / Instrument Type / Industry	Fair Value		Percentage of Investments of Consolidated Blackstone Funds	
Description or Investment Strategy	June 30, 2010	December 31, 2009	June 30, 2010	December 31, 2009
United States and Canada				
Investment Funds, principally related to credit and marketable alternatives				
Credit Driven	$ 216,497	$ 277,388	2.9%	21.3%
Diversified Investments	264,938	300,907	3.5%	23.1%
Equity	82,204	80,956	1.1%	6.2%
Event-Driven	117,120	95,760	1.6%	7.4%
Other		408		
Investment Funds Total (Cost: 2010 $713,026; 2009 $819,638)	680,759	755,419	9.1%	58.0%
Equity Securities, principally related to credit and marketable alternatives and private equity funds				
Manufacturing	33,584	21,491	0.5%	1.7%
Services	97,018	86,600	1.3%	6.7%
Natural Resources	974	649		
Real Estate Assets	711	462		
Equity Securities Total (Cost: 2010 $97,867; 2009 $112,364)	132,287	109,202	1.8%	8.4%
Partnership and LLC Interests, principally related to private equity and real estate funds				
Real Estate Assets	176,399	149,523	2.4%	11.5%
Services	121,727	87,406	1.6%	6.7%
Manufacturing	33,632	25,691	0.4%	2.0%
Natural Resources	1,200	357		
Partnership and LLC Interests Total (Cost: 2010 $440,306; 2009 $426,678)	332,958	262,977	4.4%	20.2%
Debt Instruments, principally related to credit and marketable alternatives				
Credit Driven	28,262	29,330	0.4%	2.2%

Manufacturing	31,193	3,203	0.4%	0.2%
Services	47,792	7,837	0.6%	0.6%
Real Estate Assets	3,278	2,458		0.2%
Natural Resources	956			
Debt Instruments Total (Cost: 2010 $109,424; 2009 $37,983)	111,481	42,828	1.4%	3.2%
Assets of Consolidated CLO Vehicles				
Corporate Loans	5,111,474		68.0%	
Corporate Bonds	96,197		1.3%	
Other	1,733			
Assets of Consolidated CLO Vehicles Total (Cost: 2010 $5,296,131; 2009 $)	5,209,404		69.3%	
United States and Canada Total (Cost: 2010 $6,656,755; 2009 $1,396,663)	6,466,889	1,170,426	86.0%	89.8%

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Geographic Region / Instrument Type / Industry Description or Investment Strategy	Fair Value June 30, 2010	 December 31, 2009	Percentage of Investments of Consolidated Blackstone Funds June 30, 2010	 December 31, 2009
Europe				
Equity Securities, principally related to private equity funds				
Manufacturing	$ 3,180	$ 2,681		0.2%
Real Estate Assets	1,004	365		
Services	28,393	31,711	0.4%	2.4%
Equity Securities Total (Cost: 2010 $40,619; 2009 $40,353)	32,577	34,757	0.4%	2.6%
Partnership and LLC Interests, principally related to private equity and real estate funds				
Services	32,401	29,270	0.5%	2.2%
Real Estate Assets	9,976	10,741	0.1%	0.8%
Partnership and LLC Interests Total (Cost: 2010 $48,411; 2009 $48,334)	42,377	40,011	0.6%	3.0%
Debt Instruments, principally related to credit and marketable alternatives				
Manufacturing	527	544		
Services	1,283	1,259		0.1%
Debt Instruments Total (Cost: 2010 $1,577; 2009 $1,623)	1,810	1,803		0.1%
Assets of Consolidated CLO Vehicles				
Corporate Loans	887,532		11.8%	
Corporate Bonds	19,371		0.3%	
Other	7,860		0.1%	
Assets of Consolidated CLO Vehicles Total (Cost: 2010 $993,821; 2009 $)	914,763		12.2%	
Europe Total (Cost: 2010 $1,084,428; 2009 $90,310)	991,527	76,571	13.2%	5.7%
Asia				
Equity Securities, principally related to credit and marketable alternatives and private equity funds				
Services	11,510	8,031	0.2%	0.6%
Manufacturing	10,002	10,501	0.1%	0.8%
Real Estate Assets	269			
Diversified Investments	2,875	6,262		0.5%
	24,656	24,794	0.3%	1.9%

Equity Securities Total (Cost: 2010 $22,038; 2009 $20,794)				
Partnership and LLC Interests, principally related to private equity and real estate funds				
Manufacturing	1,343	1,183		0.1%
Real Estate Assets	458	457		
Services	98	82		
Partnership and LLC Interests Total (Cost: 2010 $1,666; 2009 $1,833)	1,899	1,722		0.1%
Debt Instruments, principally related to private equity funds (Cost: 2010 $112; 2009 $114)	95	111		
Asia Total (Cost: 2010 $23,816; 2009 $22,741)	26,650	26,627	0.3%	2.0%

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Geographic Region / Instrument Type / Industry Description or Investment Strategy	Fair Value June 30, 2010	Fair Value December 31, 2009	Percentage of Investments of Consolidated Blackstone Funds June 30, 2010	Percentage of Investments of Consolidated Blackstone Funds December 31, 2009
Other				
Equity Securities, principally related to private equity funds				
Natural Resources	$ 1,872	$ 1,583		0.1%
Services	3,013	4,560	0.1%	0.3%
Equity Securities Total (Cost: 2010 $3,010; 2009 $2,777)	4,885	6,143	0.1%	0.4%
Partnership and LLC Interests, principally related to private equity and real estate funds				
Natural Resources	26,586	26,586	0.4%	2.0%
Services	85	92		
Partnership and LLC Interests Total (Cost: 2010 $9,244; 2009 $9,249)	26,671	26,678	0.4%	2.0%
Other Total (Cost: 2010 $12,254; 2009 $12,026)	31,556	32,821	0.5%	2.5%
Total Investments of Consolidated Blackstone Funds (Cost: 2010 $7,777,253; 2009 $1,521,740)	$ 7,516,622	$ 1,306,445	100.0%	100.0%

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Realized Gains (Losses)	$ 3,087	$ (44,055)	$ (20,437)	$ (104,408)
Net Change in Unrealized Gains (Losses)	(93,162)	92,624	91,522	96,877
	$ (90,075)	$ 48,569	$ 71,085	$ (7,531)

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, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Realized and Net Change in Unrealized Gains (Losses) from Blackstone Funds	$ (90,075)	$ 48,569	$ 71,085	$ (7,531)
Reclassification to Investment Income (Loss) and Other Attributable to Blackstone Side-by-Side Investment Vehicles	17,453	(1,945)		14,872
Interest and Dividend Revenue Attributable to Consolidated Blackstone Funds	27,793	4,305	41,469	16,200
Investment Income Attributable to Non-Controlling Interest Holders	(14,421)	7,375		
Other Income Net Gains (Losses) from Fund Investment Activities	$ (59,250)	$ 58,304	$ 112,554	$ 23,541

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

Equity Method Investments

The Partnership recognized net gains (losses) related to its equity method investments of $227.4 million and $(102.1) million for the six months ended June 30, 2010 and 2009, respectively.

Blackstone s equity method investments include its investments in private equity funds, real estate funds, funds of hedge funds and credit-oriented funds, which are not consolidated but in which the Partnership exerts significant influence. As of June 30, 2010 and December 31, 2009, no single equity method investment held by Blackstone exceeded 20% of its total consolidated assets. As such, Blackstone is not required to present separate financial statements for any of its equity method investees.

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

	As of June 30, 2010 and the Six Months Then Ended			
	Private Equity	Real Estate	Credit and Marketable Alternatives	Total
Statement of Financial Condition				
Assets				
Investments	$ 21,738,952	$ 11,903,159	$ 16,251,121	$ 49,893,232
Other Assets	298,644	841,254	2,860,398	4,000,296
Total Assets	$ 22,037,596	$ 12,744,413	$ 19,111,519	$ 53,893,528
Liabilities and Partners Capital				
Debt	$ 478,757	$ 262,072	$ 1,098,230	$ 1,839,059
Other Liabilities	73,872	170,995	2,087,257	2,332,124
Total Liabilities	552,629	433,067	3,185,487	4,171,183
Partners Capital	21,484,967	12,311,346	15,926,032	49,722,345
Total Liabilities and Partners Capital	$ 22,037,596	$ 12,744,413	$ 19,111,519	$ 53,893,528
Statement of Income				
Interest Income	$ 9	$ 16,262	$ 219,444	$ 235,715
Other Income	172,193	57,989	19,609	249,791
Interest Expense	(5,494)	(2,833)	(22,839)	(31,166)
Other Expenses	(12,685)	(33,920)	(68,531)	(115,136)
Net Realized and Unrealized Gain from Investments	3,321,159	3,156,765	402,878	6,880,802
Net Income	$ 3,475,182	$ 3,194,263	$ 550,561	$ 7,220,006

High Grade Liquid Debt Strategies

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

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

During the three and six months ended June 30, 2010, the Partnership recognized realized gains (losses) of $0.3 million and $1.7 million, respectively, and net change in unrealized gains (losses) of $3.8 million and $6.6 million, respectively. There were no realized gains (losses) or net change in unrealized gains (losses) for the three and six months ended June 30, 2009.

Performance Fees and Allocations

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

	June 30, 2010	December 31, 2009
Performance Fees and Allocations		
Private Equity	$ 472,600	$ 425,615
Real Estate	33,010	7,900
Credit and Marketable Alternatives	174,707	120,948
	$ 680,317	$ 554,463

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, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Realized Gains (Losses)	$ (237)	$ 12	$ 942	$ (1,654)
Net Change in Unrealized Gains (Losses)	457	1,482	927	1,623
	$ 220	$ 1,494	$ 1,869	$ (31)

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Notes to Condensed Consolidated Financial Statements (Continued)

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

5. NET ASSET VALUE AS FAIR VALUE

Certain of the consolidated Blackstone funds of hedge funds and credit-oriented funds measure their investments in underlying funds at fair value using NAV per share without adjustment. The terms of the investee s 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. 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, 2010 is presented below.

Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Diversified Instruments	$ 264,938	$ 10,616	(a)	(a)
Credit Driven	216,497	29,558	(b)	(b)
Event Driven	117,120		(c)	(c)
Equity	82,204		(d)	(d)
	$ 680,759	$ 40,174		

(a) Diversified Instruments includes investments in hedge funds that invest across multiple strategies. Investments representing 98% of the value of the investments in this category are subject to redemption restrictions at the discretion of the investee fund manager who may choose (but may not have exercised such ability) to side-pocket such investments. As of the reporting date, the investee fund manager had elected to side-pocket 15% of Blackstone s investments. The time at which this redemption restriction may lapse cannot be estimated. The remaining 2% of investments within this category represent investments in hedge funds that are in the process of liquidating. Distributions from these funds will be received as underlying investments are liquidated.

(b) The Credit Driven category includes investments in hedge funds that invest primarily in domestic and international bonds. Investments representing 48% of the value of the investments in this category may not be redeemed at, or within three months of, the reporting date. Investments representing 34% of the value in the credit driven category are subject to redemption restrictions at the discretion of the investee fund manager who may choose (but may not have exercised such ability) to side-pocket such investments. As of the reporting date, the investee fund manager had elected to side-pocket 1% of Blackstone s investments. Investments representing 17% of the value within this category represents an investment in a fund of hedge funds that is in the process of liquidation. Distributions from this fund will be received as underlying investments are liquidated. The remaining 1% of investments within this category are redeemable as of the reporting date.

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

(d) The Equity category includes investments in hedge funds that invest primarily in domestic and international equity securities. Investments representing 42% of the total value of investments in this category may not be redeemed at, or within three months of, the reporting date. The remaining 58% 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.

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6. DERIVATIVE FINANCIAL INSTRUMENTS

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

Fair Value Hedges

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

Free Standing Derivatives

Free standing derivatives are instruments that Blackstone and certain of the consolidated Blackstone Funds have entered into as part of their overall risk management and investment strategies. These derivative contracts are not designated as hedging instruments for accounting purposes. Such contracts may include foreign exchange contracts, equity swaps, options and other derivative contracts. Changes in the fair value of derivative instruments held by 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 free standing derivative assets are recorded within Investments and free standing derivative liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Condensed Consolidated Statements of Financial Condition.

The table below summarizes the aggregate notional amount and fair value of the derivative financial instruments.

	June 30, 2010				December 31, 2009			
	Assets		Liabilities		Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
Fair Value Hedges								
Interest Rate Swaps	$ 450,000	$ 35,451	$	$	$	$	$ 450,000	$ 19
Free Standing Derivatives								
Free Standing Derivatives			213,621	2,015	2,039	653	656	4
Total	$ 450,000	$ 35,451	$ 213,621	$ 2,015	$ 2,039	$ 653	$ 450,656	$ 23

Where hedge accounting is applied, hedge effectiveness testing is performed at least monthly to monitor ongoing effectiveness of the hedge relationships. During the three and six months ended June 30, 2010, the amount of ineffectiveness related to the interest rate swap hedges was a gain of $3.7 million and $4.6 million, respectively. During the three and six months ended June 30, 2010, the portion of hedging instruments gain or

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Notes to Condensed Consolidated Financial Statements (Continued)

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

loss excluded from the assessment of effectiveness for its fair value hedges was a gain (loss) of $4.9 million and $(2.1) million, respectively. The Partnership had no derivatives designated as fair value hedges during the quarter ended June 30, 2009.

During the three and six months ended June 30, 2010, the Partnership recognized $0.2 million and $0.5 million, respectively, of realized loss and $(1.6) million and $(1.7) million, respectively, in net change in unrealized gains (losses) related to free standing derivative instruments. Amounts recognized in the three and six months ended June 30, 2009 were not material.

As of June 30, 2010 and December 31, 2009, the Partnership had not designated any derivatives as cash flow hedges or hedges of net investments in foreign operations.

7. FAIR VALUE OPTION

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

			Six Months Ended June 30, 2010	
	June 30, 2010	December 31, 2009	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
Assets				
Loans and Receivables	$ 26,844	$ 68,550	$ 385	$ 1,767
Debt Securities		26,466	(16)	
Equity Securities	1,084	1,905		501
Assets of Consolidated CLOs				
Corporate Loans	5,999,006		(6,802)	61,286
Corporate Bonds	115,569			(6,441)
Other	9,592		702	(298)
	$ 6,152,095	$ 96,921	$ (5,731)	$ 56,815
Liabilities				
Liabilities of Consolidated CLOs				
Senior Secured Notes	$ 5,483,483	$	$ (1,374)	$ (1,514)
Subordinated Notes	443,847			(87,156)
	$ 5,927,330	$	$ (1,374)	$ (88,670)

The Partnership held no financial instruments on which the fair value option was elected during the six months ended June 30, 2009.

As of June 30, 2010, the fair value of Loans and Receivables for which the fair value option was elected exceeded the principal amounts due by $1.8 million. The uncollected principal balance on Corporate Loans and Corporate Bonds exceeded the fair value by $456.0 million and $8.9 million, respectively. No Loans and Receivables or Corporate Bonds for which the fair value option was elected were past due and no Loans and Receivables were placed in non-accrual status. The fair value of Corporate Loans that were more than one day past due as of June 30, 2010 was $32.3 million. The principal balance related to such past due Corporate Loans exceeded the fair value by $24.1 million. Included within the Other category are structured finance obligations with contractual principal balances. The uncollected principal balance of such obligations exceeded the fair value by $0.2 million. No obligations were past due.

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

8. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The following tables summarize the valuation of the Partnership s financial assets and liabilities by the fair value hierarchy as of June 30, 2010 and December 31, 2009, respectively:

	June 30, 2010			
	Level I	Level II	Level III	Total
Assets				
Investments of Consolidated Blackstone Funds				
Investment Funds	$	$ 2,631	$ 678,128	$ 680,759
Equity Securities	94,309	621	99,475	194,405
Partnership and LLC Interests	12,107		391,798	403,905
Debt Instruments	95	99,199	14,092	113,386
Assets of Consolidated CLO Vehicles		5,893,054	231,113	6,124,167
Total Investments of Blackstone Consolidated Funds	106,511	5,995,505	1,414,606	7,516,622
High Grade Liquid Debt Strategies	385,699	457,993		843,692
Loans and Receivables			26,844	26,844
Derivative Instruments Used as Fair Value Hedges		35,451		35,451
Other Investments (a)	9,095	1,438	18,875	29,408
	$ 501,305	$ 6,490,387	$ 1,460,325	$ 8,452,017
Liabilities				
Liabilities of Consolidated CLO Vehicles	$	$	$ 5,927,330	$ 5,927,330
Free Standing Derivatives	1,493	522		2,015
Securities Sold, Not Yet Purchased	685	389		1,074
	$ 2,178	$ 911	$ 5,927,330	$ 5,930,419

	December 31, 2009			
	Level I	Level II	Level III	Total
Assets				
Investments of Consolidated Blackstone Funds	$ 80,610	$ 33,355	$ 1,192,463	$ 1,306,428
High Grade Liquid Debt Strategies	398,487	136,290		534,777
Loans and Receivables			68,550	68,550
Free Standing Derivatives, Net	2	279	368	649
Other Investments (b)	8,711	10,176	46,210	65,097

	$ 487,810	$ 180,100	$ 1,307,591	$ 1,975,501
Liabilities				
Derivative Instruments Used for Fair Value Hedges	$	$ 19	$	$ 19
Securities Sold, Not Yet Purchased	357			357
	$ 357	$ 19	$	$ 376

(a) Included within Level III of Other Investments are investments in equity securities of $1.1 million for which the fair value option has been elected.

(b) Included within Level III of Other Investments are investments in debt and equity securities of $26.5 million and $1.9 million, respectively, for which the fair value option has been elected.

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There were no significant transfers between Level I and Level II during the six months ended June 30, 2010.

The following table summarizes the valuation methodology used in the determination of the fair value of financial instruments for which Level III inputs were used as of June 30, 2010.

Valuation Methodology	Private Equity	Real Estate	Credit and Marketable Alternatives	Total
Third-Party Fund Managers			46%	46%
Specific Valuation Metrics	20%	17%	17%	54%
	20%	17%	63%	100%

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

	Level III Financial Assets at Fair Value Three Months Ended June 30,						
	2010				2009		
	Investments of Consolidated Funds	Loans and Receivables	Other Investments	Total	Investments of Consolidated Funds	Other Investments	Total
Balance, Beginning of Period	$ 1,371,701	$ 65,972	$ 18,207	$ 1,455,880	$ 1,175,186	$ 15,458	$ 1,190,644
Transfer In (Out) of Level III, Net	61,080			61,080	(2,334)		(2,334)
Purchases (Sales), Net	(46,342)	(42,543)	(252)	(89,137)	(63,337)	(128)	(63,465)
Realized Gains (Losses), Net	(18,360)	304	501	(17,555)	(93,138)		(93,138)
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	46,527	3,111	419	50,057	112,895	719	113,614
Balance, End of Period	$ 1,414,606	$ 26,844	$ 18,875	$ 1,460,325	$ 1,129,272	$ 16,049	$ 1,145,321

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	Level III Financial Assets at Fair Value Six Months Ended June 30,						
	2010				2009		
	Investments of Consolidated Funds	Loans and Receivables	Other Investments	Total	Investments of Consolidated Funds	Other Investments	Total
Balance, Beginning of Period	$ 1,192,464	$ 68,549	$ 46,578	$ 1,307,591	$ 1,521,912	$ 16,095	$ 1,538,007
Transfer In (Out) of Level III, Net	207,227			207,227	(2,386)		(2,386)
Purchases (Sales), Net	(85,564)	(45,118)	(29,468)	(160,150)	(371,507)	(765)	(372,272)
Realized Gains (Losses), Net	(17,393)	385	955	(16,053)	(98,360)		(98,360)
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	117,872	3,028	810	121,710	79,613	719	80,332
Balance, End of Period	$ 1,414,606	$ 26,844	$ 18,875	$ 1,460,325	$ 1,129,272	$ 16,049	$ 1,145,321

	Level III Financial Liabilities at Fair Value					
	Three Months Ended June 30, 2010			Six Months Ended June 30, 2010		
	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	$ 3,254,543	$ 281,146	$ 3,535,689	$	$	$
Transfer In (Out) of Level III, Net	2,377,947	103,285	2,481,232	5,649,175	364,829	6,014,004
Purchases (Sales), Net	(23,210)		(23,210)	(23,210)		(23,210)
Changes in Unrealized Gains (Losses) Included in Earnings Related to Liabilities Still Held at the Reporting Date	(125,797)	59,416	(66,381)	(142,482)	79,018	(63,464)
Balance, End of Period	$ 5,483,483	$ 443,847	$ 5,927,330	$ 5,483,483	$ 443,847	$ 5,927,330

For the six months ended June 30, 2010, the transfer in, net, of Level III financial assets and liabilities was principally due to the consolidation of various CLO vehicles.

For the three and six months ended June 30, 2009, there were no Level III financial liabilities.

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9. VARIABLE INTEREST ENTITIES

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

The gross assets and liabilities of consolidated VIEs reflected in the Condensed Consolidated Statements of Financial Condition as of June 30, 2010 and December 31, 2009 were as follows:

	June 30, 2010	December 31, 2009
Gross Assets		
Consolidated Blackstone Funds Excluding CLO Vehicles	$ 788,360	$ 741,024
Consolidated CLO Vehicles	6,457,278	
	$ 7,245,638	$ 741,024
Gross Liabilities		
Consolidated Blackstone Funds Excluding CLO Vehicles	$ 43,067	$ 37,974
Consolidated CLO Vehicles	6,092,204	
	$ 6,135,271	$ 37,974

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

The Partnership holds variable interests in certain VIEs which are not consolidated as it is determined that the Partnership is not the primary beneficiary. The assets under management of VIEs in which Blackstone was not the primary beneficiary but in which Blackstone held a variable interest was $27.5 billion as of June 30, 2010. The Partnership s involvement with such entities is in the form of direct equity interests and fee arrangements. As of June 30, 2010, assets and liabilities recognized in the Partnership s Condensed Consolidated Statement of Financial Condition related to the Partnership s interest in these non-consolidated VIEs were $187.2 million and zero, respectively. Assets consisted of $99.8 million of investments and $87.4 million of receivables. As of December 31, 2009, assets and liabilities recognized in the Partnership s Condensed Consolidated Statement of Financial Condition related to the Partnership s interest in these non-consolidated VIEs were $133.9 million and $0.1 million, respectively. Assets consisted of $21.7 million of investments and $112.2 million of receivables. The Partnership s maximum exposure to loss relating to non-consolidated VIEs as of June 30, 2010 and December 31, 2009 was $189.6 million and $133.9 million, respectively. The maximum exposure to loss represents the loss of assets recognized by Blackstone relating to non-consolidated entities and any clawback obligation relating to previously distributed Carried Interest.

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Notes to Condensed Consolidated Financial Statements (Continued)

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10. BORROWINGS

On March 23, 2010, an indirect, wholly-owned subsidiary of Blackstone entered into a new $1.07 billion revolving credit facility (the Credit Facility) with Citibank, N.A., as Administrative Agent. The unsecured Credit Facility provides for revolving credit borrowings, with a final maturity date of March 23, 2013. Interest on the borrowings is based on an adjusted LIBOR rate or alternate base rate, in each case plus a margin, and undrawn commitments bear a commitment fee. Borrowings may also be made in U.K. Sterling or Euros, in each case subject to certain sub-limits. The Credit Facility contains customary representations, covenants and events of default. Financial covenants consist of a maximum net leverage ratio and a requirement to keep a minimum amount of fee generating assets under management, each tested quarterly. As of June 30, 2010, the Partnership had no outstanding borrowings under this Credit Facility.

Included within Loans Payable and Due to Affiliates are amounts due to holders of debt securities issued by Blackstone s consolidated CLO vehicles. As of June 30, 2010, the Partnership s borrowings through consolidated CLO vehicles consisted of the following:

	Borrowing Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years
Senior Secured Notes	$ 6,075,318	1.25%	5.8
Subordinated Notes	819,181	(a)	8.7
	$ 6,894,499		

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

Included within Senior Secured Notes and Subordinated Notes are amounts due to non-consolidated affiliates of $84.8 million and $274.0 million, respectively. The fair value of Senior Secured and Subordinated Notes as of June 30, 2010 was $5.5 billion and $451.5 million, respectively, of which $59.3 million and $179.4 million represents the amounts Due to Affiliates. The contractual maturities of Senior Secured Notes are greater than five years.

The Loans Payable of the consolidated CLO vehicles are collateralized by assets held by the CLO vehicle and assets of one vehicle may not be used to satisfy the liabilities of another. As of June 30, 2010, the fair value of the CLO assets was $6.5 billion. This collateral consisted of Cash, Corporate Loans, Corporate Bonds and other securities.

11. INCOME TAXES

Blackstone s effective tax rate was (3.04)% and (1.85)% for the three months ended June 30, 2010 and 2009, respectively, and (3.36)% and (1.91)% for the six months ended June 30, 2010 and 2009, respectively. Blackstone s income tax provision was $19.4 million and $10.9 million for the three months ended June 30, 2010 and 2009, respectively, and $29.0 million and $28.6 million for the six months ended June 30, 2010 and 2009, respectively.

Blackstone s effective tax rate for the three and six months ended June 30, 2010 and 2009 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 the compensation charges that contribute to Blackstone s net loss are not deductible for tax purposes.

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Notes to Condensed Consolidated Financial Statements (Continued)

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12. NET LOSS PER COMMON UNIT

Basic and diluted net loss per common unit for the three and six months ended June 30, 2010 and basic and diluted net loss per common unit entitled to priority distributions and per common unit not entitled to priority distributions for the three and six months ended June 30, 2009 was calculated as follows:

	Basic and Diluted	
	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Net Loss Attributable to The Blackstone Group L.P.	$ (193,320)	$ (314,697)
Net Loss Per Common Unit	$ (0.55)	$ (0.91)
Total Weighted-Average Common Units Outstanding	354,399,780	344,084,390

	Basic and Diluted	
	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Total Undistributed Loss		
Net Loss Allocable to Common Unitholders	$ (164,284)	$ (395,858)
Less: Distributions to Common Unitholders	(83,371)	(165,517)
Total Undistributed Loss	$ (247,655)	$ (561,375)
Allocation of Total Undistributed Loss		
Undistributed Loss Common Unitholders Entitled to Priority Distributions	$ (247,308)	$ (559,330)
Undistributed Loss Common Unitholders Not Entitled to Priority Distributions	(347)	(2,045)
Total Undistributed Loss	$ (247,655)	$ (561,375)
Net Loss Per Common Unit Common Units Entitled to Priority Distributions		
Undistributed Loss per Common Unit	$ (0.90)	$ (2.04)
Priority Distributions (a)	0.30	0.60
Net Loss Per Common Unit Common Units Entitled to Priority Distributions	$ (0.60)	$ (1.44)
Net Loss Per Common Unit Common Units Not Entitled to Priority Distributions		
Undistributed Loss per Common Unit	$ (0.90)	$ (2.04)
Priority Distributions		
Net Loss Per Common Unit Common Units Not Entitled to Priority Distributions	$ (0.90)	$ (2.04)
Weighted-Average Common Units Outstanding Common Units Entitled to Priority Distributions	275,199,027	274,416,111

Common Units Not Entitled to Priority Distributions	385,796	1,003,238
Total Weighted-Average Common Units Outstanding	275,584,823	275,419,349

(a) Undistributed Loss per Common Unit Priority Distributions are forecast based upon common units outstanding at the end of the reporting period and differ from actual distributions paid to common unitholders which are based on common units outstanding at the time priority distributions are made.

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For the three months ended June 30, 2010 and 2009, a total of 27,418,933 and 24,175,810 unvested deferred restricted common units and 743,034,050 and 823,827,409 Blackstone Holdings Partnership Units were anti-dilutive and as such have been excluded from the calculation of diluted earnings per unit, respectively. For the six months ended June 30, 2010 and 2009, a total of 28,019,298 and 25,185,306 unvested deferred restricted common units and 753,889,719 and 827,280,867 Blackstone Holdings Partnership Units were anti-dilutive and as such have been excluded from the calculation of diluted earnings per unit, respectively.

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, 2010, Blackstone repurchased 84,888 vested Blackstone Common Units as part of the unit repurchase program for a total cost of $1.2 million. The repurchase resulted in a decrease in Blackstone s ownership interest in Blackstone Holdings equity of $1.0 million. As of June 30, 2010, the amount remaining available for repurchases under this program was $338.3 million.

During the six months ended June 30, 2009, Blackstone repurchased a combination of 4,629,866 Blackstone Common Units and Blackstone Holdings Partnership Units as part of the unit repurchase program for a total cost of $29.6 million. During the three months ended June 30, 2009, Blackstone repurchased 218,164 Blackstone Common Units and Blackstone Holdings Partnership Units as part of the unit repurchase program for a total cost of $2.4 million. The repurchase resulted in a decrease in Blackstone s ownership interest in Blackstone Holdings equity of $16.6 million. As of June 30, 2009, the amount remaining available for repurchases was $340.3 million under this program.

13. 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, 2010, the Partnership had the ability to grant 162,126,007 units under the Equity Plan for the year ending December 31, 2010.

For the three and six months ended June 30, 2010, the Partnership recorded compensation expense of $743.8 million and $1.5 billion, respectively, in relation to its equity-based awards with corresponding tax benefits of $3.0 million and $4.6 million, respectively. For the three and six months ended June 30, 2009, the Partnership recorded compensation expense of $762.7 million and $1.5 billion, respectively, in relation to its equity-based awards with corresponding tax benefits of $4.1 million and $6.5 million, respectively. As of June 30, 2010, there was $4.9 billion of estimated unrecognized compensation expense related to unvested awards. This cost is expected to be recognized over a weighted-average period of 4.0 years.

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Total vested and unvested outstanding units, including Blackstone Common Units, Blackstone Holdings Partnership Units and deferred restricted common units, were 1,123,902,642 as of June 30, 2010. Total outstanding unvested phantom units were 22,881 as of June 30, 2010.

A summary of the status of the Partnership s unvested equity-based awards as of June 30, 2010 and a summary of changes during the period January 1, 2010 through June 30, 2010 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, 2009	270,458,725	$ 30.76	23,742,693	$ 23.10	208,592	$ 25.07
Granted	422,768	13.85	701,148	11.27	(31)	14.65
Vested	(78,196,241)	30.84	(4,258,955)	27.38	(177,234)	14.65
Forfeited	(1,498,488)	31.00	(804,671)	25.75	(8,446)	14.60
Balance, June 30, 2010	191,186,764	$ 30.69	19,380,215	$ 21.42	22,881	$ 14.65

Units Expected to Vest

The following unvested units, after expected forfeitures, as of June 30, 2010, are expected to vest:

	Units	Weighted-Average Service Period in Years
Blackstone Holdings Partnership Units	180,417,007	4.0
Deferred Restricted Blackstone Common Units and Options	16,143,562	3.9
Total Equity-Based Awards	196,560,569	4.0
Phantom Units	21,045	1.9

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Notes to Condensed Consolidated Financial Statements (Continued)

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14. RELATED PARTY TRANSACTIONS

Affiliate Receivables and Payables

Blackstone considers its Founders, senior managing directors, employees, the Blackstone Funds and the Portfolio Companies to be affiliates. As of June 30, 2010 and December 31, 2009, Due from Affiliates and Due to Affiliates comprised the following:

	June 30, 2010	December 31, 2009
Due from Affiliates		
Accrual for Potential Clawback of Previously Distributed Interest	$ 259,897	$ 308,378
Primarily Interest Bearing Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees for Investments in Blackstone Funds	119,443	127,669
Amounts Due from Portfolio Companies and Funds	152,854	115,441
Investments Redeemed in Non-Consolidated Funds of Funds	64,359	77,600
Management and Performance Fees Due from Non-Consolidated Funds of Funds	62,085	68,649
Payments Made on Behalf of Non-Consolidated Entities	64,613	53,581
Advances Made to Certain Non-Controlling Interest Holders and Blackstone Employees	29,978	8,589
	$ 753,229	$ 759,907
Due to Affiliates		
Due to Certain Non-Controlling Interest Holders in Connection with the Tax Receivable Agreement	$ 948,150	$ 830,517
Accrual for Potential Repayment of Previously Received Performance Fees and Allocations	477,984	485,253
Due to Note-Holders of Consolidated CLO s	238,713	
Distributions Received on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees	64,288	58,083
Distributions Received on Behalf of Non-Consolidated Entities	14,309	31,692
Payments Made by Non-Consolidated Entities	4,649	4,521
	$ 1,748,093	$ 1,410,066

Interests of the Co-Founder, Senior Managing Directors and Employees

The Co-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 and allocation arrangements. As of June 30, 2010 and December 31, 2009, the Co-Founder s, other senior managing directors and employees investments aggregated $719.5 million and $649.4 million, respectively, and the Co-Founder s, other senior managing directors and employees share of the Net Income (Loss) Attributable to Redeemable Non-Controlling and Non-Controlling Interests in Consolidated Entities aggregated $24.9 million and $12.4 million for the three months ended June 30, 2010 and 2009, respectively, and $81.7 million and $(21.6) million for the six months ended June 30, 2010 and 2009, respectively.

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Revenues Earned from Affiliates

Management and Advisory Fees earned from affiliates totaled $37.3 million and $25.2 million for the three months ended June 30, 2010 and 2009, respectively. Management and Advisory Fees earned from affiliates totaled $76.1 million and $45.5 million for the six months ended June 30, 2010 and 2009, respectively. Fees relate primarily to transaction and monitoring fees which are made in the ordinary course of business and under terms that would have been obtained from unaffiliated third parties.

Loans to Affiliates

Loans to affiliates consist of interest-bearing advances to certain Blackstone individuals to finance their investments in certain Blackstone Funds. These loans earn interest at Blackstone s cost of borrowing and such interest totaled $0.4 million and $0.5 million for the three months ended June 30, 2010 and 2009, respectively, and $1.1 million and $0.9 million for the six months ended June 30, 2010 and 2009, 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 Blackstone or its personnel fails to fulfill its clawback obligation, if any. The Accrual for Possible Repayment of Previously Received Performance Fees and Allocations 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, 2010. See Note 15. 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 Agreement

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.

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Certain subsidiaries of the Partnership which are corporate taxpayers have 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 taxpayers 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 $948.2 million over the next 15 years. The after-tax net present value of these estimated payments totals $252.8 million assuming a 15% discount rate and using Blackstone s most recent projections relating to the estimated timing of the benefit to be received. Future payments under the tax receivable agreements in respect of subsequent exchanges would be in addition to these amounts. The payments under the tax receivable agreement 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.

15. COMMITMENTS AND CONTINGENCIES

Commitments

Investment Commitments

The consolidated Blackstone Funds had signed investment commitments of $14.6 million as of June 30, 2010 which includes $1.3 million of signed investment commitments for portfolio company acquisitions in the process of closing. In addition, the general partners of the Blackstone Funds had unfunded commitments to each of their respective funds of $1.3 billion as of June 30, 2010.

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 real estate funds was $5.0 million as of June 30, 2010.

Contingent Performance Fees and Allocations

There were $86.5 million of segment level Performance Fees and Allocations related to the hedge funds in the Credit and Marketable Alternatives and Real Estate segments through the period ended June 30, 2010

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attributable to arrangements where the measurement period had not ended. Measurement periods may be greater than the current reporting period. On a consolidated basis, after eliminations, such Performance Fees and Allocations were $85.3 million through the period ended June 30, 2010.

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

Contingent Obligations (Clawback)

Included within Net Gains (Losses) from Fund Investment Activities in the Condensed Consolidated Statements of Operations are gains (losses) from Blackstone Fund investments. The portion of net gains (losses) attributable to non-controlling interest holders is included within Non-Controlling Interests in Income of Consolidated Entities. Net gains (losses) attributable to non-controlling interest holders are net of Carried Interest earned by Blackstone. 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.

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.

During the quarter ended June 30, 2010, the Blackstone general partners paid an interim cash clawback obligation of $3.0 million relating to a real estate fund of which $1.7 million was paid by Blackstone Holdings and $1.3 million by current and former Blackstone personnel.

As of June 30, 2010, the clawback obligations were $478.0 million, of which $218.1 million related to Blackstone Holdings and $259.9 million related to current and former Blackstone personnel. Of the clawback obligation accrued, $15.7 million is due and payable on September 30, 2010 of which $9.0 million will be paid by current and former Blackstone personnel. This amount relates to an interim clawback obligation owed to a real estate fund. As of December 31, 2009, the clawback obligations were $485.3 million, of which $217.4 million related to Blackstone Holdings and $267.9 million related to current and former Blackstone personnel. The Accrual for Potential Repayment of Previously Received Performance Fees and Allocations is included in Due to Affiliates.

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The following table presents the clawback obligations by segment:

	June 30, 2010			**December 31, 2009**		
Segment	**Blackstone Holdings**	**Current and Former Personnel**	**Total**	**Blackstone Holdings**	**Current and Former Personnel**	**Total**
Private Equity	$ 67,665	$ 130,012	$ 197,677	$ 65,237	$ 120,208	$ 185,445
Real Estate	150,422	129,885	280,307	152,142	147,666	299,808
Total	$ 218,087	$ 259,897	$ 477,984	$ 217,379	$ 267,874	$ 485,253

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, 2010, $477.1 million was held in segregated accounts for the purpose of meeting any clawback obligations of current and former personnel if such payments are required.

16. 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 four segments:

Private Equity Blackstone s Private Equity segment comprises its management of private equity funds.

Real Estate Blackstone s Real Estate segment primarily comprises its management of general real estate funds and internationally focused 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.

Credit and Marketable Alternatives Blackstone s Credit and Marketable Alternatives segment, whose consistent focus is current earnings, comprises its management of funds of hedge funds, credit-oriented funds, CLO vehicles, separately managed accounts and publicly-traded closed-end mutual funds.

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.

These business segments are differentiated by their various sources of income, with the Private Equity, Real Estate and Credit and Marketable Alternatives segments primarily earning 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.

Economic Net Income (ENI) is a key performance measure used by management. ENI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges include principally charges associated with equity-based compensation, the amortization of intangibles and corporate actions

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including acquisitions. Blackstone uses Economic Net Income, or ENI , as a key measure of value creation and as a benchmark of its performance. ENI represents segment net income excluding the impact of income taxes and initial public offering (IPO) and acquisition-related items, including charges associated with equity-based compensation, the amortization of intangibles and corporate actions including acquisitions. For segment reporting purposes, revenues and expenses are presented on a basis that deconsolidates the investment funds we manage. Total Segment ENI equals the aggregate of ENI for all segments. ENI is used by management primarily in making resource deployment and compensation decisions across Blackstone s four segments.

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 four segments for the three months ended June 30, 2010 and 2009:

	Three Months Ended June 30, 2010				
	Private Equity	Real Estate	Credit and Marketable Alternatives	Financial Advisory	Total Segments
Segment Revenues					
Management and Advisory Fees					
Base Management Fees	$ 66,795	$ 82,916	$ 113,203	$	$ 262,914
Advisory Fees				134,099	134,099
Transaction and Other Fees, Net	16,367	2,979	1,169	102	20,617
Management Fee Offsets		(110)	(69)		(179)
Total Management and Advisory Fees	83,162	85,785	114,303	134,201	417,451
Performance Fees and Allocations					
Realized	1,106	16,319	28,949		46,374
Unrealized	(24,020)	21,117	(17,835)		(20,738)
Total Performance Fees and Allocations	(22,914)	37,436	11,114		25,636
Investment Income (Loss)					
Realized	3,141	3,900	8,729	(49)	15,721
Unrealized	17,275	79,543	(10,193)	561	87,186
Total Investment Income (Loss)	20,416	83,443	(1,464)	512	102,907
Interest and Dividend Revenue	2,728	2,178	756	1,268	6,930
Other	460	(390)	(372)	(342)	(644)
Total Revenues	83,852	208,452	124,337	135,639	552,280
Expenses					
Compensation and Benefits					
Base Compensation	46,612	44,528	53,370	76,152	220,662
Performance Fee Related					
Realized	128	8,895	13,856		22,879
Unrealized	(10,296)	15,999	(6,595)		(892)
Total Compensation and Benefits	36,444	69,422	60,631	76,152	242,649
Other Operating Expenses	28,677	17,647	24,520	17,316	88,160
Total Expenses	65,121	87,069	85,151	93,468	330,809
Economic Net Income	$ 18,731	$ 121,383	$ 39,186	$ 42,171	$ 221,471

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	Three Months Ended June 30, 2009				
	Private Equity	Real Estate	Credit and Marketable Alternatives	Financial Advisory	Total Segments
Segment Revenues					
Management and Advisory Fees					
Base Management Fees	$ 67,740	$ 81,517	$ 96,293	$	$ 245,550
Advisory Fees				82,503	82,503
Transaction and Other Fees, Net	15,145	2,879	687		18,711
Management Fee Offsets		(486)	(4,365)		(4,851)
Total Management and Advisory Fees	82,885	83,910	92,615	82,503	341,913
Performance Fees and Allocations					
Realized		4,590	587		5,177
Unrealized	97,185	(51,960)	21,832		67,057
Total Performance Fees and Allocations	97,185	(47,370)	22,419		72,234
Investment Income (Loss)					
Realized	102	1,345	(4,268)		(2,821)
Unrealized	17,118	(59,408)	29,049		(13,241)
Total Investment Income (Loss)	17,220	(58,063)	24,781		(16,062)
Interest and Dividend Revenue	824	197	279	1,118	2,418
Other	472	2,405	315	(122)	3,070
Total Revenues	198,586	(18,921)	140,409	83,499	403,573
Expenses					
Compensation and Benefits					
Base Compensation	40,667	39,207	49,304	54,239	183,417
Performance Fee Related					
Realized	(3)	(542)	82		(463)
Unrealized	13,599	(45,489)	8,020		(23,870)
Total Compensation and Benefits	54,263	(6,824)	57,406	54,239	159,084
Other Operating Expenses	20,553	12,978	16,461	21,734	71,726
Total Expenses	74,816	6,154	73,867	75,973	230,810
Economic Net Income (Loss)	$ 123,770	$ (25,075)	$ 66,542	$ 7,526	$ 172,763

The following table reconciles the Total Segments to Blackstone s Income (Loss) Before Provision for Taxes as of and for the three months ended June 30, 2010 and 2009:

	Three Months Ended June 30, 2010		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	$ 552,280	$ (2,192)(a)	$ 550,088
Expenses	$ 330,809	$ 796,957(b)	$ 1,127,766
Other Income (Loss)	$	$ (59,250)(c)	$ (59,250)
Economic Net Income (Loss)	$ 221,471	$ (858,399)(d)	$ (636,928)

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	Three Months Ended June 30, 2009		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	$ 403,573	$ 2,843(a)	$ 406,416
Expenses	$ 230,810	$ 820,896(b)	$ 1,051,706
Other Income	$	$ 58,304(c)	$ 58,304
Economic Net Income (Loss)	$ 172,763	$ (759,749)(d)	$ (586,986)

(a) The Revenues adjustment principally represents management and performance fees and allocations 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,	
	2010	2009
Fund Management Fees and Performance Fees and Allocations Eliminated in Consolidation	$ (8,428)	$ (3,150)
Fund Expenses Added in Consolidation	10,072	2,491
Non-Controlling Interests in Income (Loss) of Consolidated Entities	(58,294)	41,596
Transactional Other Income	(2,600)	17,367
Total Consolidation Adjustments	$ (59,250)	$ 58,304

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

	Three Months Ended June 30,	
	2010	2009
Economic Net Income	$ 221,471	$ 172,763
Adjustments:		
Amortization of Intangibles	(40,822)	(39,511)
IPO and Acquisition-Related Charges	(749,930)	(761,834)
Management Fee Revenues Associated with Consolidated CLO Vehicles	(9,353)	
Non-Controlling Interests in Income (Loss) of Consolidated Entities	(58,294)	41,596
Total Adjustments	(858,399)	(759,749)

Income (Loss) Before Provision for Taxes	$ (636,928)	$ (586,986)

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THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements (Continued)

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

The following table presents financial data for Blackstone s four segments for the six months ended June 30, 2010 and 2009:

	Six Months Ended June 30, 2010				
	Private Equity	Real Estate	Credit and Marketable Alternatives	Financial Advisory	Total Segments
Segment Revenues					
Management and Advisory Fees					
Base Management Fees	$ 132,227	$ 165,976	$ 216,682	$	$ 514,885
Advisory Fees				210,667	210,667
Transaction and Other Fees, Net	48,339	4,921	2,514	103	55,877
Management Fee Offsets		(599)	(758)		(1,357)
Total Management and Advisory Fees	180,566	170,298	218,438	210,770	780,072
Performance Fees and Allocations					
Realized	47,281	22,267	30,707		100,255
Unrealized	21,529	32,508	57,558		111,595
Total Performance Fees and Allocations	68,810	54,775	88,265		211,850
Investment Income					
Realized	2,646	6,532	11,712	138	21,028
Unrealized	101,959	126,435	9,522	791	238,707
Total Investment Income	104,605	132,967	21,234	929	259,735
Interest and Dividend Revenue	6,156	4,896	1,904	2,664	15,620
Other	560	(2,266)	(914)	(1,274)	(3,894)
Total Revenues	360,697	360,670	328,927	213,089	1,263,383
Expenses					
Compensation and Benefits					
Base Compensation	93,522	84,678	102,455	130,644	411,299
Performance Fee Related					
Realized	6,133	10,419	14,068		30,620
Unrealized	(3,952)	22,936	34,724		53,708
Total Compensation and Benefits	95,703	118,033	151,247	130,644	495,627
Other Operating Expenses	53,108	31,937	44,095	32,043	161,183
Total Expenses	148,811	149,970	195,342	162,687	656,810
Economic Net Income	$ 211,886	$ 210,700	$ 133,585	$ 50,402	$ 606,573

Segment Assets as of June 30, 2010	$ 3,636,522	$ 2,374,061	$ 2,353,853	$ 528,253	$ 8,892,689

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THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements (Continued)

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

	Six Months Ended June 30, 2009				
	Private Equity	Real Estate	Credit and Marketable Alternatives	Financial Advisory	Total Segments
Segment Revenues					
Management and Advisory Fees					
Base Management Fees	$ 136,171	$ 161,715	$ 192,796	$	$ 490,682
Advisory Fees				173,443	173,443
Transaction and Other Fees, Net	25,473	6,019	1,130		32,622
Management Fee Offsets		(1,679)	(8,578)		(10,257)
Total Management and Advisory Fees	161,644	166,055	185,348	173,443	686,490
Performance Fees and Allocations					
Realized		5,236	587		5,823
Unrealized	102,003	(281,179)	31,754		(147,422)
Total Performance Fees and Allocations	102,003	(275,943)	32,341		(141,599)
Investment Income (Loss)					
Realized	(242)	2,742	(16,266)		(13,766)
Unrealized	1,953	(126,647)	37,139		(87,555)
Total Investment Income (Loss)	1,711	(123,905)	20,873		(101,321)
Interest and Dividend Revenue	672	581	988	2,162	4,403
Other	652	1,736	62	(1,065)	1,385
Total Revenues	266,682	(231,476)	239,612	174,540	449,358
Expenses					
Compensation and Benefits					
Base Compensation	77,515	75,209	103,011	105,191	360,926
Performance Fee Related					
Realized	(9)	1,596	139		1,726
Unrealized	(28,367)	(120,948)	15,390		(133,925)
Total Compensation and Benefits	49,139	(44,143)	118,540	105,191	228,727
Other Operating Expenses	40,661	25,593	40,106	34,710	141,070
Total Expenses	89,800	(18,550)	158,646	139,901	369,797
Economic Net Income (Loss)	$ 176,882	$ (212,926)	$ 80,966	$ 34,639	$ 79,561

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements (Continued)

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

The following table reconciles the Total Segments to Blackstone s Income (Loss) Before Provision for Taxes and Total Assets as and for the six months ended June 30, 2010 and 2009:

	June 30, 2010 and the Six Months then Ended		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	$ 1,263,383	$ (12,056)(a)	$ 1,251,327
Expenses	$ 656,810	$ 1,571,670(b)	$ 2,228,480
Other Income	$	$ 112,554(c)	$ 112,554
Economic Net Income (Loss)	$ 606,573	$ (1,471,172)(d)	$ (864,599)
Total Assets	$ 8,892,689	$ 7,580,620(e)	$ 16,473,309

	Six Months Ended June 30, 2009		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	$ 449,358	$ 1,972(a)	$ 451,330
Expenses	$ 369,797	$ 1,604,267(b)	$ 1,974,064
Other Income	$	$ 23,541(c)	$ 23,541
Economic Net Income (Loss)	$ 79,561	$ (1,578,754)(d)	$ (1,499,193)

(a) The Revenues adjustment principally represents management and performance fees and allocations 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,	
	2010	2009
Fund Management Fees and Performance Fees and Allocations Eliminated in Consolidation	$ (5,666)	$ (4,752)
Fund Expenses Added in Consolidation	10,780	6,073
Non-Controlling Interests in Income of Consolidated Entities	101,641	3,162
Transactional Other Income	5,799	19,058
Total Consolidation Adjustments	$ 112,554	$ 23,541

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THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements (Continued)

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

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

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Economic Net Income	$ 606,573	$ 79,561
Adjustments:		
Amortization of Intangibles	(80,334)	(79,024)
IPO and Acquisition-Related Charges	(1,476,652)	(1,502,891)
Management Fee Revenues Associated with Consolidated CLO Vehicles	(15,827)	
Non-Controlling Interests in Income of Consolidated Entities	101,641	3,161
Total Adjustments	(1,471,172)	(1,578,754)
Income (Loss) Before Provision for Taxes	$ (864,599)	$ (1,499,193)

(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.

17. SUBSEQUENT EVENTS

There have been no events since June 30, 2010 that require recognition or disclosure in the Condensed Consolidated Financial Statements.

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

Unaudited Consolidating Statements of Financial Condition

(Dollars in Thousands)

	June 30, 2010			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
Assets				
Cash and Cash Equivalents	$ 506,739	$	$	$ 506,739
Cash Held by Blackstone Funds and Other		390,176		390,176
Investments	3,450,081	7,227,083	(175,684)	10,501,480
Accounts Receivable	342,493	68,823		411,316
Due from Affiliates	731,684	97,723	(76,178)	753,229
Intangible Assets, Net	860,634			860,634
Goodwill	1,703,602			1,703,602
Other Assets	211,288	48,677		259,965
Deferred Tax Assets	1,086,168			1,086,168
Total Assets	$ 8,892,689	$ 7,832,482	$ (251,862)	$ 16,473,309
Liabilities and Partners Capital				
Loans Payable	$ 656,586	$ 5,696,085	$	$ 6,352,671
Due to Affiliates	1,450,010	323,807	(25,724)	1,748,093
Accrued Compensation and Benefits	573,064	1,601		574,665
Accounts Payable, Accrued Expenses and Other Liabilities	399,827	321,928	(50,455)	671,300
Total Liabilities	3,079,487	6,343,421	(76,179)	9,346,729
Redeemable Non-Controlling Interests in Consolidated Entities		542,487		542,487
Partners Capital				
Partners Capital	3,481,178	164,880	(180,770)	3,465,288
Appropriated Partners Capital		373,731		373,731
Accumulated Other Comprehensive Income	1,610			1,610
Non-Controlling Interests in Consolidated Entities	194,960	407,963	5,087	608,010
Non-Controlling Interests in Blackstone Holdings	2,135,454			2,135,454
Total Partners Capital	5,813,202	946,574	(175,683)	6,584,093
Total Liabilities and Partners Capital	$ 8,892,689	$ 7,832,482	$ (251,862)	$ 16,473,309

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THE BLACKSTONE GROUP L.P.

Unaudited Consolidating Statements of Financial Condition (Continued)

(Dollars in Thousands)

	December 31, 2009			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
Assets				
Cash and Cash Equivalents	$ 952,096	$	$	$ 952,096
Cash Held by Blackstone Funds and Other		86,084		86,084
Investments	2,772,489	999,792	(206,798)	3,565,483
Accounts Receivable	305,846	461		306,307
Due from Affiliates	735,471	64,384	(39,948)	759,907
Intangible Assets, Net	919,477			919,477
Goodwill	1,703,602			1,703,602
Other Assets	171,463	1,141	(48)	172,556
Deferred Tax Assets	943,512			943,512
Total Assets	$ 8,503,956	$ 1,151,862	$ (246,794)	$ 9,409,024
Liabilities and Partners Capital				
Loans Payable	$ 651,993	$ 5,630	$	$ 657,623
Due to Affiliates	1,362,781	65,776	(18,491)	1,410,066
Accrued Compensation and Benefits	486,951	1,994		488,945
Accounts Payable, Accrued Expenses and Other Liabilities	235,673	94,688	(21,504)	308,857
Total Liabilities	2,737,398	168,088	(39,995)	2,865,491
Redeemable Non-Controlling Interests in Consolidated Entities		526,311		526,311
Partners Capital				
Partners Capital	3,376,707	206,799	(206,799)	3,376,707
Accumulated Other Comprehensive Income	2,420			2,420
Non-Controlling Interests in Consolidated Entities	289,619	250,664		540,283
Non-Controlling Interests in Blackstone Holdings	2,097,812			2,097,812
Total Partners Capital	5,766,558	457,463	(206,799)	6,017,222
Total Liabilities and Partners Capital	$ 8,503,956	$ 1,151,862	$ (246,794)	$ 9,409,024

(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 Equity Fund L.P.

Blackstone Value Recovery Fund L.P.

Blackstone/GSO Secured Trust Ltd*

BTD CP Holdings, LP

GSO Co-Investment Partners LLC

GSO Legacy Associates 2 LLC

GSO Legacy Associates LLC

The Asia Opportunities Fund L.P.

Private equity side-by-side, general partners and affiliated limited partners investment vehicles

Real estate side-by-side, general partners and affiliated limited partners investment vehicles

Mezzanine side-by-side, general partners and affiliated limited partners investment vehicles

Collateralized loan obligation vehicles*

* Consolidated as of June 30, 2010 only.

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 within 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 four business segments:

Private Equity. We are a world leader in private equity investing, having managed five general private equity funds, as well as one specialized fund focusing on media and communications-related investments, since we established this business in 1987. In addition, we are in the process of raising our seventh private equity fund. We have also launched a new investment fund focused on clean technology investments and are seeking to launch an investment fund targeting infrastructure investments. 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 with an assortment of real estate funds that are diversified geographically and across a variety of sectors. We launched our first real estate fund in 1994 and have managed six opportunistic real estate funds, two internationally focused real estate funds, a European focused real estate fund and a number of real estate debt investment funds. Our real estate funds have made significant investments in lodging, major urban office buildings and a variety of real estate operating companies. In addition, our debt investment funds target real estate non-controlling debt related investment opportunities in the public and private markets, primarily in the United States and Europe.

Credit and Marketable Alternatives. Our credit and marketable alternatives segment is comprised of our management of funds of hedge funds, credit-oriented funds, collateralized loan obligation (CLO) vehicles and publicly-traded closed-end mutual funds. Our funds of hedge funds operation was organized in 1990 and has developed into a leading manager of institutional fund of hedge fund assets across a wide variety of strategies. Our credit-oriented funds and CLOs are managed by our subsidiary, GSO Capital Partners (GSO), a major participant in the leveraged finance market. GSO manages a variety of credit-oriented funds including senior credit-oriented funds, distressed debt funds, mezzanine funds and general credit-oriented funds. These products are intended to provide investors with greater levels of current income and for certain products, a greater level of liquidity.

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 our 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 resultant investment income generated by the Blackstone Funds, principally private equity and real estate funds, are driven by value created

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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 as well as other market conditions.

Business Environment

Global equity and credit markets retreated in the second quarter of 2010, as investors became more risk averse, responding to growing concerns over the strength of the economic recovery, European sovereign debt issues and regulatory uncertainty. Most global equity indices declined 10-25% during the quarter and volatility spiked. Equity funds saw meaningful outflows. In credit, the high yield and leveraged loan indices were flat to slightly down and spreads moderately widened. Bank loan and high yield mutual funds experienced outflows, removing much of the technical strength that had been driving markets higher.

In the United States, the S&P 500 declined 12% in the second quarter after four consecutive quarters of increases. The employment picture has improved moderately but not to the extent that some economists were expecting. The consensus expectation for GDP growth for 2010 is 3.0%, which is lower than the expectation earlier in the year.

In real estate, the fundamental picture continued to improve in the second quarter. In the office sector, certain markets continue to show improvements in occupancy trends and an increasing level of leasing activity. In the hospitality sector, industry RevPAR (Revenue Per Available Room), an important hospitality industry metric, grew 6% in the second quarter, and has increased for four consecutive months, following nearly two years of declines.

Commodity prices generally declined in the second quarter. The exception to this was precious metals, which benefited from safe haven buying as investors reduced risk. Energy and industrial metals were sharply lower driven mostly by macro concerns, and oil prices in particular declined 10% during the quarter. The U.S. dollar rose against each of the Euro and Pound Sterling by 10.4% and 1.6%, respectively.

Monetary policy in the U.S. has remained generally accommodative, although several foreign governments are starting to emphasize contraction as they become more focused on controlling budget deficits, particularly in Europe.

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

Significant Transaction

Acquisition of Management Agreements Related to CDO and CLO Vehicles

On April 1, 2010, the Partnership acquired, through GSO, management agreements relating to certain collateralized debt obligations (CDO) and CLO vehicles previously managed by Callidus Capital Management, LLC. The acquisition of the management agreements resulted in the consolidation of the respective CDO and CLO vehicles. On April 1, 2010, the fair value of the CDO and CLO assets and liabilities managed under such contracts was $2.7 billion and $2.5 billion, respectively. There was no material impact to the Condensed Consolidated Statement of Operations or the Condensed Consolidated Statement of Cash Flows.

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 and allocations, investment income, interest and dividend revenue and other. Please refer to Part I. Item 1. Business, Incentive Arrangements / Fee Structure and Critical Accounting Policies, Revenue Recognition in our 2009 Annual

Report on Form 10-K for additional information regarding the manner in which Base Management Fees and Performance Fees and Allocations are generated.

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

The Partnership earns base management fees from the limited partners of funds in each of its managed funds on any of the following bases: as a fixed percentage of assets under management, net asset value, total assets, committed capital or invested capital. 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 portfolio companies. The investment advisory agreements generally require that the investment advisor reduce the amount of management fees payable by the limited partners to the Partnership (management fee reduction) 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 of expense incurred by our limited partners 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 and Allocations Performance fees earned on the performance of Blackstone s hedge fund structures 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 performance 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. Performance fees arising on Blackstone s onshore hedge funds are allocated to the general partner. Accrued but unpaid performance fees on onshore funds as of the reporting date are reflected in Investments in the Condensed Consolidated Statements of Financial Condition.

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 resulting in a negative adjustment to Carried Interest allocated to the general partner, that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Condensed Consolidated Statements of Financial Condition.

Carried Interest is realized when an underlying investment is profitably disposed of and the fund s cumulative returns are in excess of the preferred return. Performance 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 and allocations, 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, for our real estate funds, after a realized loss is incurred, depending on 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 comprises primarily foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

Expenses

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

Equity-Based Compensation Compensation cost relating to the issuance of share-based awards to employees, including senior managing directors, 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 Related Performance fee related compensation and benefits consists of Carried Interest and performance fee allocations to employees, including senior managing directors, participating in certain profit sharing initiatives. Employees participating in such initiatives are allocated a certain portion of Carried Interest and performance fees allocated to the general partner under performance fee allocations (see Revenue Recognition). Such compensation expense is recognized in the same manner as Carried Interest and performance fee allocations and is subject to both positive and negative adjustments as a result of changes in underlying fund performance.

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

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

Non-Controlling Interests in Consolidated Entities

Non-Controlling Interests in Consolidated Entities represent the component of Partners Capital in consolidated entities held by third party investors. Such interests are 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. 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. 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.

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 is reflected in the Condensed Consolidated Financial Statements.

Income taxes are accounted for using the 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 currently enacted tax rates. 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.

Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining tax expense and in evaluating tax positions including evaluating uncertainties under accounting principles generally accepted in the United States of America (GAAP). Blackstone reviews its tax positions quarterly and adjusts its tax balances as new information becomes available.

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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. In 2007, Congress considered legislation that would tax as corporations publicly traded partnerships that directly or indirectly derive income from investment adviser or asset management services.

In 2008, the U.S. House of Representatives passed a bill that would generally (a) treat Carried Interest as non-qualifying income under the tax rules applicable to publicly traded partnerships, which would generally require us to hold interests in entities earning such income through taxable subsidiary corporations by the end of 2010, and (b) tax Carried Interest as ordinary income for U.S. federal income tax purposes, rather than in accordance with the character of income derived by the underlying fund, which is in many cases capital gain, starting with our 2008 taxable year.

In December 2009, the U.S. House of Representatives passed substantially similar legislation. Such legislation would tax Carried Interest as ordinary income starting this taxable year. However, under a transition rule, the portion of such legislation treating Carried Interest as non-qualifying income under the tax rules applicable to publicly traded partnerships would not apply until our first taxable year beginning ten years after the date of the enactment of the legislation.

In May 2010, the U.S. House of Representatives passed similar legislation that would generally tax, after 2010, income and gains, including gain on sale, attributable to an interest in 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 an ISPI is considered to be qualified capital interest under the legislation. The interests we hold in entities that are entitled to receive Carried Interest would likely be classified as ISPIs for purposes of this legislation. The legislation provides that, for taxable years beginning ten years after the date of enactment, income derived with respect of an ISPI that is not a qualified capital interest and that is treated as ordinary income under this legislation will not be qualifying income under the tax rules applicable to publicly traded partnerships. Therefore, if this or similar legislation is passed, we generally would be required to hold interests in entities earning income from Carried Interest through taxable subsidiary corporations following such ten-year period.

The Obama administration has indicated it supports the adoption of the May 2010 legislation or legislation that similarly changes the treatment of Carried Interest for U.S. federal income tax purposes. In its published revenue proposals for both 2010 and 2011, the Obama administration proposed that the current law regarding the treatment of Carried Interest be changed to subject such income to ordinary income tax. In June 2010, the U.S. Senate considered but did not pass legislation that is generally similar to the legislation passed by the U.S. House of Representatives in May 2010. It is unclear when or whether the U.S. Senate will act on such legislation or if enacted, what provision will be included in any final legislation.

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

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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. 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 extant at the time any such legislation were to take effect, making the task of predicting the amount of additional tax highly speculative.

Economic Net Income

Blackstone uses Economic Net Income, or ENI , as a key measure of value creation and as a benchmark of its performance. ENI represents segment net income excluding the impact of income taxes and initial public offering (IPO) and acquisition-related items, including charges associated with equity-based compensation, the amortization of intangibles and corporate actions including acquisitions. For segment reporting purposes, revenues and expenses are presented on a basis that deconsolidates the investment funds we manage. Total Segment ENI equals the aggregate of ENI for all segments. ENI is used by management primarily in making resource deployment and compensation decisions across Blackstone s four segments. (See Note 16. Segment Reporting in the Notes to the Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements.)

Distributable Earnings

Distributable Earnings, which is derived from our segment reported results, is a supplemental measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships. Distributable Earnings, which is a 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, 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 detailed discussion of Distributable Earnings.

Distributable Earnings, which is a component of Economic Net Income, is the sum across all Total Segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees and Allocations, and (e) Realized Investment Income (Loss); less (a) Base Compensation, (b) Realized Performance Fee Related Compensation, (c) Other Operating Expenses and (d) Cash Taxes and Payables Under the Tax Receivable Agreement. Distributable Earnings is reconciled to Blackstone s Consolidated Statement of Operations. It is Blackstone s current intention that on an annual basis it will distribute to unitholders all of its Distributable Earnings 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.

Net Fee Related Earnings from Operations

Blackstone uses Net Fee Related Earnings from Operations as a key measure to highlight earnings from operations excluding: (a) the income related to performance fees and allocations and related performance fee related 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

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Treasury cash management strategies. Management uses Net Fee Related Earnings from Operations as a measure to assess whether recurring revenue from our businesses is sufficient to adequately cover all of our operating expenses and generate profits. Net Fee Related Earnings from Operations equals contractual fee revenues 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), (b) other operating expenses and (c) cash taxes due on earnings from operations as calculated using a similar methodology as applied in calculating the current tax provision (benefit) for The Blackstone Group L.P. See Liquidity and Capital Resources Liquidity and Capital Resources below for a detailed discussion of Net Fee Related Earnings from Operations.

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 equal the sum of:

(a) the fair value of the investments held by our carry funds plus the capital that we are entitled to call from investors in those funds pursuant to the terms of their capital commitments to those funds (plus the fair value of co-investments arranged by us that were made by limited partners of our funds in portfolio companies of such funds and on which we receive fees or a Carried Interest allocation);

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

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

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

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

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

(a) for our Blackstone Capital Partners (BCP) and Blackstone Real Estate Partners (BREP) funds where the investment period has not expired, the amount of capital commitments;

(b) for our BCP and BREP funds where the investment period has expired, the remaining amount of invested capital;

(c) for our real estate debt investment funds, the remaining amount of invested capital;

(d) for our credit-oriented carry funds, the amount of invested capital (which may be calculated to include leverage) or net asset value;

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

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

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

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

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

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

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, 2010 and 2009. For a more detailed discussion of the factors that affected the results of our four 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, 2010 and 2009.

	Three Months Ended June 30,		2010 vs. 2009		Six Months Ended June 30,		2010 vs. 2009	
	2010	2009	$	%	2010	2009	$	%
	(Dollars in Thousands)							
Revenues								
Management and Advisory Fees	$ 406,062	$ 340,829	$ 65,233	19%	$ 760,882	$ 682,001	$ 78,881	12%
Performance Fees and Allocations								
Realized	51,750	4,810	46,940	N/M	105,799	5,456	100,343	N/M
Unrealized	(19,299)	66,361	(85,660)	N/M	112,480	(148,533)	261,013	N/M
Total Performance Fees and Allocations	32,451	71,171	(38,720)	-54%	218,279	(143,077)	361,356	N/M
Investment Income (Loss)								
Realized	10,225	1,346	8,879	N/M	15,951	1,277	14,674	N/M
Unrealized	95,043	(12,295)	107,338	N/M	244,263	(94,679)	338,942	N/M
Total Investment Income (Loss)	105,268	(10,949)	116,217	N/M	260,214	(93,402)	353,616	N/M
Interest and Dividend Revenue	6,952	2,294	4,658	N/M	15,847	4,421	11,426	N/M
Other	(645)	3,071	(3,716)	N/M	(3,895)	1,387	(5,282)	N/M
Total Revenues	550,088	406,416	143,672	35%	1,251,327	451,330	799,997	177%
Expenses								
Compensation and Benefits								
Base Compensation	967,711	962,082	5,629	1%	1,892,661	1,882,295	10,366	1%
Performance Fee Related								
Realized	22,879	(463)	23,342	N/M	30,620	1,726	28,894	N/M
Unrealized	(892)	(23,868)	22,976	96%	53,708	(133,923)	187,631	N/M
Total Compensation and Benefits	989,698	937,751	51,947	6%	1,976,989	1,750,098	226,891	13%
General, Administrative and Other	121,183	112,276	8,907	8%	227,562	217,876	9,686	4%
Interest Expense	7,682	87	7,595	N/M	14,867	1,486	13,381	N/M
Fund Expenses	9,203	1,592	7,611	N/M	9,062	4,604	4,458	97%
Total Expenses	1,127,766	1,051,706	76,060	7%	2,228,480	1,974,064	254,416	13%
Other Income (Loss)								
Net Gains (Losses) from Fund Investment Activities	(59,250)	58,304	(117,554)	N/M	112,554	23,541	89,013	N/M
Income (Loss) Before Provision for Taxes	(636,928)	(586,986)	(49,942)	-9%	(864,599)	(1,499,193)	634,594	42%

Provision for Taxes	19,392	10,885	8,507	78%	29,027	28,616	411	1%
Net Income (Loss)	(656,320)	(597,871)	(58,449)	-10%	(893,626)	(1,527,809)	634,183	42%
Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	(421)	37,638	(38,059)	N/M	23,548	40,234	(16,686)	-41%
Net Income (Loss) Attributable to Non- Controlling Interests in Consolidated Entities	(57,873)	3,959	(61,832)	N/M	78,093	(37,072)	115,165	N/M
Net Income (Loss) Attributable to Non- Controlling Interests in Blackstone Holdings	(404,706)	(475,184)	70,478	15%	(680,570)	(1,135,113)	454,543	40%
Net Income (Loss) Attributable to The Blackstone Group L.P.	$ (193,320)	$ (164,284)	$ (29,036)	-18%	$ (314,697)	$ (395,858)	$ 81,161	21%

Revenues

Total Revenues were $550.1 million for the three months ended June 30, 2010, an increase of $143.7 million compared to Total Revenues for the three months ended June 30, 2009 of $406.4 million. The increase in revenues was primarily attributable to an increase of $116.2 million in Investment Income (Loss) and an increase of $65.2 million in Management and Advisory Fees which were partially offset by a decrease of $38.7 million in Performance Fees and Allocations. The improvement in Investment Income (Loss) was driven by increases in the underlying portfolio investments in our Real Estate segment. The increase in Management and Advisory Fees was primarily due to increases in Advisory fees from our fund placement business and our restructuring and reorganization business which are included in our Financial Advisory segment as well as increases in Base Management Fees in our Credit and Marketable Alternatives segment driven by higher Fee-Earning Assets Under Management from positive inflows in our funds of hedge funds business. The decrease in Performance Fees and Allocations was primarily driven by our Private Equity segment in which certain funds reversed previously accrued performance fees and allocations primarily due to a decrease in the share price of certain public investments. This decrease in Performance Fees and Allocations was partially offset by an increase in our Real Estate segment which was driven by improved performance of our real estate carry funds as operating performance and projected cash flows improved in certain portfolio investments. Our real estate carry funds had a net IRR of 17% in the second quarter of 2010 compared to negative 20% in the second quarter of 2009. The Realized Performance Fees and Allocations of $51.8 million were primarily attributable to the Real Estate and Credit and Marketable Alternatives segments with $16.3 million and $28.9 million, respectively.

Total Revenues were $1.3 billion for the six months ended June 30, 2010, an increase of $800.0 million compared to Total Revenues for the six months ended June 30, 2009 of $451.3 million. The increase in revenues was primarily attributable to an increase of $361.4 million in Performance Fees and Allocations, an increase of $353.6 million in Investment Income (Loss) and an increase of $78.9 million in Management and Advisory Fees. The increase in Performance Fees and Allocations was primarily driven by improved performance of our real estate carry funds in our Real Estate segment and our credit oriented funds and funds of hedge funds in our Credit and Marketable Alternatives segment. Investment Income (Loss) improved primarily due to increases in the underlying portfolio investments in our Real Estate and Private Equity segments. The increase in Management and Advisory Fees was primarily due to increases in Advisory Fees from our fund placement business which is included in our Financial Advisory segment, increases in Base Management Fees in our Credit and Marketable Alternatives segment driven by higher Fee-Earning Assets Under Management from positive inflows in our funds of hedge funds business and an increase in Transaction Fees in our Private Equity segment driven by a one-time fee related to the exit of one of our BCP investments.

Expenses

Expenses were $1.1 billion for the three months ended June 30, 2010, an increase of $76.1 million, or 7%, compared to $1.1 billion for the three months ended June 30, 2009. The increase was primarily attributable to an increase in Compensation and Benefits to $989.7 million from $937.8 million in 2009. Performance Fee Related Compensation was $22.0 million for the current year, an increase of $46.3 million, and Base Compensation was $967.7 million for the current year, an increase of $5.6 million. General, Administrative and Other expenses were $121.2 million for the current year, an increase of $8.9 million driven by an increase in costs related to our fund-raising efforts in our Private Equity segment and the launching of new products in our Credit and Marketable Alternatives segment. Our expenses are primarily driven by levels of business activity, revenue growth and headcount.

Expenses were $2.2 billion for the six months ended June 30, 2010, an increase of $254.4 million, or 13%, compared to $2.0 billion for the six months ended June 30, 2009. The increase was primarily attributable to an increase of $226.9 million in Compensation and Benefits driven by an increase in Performance Fee Related Compensation due to improved performance in our Real Estate segment and our credit oriented funds and funds of hedge funds in our Credit and Marketable Alternatives segment. Base Compensation was $1.9 billion,

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relatively unchanged from the prior year period. General Administrative and Other expenses were $227.6 million for the current year, an increase of $9.7 million driven by the same factors as for the quarterly period noted above.

Other Income (Loss)

Other Income (Loss) was $(59.3) million for the three months ended June 30, 2010, a decrease of $117.6 million compared to $58.3 million for the three months ended June 30, 2009. The change was due to negative performance of our consolidated CLO vehicles for the three months ended June 30, 2010.

Other Income (Loss) was $112.6 million for the six months ended June 30, 2010, an increase of $89.0 million compared to $23.5 million for the six months ended June 30, 2009. The change was principally driven by an increase in income generated by our Private Equity and Real Estate consolidated side-by-side entities.

Operating Metrics

The following table presents certain operating metrics for the three and six months ended June 30, 2010 and 2009. 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, 2010	Three Months Ended June 30, 2009	2010 vs. 2009 $	2010 vs. 2009 %	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	2010 vs. 2009 $	2010 vs. 2009 %
	(Dollars in Thousands)							
Fee-Earning Assets Under Management								
Balance, Beginning of Period	$ 98,070,172	$ 92,227,566	$ 5,842,606	6%	$ 96,096,997	$ 91,041,057	$ 5,055,940	6%
Inflows, including Commitments (a)	6,282,532	1,223,055	5,059,477	N/M	8,783,150	3,889,780	4,893,370	126%
Outflows, including Distributions (b)	(1,966,897)	(2,517,887)	550,990	22%	(2,931,235)	(3,524,147)	592,912	17%
Market Appreciation (Depreciation) (c)	(965,826)	2,572,668	(3,538,494)	N/M	(528,931)	2,098,712	(2,627,643)	N/M
Balance, End of Period (d)	$ 101,419,981	$ 93,505,402	$ 7,914,579	8%	$ 101,419,981	$ 93,505,402	$ 7,914,579	8%
Assets Under Management (End of Period) (d)	$ 111,148,410	$ 93,468,481	$ 17,679,929	19%	$ 111,148,410	$ 93,468,481	$ 17,679,929	19%
Capital Deployed								
Limited Partner Capital Invested	$ 1,377,717	$ 703,056	$ 674,661	96%	$ 2,347,541	$ 1,322,678	$ 1,024,863	77%

(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, decreases in available capital for our carry funds (expired capital, expense drawdowns and decreased side-by-side commitments) and realizations from the disposition of assets by our carry funds. Also included is the distribution of funds associated with the discontinuation of our proprietary single manager hedge funds.
(c)

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

(d) Fee-Earning Assets Under Management and Assets Under Management include $505.0 million from a joint venture in which we are the minority interest holder.

Fee-Earning Assets Under Management

Fee-Earning Assets Under Management were $101.4 billion at June 30, 2010, an increase of $7.9 billion, or 8%, compared with $93.5 billion at June 30, 2009. The $7.9 billion increase was attributed to a $7.7 billion increase

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in our Credit and Marketable Alternatives segment driven primarily by net inflows of $4.0 billion which included the acquisition on April 1, 2010 of $3.5 billion of collateralized debt obligations and CLO vehicles and $2.8 billion of market appreciation primarily driven by our funds of hedge funds business.

Assets Under Management

Assets Under Management were $111.1 billion at June 30, 2010, an increase of $17.7 billion, or 19%, compared with $93.5 billion at June 30, 2009. The $17.7 billion increase was attributed to a $9.5 billion increase in our Credit and Marketable Alternatives segment driven by market appreciation of $4.1 billion primarily in our funds of hedge funds and credit-oriented funds and the acquisition on April 1, 2010 of $3.5 billion of collateralized debt obligations and CLO vehicles. A $4.5 billion increase in our Private Equity segment was driven by market appreciation of $5.8 billion and net inflows of $1.1 billion which was partially offset by $2.3 billion of realizations, while a $3.7 billion increase in our Real Estate segment was driven by market appreciation of $2.8 billion and net inflows of $0.9 billion.

Limited Partner Capital Invested

Limited Partner Capital Invested was $1.4 billion for the three months ended June 30, 2010, an increase of $674.7 million, or 96%, compared to $703.1 million for the three months ended June 30, 2009. Limited Partner Capital Invested was $2.3 billion for the six months ended June 30, 2010, an increase of $1.0 billion, or 77%, compared to $1.3 billion for the six months ended June 30, 2009. The change reflected an increase in the size and volume of consummated transactions compared to the prior year.

Segment Analysis

Discussed below is our ENI 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, 2010	Three Months Ended June 30, 2009	2010 vs. 2009 $	2010 vs. 2009 %	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	2010 vs. 2009 $	2010 vs. 2009 %
	(Dollars in Thousands)							
Segment Revenues								
Management Fees								
Base Management Fees	$ 66,795	$ 67,740	$ (945)	-1%	$ 132,227	$ 136,171	$ (3,944)	-3%
Transaction and Other Fees, Net	16,367	15,145	1,222	8%	48,339	25,473	22,866	90%
Total Management Fees	83,162	82,885	277	0%	180,566	161,644	18,922	12%
Performance Fees and Allocations								
Realized	1,106		1,106	N/M	47,281		47,281	N/M
Unrealized	(24,020)	97,185	(121,205)	N/M	21,529	102,003	(80,474)	-79%
Total Performance Fees and Allocations	(22,914)	97,185	(120,099)	N/M	68,810	102,003	(33,193)	-33%
Investment Income (Loss)								
Realized	3,141	102	3,039	N/M	2,646	(242)	2,888	N/M
Unrealized	17,275	17,118	157	1%	101,959	1,953	100,006	N/M
Total Investment Income (Loss)	20,416	17,220	3,196	19%	104,605	1,711	102,894	N/M
Interest and Dividend Revenue	2,728	824	1,904	N/M	6,156	672	5,484	N/M
Other	460	472	(12)	-3%	560	652	(92)	-14%
Total Revenues	83,852	198,586	(114,734)	-58%	360,697	266,682	94,015	35%
Expenses								
Compensation and Benefits								
Base Compensation	46,612	40,667	5,945	15%	93,522	77,515	16,007	21%
Performance Fee Related								
Realized	128	(3)	131	N/M	6,133	(9)	6,142	N/M
Unrealized	(10,296)	13,599	(23,895)	N/M	(3,952)	(28,367)	24,415	86%
Total Compensation and Benefits	36,444	54,263	(17,819)	-33%	95,703	49,139	46,564	95%
Other Operating Expenses	28,677	20,553	8,124	40%	53,108	40,661	12,447	31%
Total Expenses	65,121	74,816	(9,695)	-13%	148,811	89,800	59,011	66%
Economic Net Income	$ 18,731	$ 123,770	$ (105,039)	-85%	$ 211,886	$ 176,882	$ 35,004	20%

Revenues

Revenues were $83.9 million for the three months ended June 30, 2010, a decrease of $114.7 million compared to $198.6 million for the three months ended June 30, 2009. The decrease in revenues was primarily attributed to a decrease of $120.1 million in Performance Fees and Allocations which was partially offset by an increase of $3.2 million in Investment Income (Loss). Total Management Fees remained relatively unchanged.

Performance Fees and Allocations, which are determined on a fund by fund basis, were $(22.9) million for the three months ended June 30, 2010, a decrease of $120.1 million, compared to $97.2 million for the three months ended June 30, 2009, principally driven by BCP IV and BCOM, which generated gross returns of (1.1)%

and (8.7)%, respectively, for the three months ended June 30, 2010 compared to 11.5% and (1.3)%, respectively, for the three months ended June 30, 2009. Investment Income (Loss) was $20.4 million, an increase of $3.2 million, compared to $17.2 million for the three months ended June 30, 2009, principally driven by BCP V, which generated a gross return of 4.5% for the three months ended June 30, 2010 compared to approximately flat performance for the three months ended June 30, 2009. Overall, our BCP funds had a net IRR of 2.3% for the quarter, compared to 4.2% in the second quarter of 2009. Continued improvement in the performance of our private portfolio was offset by decreases in the share prices of certain of our public investments and foreign exchange rates. The fair value appreciation for the current quarter in our private portfolio was primarily due to continued improvement in operating performance driven by companies in the hospitality, leisure and healthcare sectors. At a fund level, the appreciation in fair value of our private portfolio was primarily attributed to BCP V generating $19.5 million in Investment Income while BCP IV had $(11.3) million and $(1.4) million in Performance Fees and Allocations and Investment Income (Loss), respectively, and BCOM had $(11.6) million in Performance Fees and Allocations and $(2.0) million in Investment Income (Loss). At June 30, 2010, 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; excluding funds which are still in their Investment Period, the historical returns were 2.2 times investors original investments.

Realized Investment Income (Loss) was $3.1 million for the three months ended June 30, 2010, an increase of $3.0 million compared to $0.1 million for the three months ended June 30, 2009.

Total Management Fees were $83.2 million for the three months ended June 30, 2010, an increase of $0.3 million compared to $82.9 million for the three months ended June 30, 2009. Base Management Fees and Transaction and Other Fees remained relatively unchanged at $66.8 million and $16.4 million, respectively.

Revenues were $360.7 million for the six months ended June 30, 2010, an increase of $94.0 million compared to $266.7 million for the six months ended June 30, 2009. The increase was primarily due to an increase of $102.9 million in Investment Income (Loss), partially offset by a reduction in Performance Fees and Allocations of $33.2 million. The increase in Investment Income (Loss) was due to the overall increase in the unrealized value for our BCP funds, which resulted in a net IRR of 18.1% for the six months ended June 30, 2010 compared to negative 1% for the six months ended June 30, 2009. In 2009, BCP IV contributed $124.0 million of Performance Fees and Allocations compared to $81.0 million in the six months ended June 30, 2010. Additionally, Total Management Fees rose $18.9 million from the prior year to $180.6 million in the six months ended June 30, 2010, primarily due to a one-time fee earned in the first quarter related to the exit of one of our fund investments.

The Realized Performance Fees and Allocations for the six months ended June 30, 2010 of $47.3 million was primarily attributable to the secondary offering of TRW Automotive, one of our publicly traded portfolio investments, and distributions from certain of our investments in the financial services industries. Realized Investment Income (Loss) was $2.6 million for the six months ended June 30, 2010, an increase of $2.9 million compared to $(0.2) million for the six months ended June 30, 2009.

Expenses

Expenses were $65.1 million for the three months ended June 30, 2010, a decrease of $9.7 million, compared to $74.8 million for the three months ended June 30, 2009. The $9.7 million decrease was primarily attributed to a $23.8 million decrease in Performance Fee Related Compensation, which was partially offset by increases of $8.1 million and $5.9 million in Other Operating Expenses and Base Compensation, respectively. Performance Fee Related Compensation decreased $23.8 million to $(10.2) million compared to the prior year period, primarily due to the negative performance in BCP IV and BCOM which resulted in the reversal of prior period accrued performance fees related to unrealized valuation reductions on certain investments. Other Operating Expenses increased $8.1 million to $28.7 million, principally due to an increase in interest expense and fund raising costs.

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Expenses were $148.8 million for the six months ended June 30, 2010, an increase of $59.0 million compared to $89.8 million for the six months ended June 30, 2009. The $59.0 million increase was primarily attributed to a $46.6 million increase in Compensation and Benefits and a $12.4 million increase in Other Operating Expenses. Performance Fee Related Compensation increased $30.6 million primarily due to the fact that the six months ended June 30, 2009 included a $28.4 million reversal of prior period Carried Interest allocations to certain personnel, a result of the net depreciation in fair value of certain portfolio investments, compared with a reversal of $4.0 million in the six months ended June 30, 2010. Base Compensation increased $16.0 million. Other Operating Expenses increased $12.4 million, driven principally by an increase in interest expense and fund-raising costs.

Operating Metrics

The following operating metrics are used in the management of this business segment:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	2010 vs. 2009 $	2010 vs. 2009 %	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	2010 vs. 2009 $	2010 vs. 2009 %
	(Dollars in Thousands)							
Fee-Earning Assets Under Management								
Balance, Beginning of Period	$ 25,173,936	$ 25,461,139	$ (287,203)	-1%	$ 24,521,394	$ 25,509,163	$ (987,769)	-4%
Inflows, including Commitments	49,452	39,552	9,900	25%	866,350	76,675	789,675	N/M
Outflows, including Distributions	(8,828)		(8,828)	N/M	(180,458)	(9,745)	(170,713)	N/M
Market Appreciation (Depreciation)	(24,365)	(256,641)	232,276	91%	(17,091)	(332,043)	314,952	95%
Balance, End of Period (a)	$ 25,190,195	$ 25,244,050	$ (53,855)	-0%	$ 25,190,195	$ 25,244,050	$ (53,855)	-0%
Assets Under Management (End of Period) (a)	$ 28,360,282	$ 23,866,087	$ 4,494,195	19%	$ 28,360,282	$ 23,866,087	$ 4,494,195	19%
Capital Deployed								
Limited Partner Capital Invested	$ 469,808	$ 338,269	$ 131,539	39%	$ 857,712	$ 534,409	$ 323,303	60%

(a) Fee-Earning Assets Under Management and Assets Under Management include $505.0 million from a joint venture in Korea in which we are the minority interest holder.

Fee-Earning Assets Under Management

Fee-Earning Assets Under Management were $25.2 billion at June 30, 2010, relatively unchanged from June 30, 2009. Inflows of $49.5 million and outflows of $8.8 million were both driven by investment activity in our funds that charge management fees based on invested capital. Market depreciation of $24.4 million in the second quarter of 2010 was due to the foreign exchange impact on management fees earned from our joint venture in Korea, which has no impact on the performance of our funds. In the second quarter of 2009, market depreciation of $256.6 million represented certain assets in our BCP IV and BCOM funds that were valued at zero and for which we are no longer entitled to charge a management fee. Despite valuing these assets at zero (reduced from their previous nominal carrying value), BCP IV and BCOM achieved net returns of 11% and 1%, respectively, and generated a combined $97.2 million in performance fees and allocations in the second quarter of 2009.

Assets Under Management

Assets Under Management were $28.4 billion at June 30, 2010, an increase of $4.5 billion, or 19%, compared with $23.9 billion at June 30, 2009. The increase was primarily due to net appreciation of $5.8 billion in the fair value of our portfolio investments and inflows of $1.1 billion, partially offset by realizations of $2.3 billion.

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Limited Partner Capital Invested

Limited Partner Capital Invested was $469.8 million for the three months ended June 30, 2010, an increase of $131.5 million, or 39%, compared to $338.3 million for the three months ended June 30, 2009. Limited Partner Capital Invested was $857.7 million for the six months ended June 30, 2010, an increase of $323.3 million, or 60%, compared to $534.4 million for the six months ended June 30, 2009. The increases were primarily attributable to an increase in the average transaction size for the three and six months ended June 30, 2010 compared to the three and six months ended June 30, 2009, respectively.

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 Net Internal Rates of Return of our significant BCP funds:

	Net Total Change in Carrying Value (Realized and Unrealized) (a)					
	Three Months Ended June 30,		Six Months Ended June 30,		June 30, 2010 Inception to Date	
Fund	**2010**	**2009**	**2010**	**2009**	**Total**	**Realized (b)**
BCP IV	-1%	11%	8%	12%	39%	62%
BCP V	4%	1%	25%	-5%	-2%	15%

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

(a) Net total change in carrying value (realized and unrealized) is after management fees, expenses and Carried Interest allocations.

(b) Includes partially realized investments. Investments are considered partially realized when distributed proceeds, excluding current income (dividends, interest, etc.), are a material portion of invested capital.

The net internal rate of return for BCP IV for the quarter ended June 30, 2010 was negative compared to the positive returns in the same quarter last year due to unfavorable fluctuations in the share prices of certain of its public investments and foreign exchange rates, offset by an increase in value due to an agreement to sell a portion of an investment in the leisure sector. The net internal rate of return for BCP V for the quarter ended June 30, 2010 was higher compared to the positive returns in the same quarter last year due to continued improvement in operating performance of its private investments driven by companies in the hospitality, leisure and healthcare sectors.

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The following table presents the investment record of the private equity funds from inception through June 30, 2010 for funds with closed investment periods:

	Fully Invested Funds							
	Total Investments				Realized / Partially Realized Investments (a)			
Fund (Investment Period)	Total Invested Capital (Dollars in Millions)	Carrying Value (b)	Net IRR (c)	MOIC (d)	Total Invested Capital (Dollars in Millions)	Carrying Value (b) (e)	Net IRR (c)	MOIC (d)
BCP I (Oct 1987 / Oct 1993)	$ 679	$ 1,742	19%	2.6	$ 679	$ 1,742	19%	2.6
BCP II (Oct 1993 / Aug 1997)	1,292	3,251	32%	2.5	1,201	3,123	37%	2.6
BCP III (Aug 1997 / Nov 2002)	4,026	7,956	13%	2.0	3,402	6,938	18%	2.0
BCOM (June 2000 / Jun 2006)	2,132	2,841	7%	1.3	1,215	2,149	24%	1.8
BCP IV (Nov 2002 / Dec 2005)	7,219	17,399	39%	2.4	4,373	13,342	62%	3.1

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

(a) Investments are considered partially realized when distributed proceeds, excluding current income (dividends, interest, etc.), are a material portion of invested capital.
(b) Carrying value includes realized proceeds and unrealized fair value.
(c) The internal rate of return (IRR) represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized value. Net IRR is after management fees, expenses and Carried Interest.
(d) Multiple of Invested Capital (MOIC) represents carrying value, before management fees, expenses and Carried Interest, divided by total invested capital.
(e) The Realized / Partially Realized Carrying Value includes remaining unrealized value of $1.7 billion.

The following table presents the investment record of the private equity funds from inception through June 30, 2010 for funds with open investment periods:

	Funds in the Investment Period								
	Total Investments					Realized / Partially Realized Investments (a)			
Fund (Investment Period)	Available Capital (b)	Total Invested Capital (Dollars in Millions)	Carrying Value (c)	Net IRR (d)	MOIC (e)	Total Invested Capital (Dollars in Millions)	Carrying Value (c) (f)	Net IRR (d)	MOIC (e)
BCP V (Dec 2005 / Dec 2011)	$ 3,906	$ 17,428	$ 17,233	-2%	1.0	$ 1,504	$ 2,225	15%	1.5

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

(a) Investments are considered partially realized when distributed proceeds, excluding current income (dividends, interest, etc.) are a material portion of invested capital.
(b) Available Capital represents total capital commitments adjusted for certain expenses and expired or recallable capital, less invested capital, and includes $864.3 million committed to deals but not yet invested. The segment has $913.7 million of Available Capital that has been reserved for add-on investments in funds that are fully invested and $505.0 million in a joint venture.
(c) Carrying value includes realized proceeds and unrealized fair value.
(d) IRR represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized value. Net IRR is after management fees, expenses and Carried Interest.
(e) MOIC represents carrying value, before management fees, expenses and Carried Interest, divided by total invested capital.
(f) The Realized / Partially Realized Carrying Value includes remaining unrealized value of $819.3 million.

The Private Equity segment has two funds with closed investment periods, BCP IV and BCOM. As of June 30, 2010, 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 deemed worthless. BCOM is below its Carried Interest threshold but above the level at which all previously recorded clawback will have reversed. Any further Carried Interest reversals for BCOM will be allocated to current and former Blackstone personnel and have no effect on our results of operations.

The following table presents the Carried Interest status of our private equity funds in their investment period which are currently not generating performance fees as of June 30, 2010:

		Gain to Cross Carried Interest Threshold (a)	
Funds in the Investment Period	Available Capital (b)	Amount	% Change in Total Enterprise Value (c)
	(Dollars in Millions)		
BCP V (Dec 2005 / Dec 2011)	$ 3,906	$ 4,599	11%

(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) Available Capital represents total capital commitments, adjusted for certain expenses and expired or recallable capital, less invested capital (including side-by-side investments).

(c) Total Enterprise Value is the respective fund s pro rata ownership of the privately held portfolio companies Enterprise Value and the Equity Value of the public portfolio companies based on fair values 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, 2010	Three Months Ended June 30, 2009	2010 vs. 2009 $	2010 vs. 2009 %	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	2010 vs. 2009 $	2010 vs. 2009 %
	(Dollars in Thousands)							
Segment Revenues								
Management Fees								
Base Management Fees	$ 82,916	$ 81,517	$ 1,399	2%	$ 165,976	$ 161,715	$ 4,261	3%
Transaction and Other Fees, Net	2,979	2,879	100	3%	4,921	6,019	(1,098)	-18%
Management Fee Offsets	(110)	(486)	376	77%	(599)	(1,679)	1,080	64%
Total Management Fees	85,785	83,910	1,875	2%	170,298	166,055	4,243	3%
Performance Fees and Allocations								
Realized	16,319	4,590	11,729	N/M	22,267	5,236	17,031	N/M
Unrealized	21,117	(51,960)	73,077	N/M	32,508	(281,179)	313,687	N/M
Total Performance Fees and Allocations	37,436	(47,370)	84,806	N/M	54,775	(275,943)	330,718	N/M
Investment Income (Loss)								
Realized	3,900	1,345	2,555	190%	6,532	2,742	3,790	138%
Unrealized	79,543	(59,408)	138,951	N/M	126,435	(126,647)	253,082	N/M
Total Investment Income (Loss)	83,443	(58,063)	141,506	N/M	132,967	(123,905)	256,872	N/M
Interest and Dividend Revenue	2,178	197	1,981	N/M	4,896	581	4,315	N/M
Other	(390)	2,405	(2,795)	N/M	(2,266)	1,736	(4,002)	N/M
Total Revenues	208,452	(18,921)	227,373	N/M	360,670	(231,476)	592,146	N/M
Expenses								
Compensation and Benefits								
Base Compensation	44,528	39,207	5,321	14%	84,678	75,209	9,469	13%
Performance Fee Related								
Realized	8,895	(542)	9,437	N/M	10,419	1,596	8,823	N/M
Unrealized	15,999	(45,489)	61,488	N/M	22,936	(120,948)	143,884	N/M
Total Compensation and Benefits	69,422	(6,824)	76,246	N/M	118,033	(44,143)	162,176	N/M
Other Operating Expenses	17,647	12,978	4,669	36%	31,937	25,593	6,344	25%
Total Expenses	87,069	6,154	80,915	N/M	149,970	(18,550)	168,520	N/M
Economic Net Income (Loss)	$ 121,383	$ (25,075)	$ 146,458	N/M	$ 210,700	$ (212,926)	$ 423,626	N/M

Revenues

Revenues were $208.5 million for the three months ended June 30, 2010, a significant improvement of $227.4 million compared to $(18.9) million for the three months ended June 30, 2009. The increase in revenues was attributable to an improvement of $141.5 million in Investment Income (Loss), an improvement of $84.8 million in Performance Fees and Allocations, and an increase of $1.9 million in Total Management Fees.

Investment Income (Loss) was $83.4 million for the three months ended June 30, 2010, an improvement of $141.5 million compared to $(58.1) million for the three months ended June 30, 2009. Performance Fees and Allocations, which are determined on a fund by fund basis, were $37.4 million for the three months ended

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June 30, 2010, an improvement of $84.8 million compared to $(47.4) million for the prior year. These improvements were driven by the improved performance of our carry funds, which had a net IRR of 17% for the second quarter of 2010 compared to a net IRR of (20)% in the second quarter of 2009. The improved performance in the real estate carry funds, specifically our holdings in Hilton and EOP, was due to both improved current operating performance and projected cash flows across our investments. BREP IV, BREP Europe III and our real estate debt investment funds contributed to the improvement in Performance Fees and Allocations for the three months ended June 30, 2010. Investment Income (Loss) was driven by BREP VI. In the three months ended June 30, 2009, the funds experienced significant unrealized valuation reductions. As a result, prior period performance fees were reversed, primarily in BREP IV, resulting in a loss of $(47.4) million for the second quarter of 2009.

The Realized Performance Fees and Allocations and Investment Income (Loss) for the three months ended June 30, 2010 of $16.3 million and $3.9 million, respectively, were improved from 2009. The increase in realized Performance Fees and Allocations was driven by the positive performance of our real estate debt investment funds.

Total Management Fees were $85.8 million for the three months ended June 30, 2010, an increase of $1.9 million compared to $83.9 million for the three months ended June 30, 2009. Base Management Fees were $82.9 million for the three months ended June 30, 2010, an increase of $1.4 million compared to the prior year, driven by an increase in Fee-Earning Assets Under Management of 1% from the prior year, which was primarily from capital invested by our real estate debt investment funds.

Revenues were $360.7 million for the six months ended June 30, 2010, an increase of $592.1 million compared to $(231.5) million for the six months ended June 30, 2009. The improvement in Performance Fees and Allocations was driven by the improved performance of our carry funds as well as a decrease in the reversal of Blackstone s prior period Carried Interest allocations. The increase in Investment Income (Loss) was due to improved performance of the segment s funds, particularly related to our office and lodging sector investments. Specifically, for the six months ended June 30, 2010 the segment s carry funds had a net IRR of 29% compared to (34)% during the six months ended June 30, 2009. Base Management Fees increased $4.3 million, driven by an increase of 1% in Fee-Earning Assets Under Management from June 30, 2009.

Expenses

Expenses were $87.1 million for the three months ended June 30, 2010, an increase of $80.9 million, compared to $6.2 million for the three months ended June 30, 2009. The $80.9 million increase was primarily attributed to a $70.9 million increase in Performance Fee Related Compensation, a $5.3 million increase in Base Compensation and a $4.7 million increase in Other Operating Expenses. Performance Fee Related Compensation was $24.9 million, an increase of $70.9 million compared to $(46.0) million for the prior year, a result of positive Performance Fees and Allocations revenue in the current year period compared to the reversal of prior period accrued performance fees in the prior year period. Other Operating Expenses increased $4.7 million to $17.6 million, principally due to an increase in interest expense. Realized Performance Fee Related Compensation was driven by the same factors which drove Realized Performance Fees and Allocations Revenue.

Expenses were $150.0 million for the six months ended June 30, 2010, an increase of $168.5 million, compared to $(18.6) million for the six months ended June 30, 2009. The $168.5 million increase was primarily attributed to a $152.7 million increase in Performance Fee Related Compensation, a $9.5 million increase in Base Compensation and a $6.3 million increase in Other Operating Expenses. Performance Fee Related Compensation increased $152.7 million, primarily as a result of positive Performance Fees and Allocations revenue in the current year period compared to the reversal of prior period accrued performance fees in the prior year period. Other Operating Expenses increased $6.3 million due to an increase in interest expense.

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Operating Metrics

The following operating metrics are used in the management of this business segment:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	2010 vs. 2009 $	2010 vs. 2009 %	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	2010 vs. 2009 $	2010 vs. 2009 %
	(Dollars in Thousands)							
Fee-Earning Assets Under Management								
Balance, Beginning of Period	$ 23,820,697	$ 22,867,992	$ 952,705	4%	$ 23,708,057	$ 22,970,438	$ 737,619	3%
Inflows, including Commitments	333,072	560,332	(227,260)	-41%	608,910	748,656	(139,746)	-19%
Outflows, including Distributions	(50,667)	(135,190)	84,523	63%	(59,929)	(211,956)	152,027	72%
Market Appreciation (Depreciation)	(261,742)	232,047	(493,789)	N/M	(415,678)	18,043	(433,721)	N/M
Balance, End of Period	$ 23,841,360	$ 23,525,181	$ 316,179	1%	$ 23,841,360	$ 23,525,181	$ 316,179	1%
Assets Under Management (End of Period)	$ 23,922,589	$ 20,195,478	$ 3,727,111	18%	$ 23,922,589	$ 20,195,478	$ 3,727,111	18%
Capital Deployed								
Limited Partner Capital Invested	$ 643,817	$ 252,687	$ 391,130	155%	$ 1,068,685	$ 467,810	$ 600,875	128%

Fee-Earning Assets Under Management

Fee-Earning Assets Under Management were $23.8 billion at June 30, 2010, an increase of $316.2 million, or 1%, compared with $23.5 billion at June 30, 2009. Current period inflows of $333.1 million were primarily related to capital invested by our real estate debt investment funds. Current period outflows were $50.7 million, primarily due to realizations in our real estate debt funds. Market depreciation in the current year period of $261.7 million was primarily due to the impact of unfavorable foreign exchange fluctuations on committed capital for our European focused real estate fund which was partially offset by net valuation increases for certain of our real estate debt investment funds that charge management fees based on net asset value. Prior year market appreciation of $232.0 million was primarily due to the favorable foreign exchange impact on commitments from our European focused real estate fund. Despite the foreign exchange impact, BREP Europe III was able to achieve a net return of 34% in the second quarter of 2010 (there were no investments during the second quarter of 2009).

Assets Under Management

At June 30, 2010, Assets Under Management were $23.9 billion, an increase of $3.7 billion, or 18%, compared with $20.2 billion at June 30, 2009. The change was primarily due to market appreciation of $2.8 billion and capital raised by our real estate debt investment funds, partially offset by realizations and other outflows.

Limited Partner Capital Invested

For the three months ended June 30, 2010, Limited Partner Capital Invested was $643.8 million, an increase of $391.1 million, or 155%, from $252.7 million for the three months ended June 30, 2009. Limited Partner Capital Invested was $1.1 billion for the six months ended June 30, 2010, an increase of $600.9 million or 128%, from $467.8 million for the six months ended June 30, 2009. These increases primarily reflected increased investment activity by our real estate debt investment funds and add-on investments in our BREP funds.

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

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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 Net Internal Rates of Return of our significant real estate funds:

	Net Total Change in Carrying Value (Realized and Unrealized) (a)					
	Three Months Ended June 30,		Six Months Ended June 30,		June 30, 2010 Inception to Date	
Fund	**2010**	**2009**	**2010**	**2009**	**Total**	**Realized (b)**
BREP IV	6%	-18%	6%	-33%	14%	69%
BREP V	13%	-21%	16%	-36%	-2%	76%
BREP International II	5%	-10%	11%	-29%	-20%	3%
BREP International	-2%	8%	-4%	7%	28%	36%
BREP VI	31%	-23%	62%	-36%	-11%	95%
BREP Europe III	34%	N/A	128%	N/A	23%	N/A
BSSF II	4%	N/A	10%	N/A	22%	59%
BSSF I	3%	9%	11%	10%	15%	N/A
CMBS	2%	3%	12%	3%	25%	N/A

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

(a) Net total change in carrying value (realized and unrealized) is after management fees, expenses and performance fee allocations.
(b) Includes partially realized investments. Investments are considered partially realized when distributed proceeds, excluding current income (dividends, interest, etc.), are a material portion of invested capital.

The BREP funds net internal rates of return for the three and six months ended June 30, 2010 were improved for all funds (except BREP International, BSSF I and CMBS) compared to the negative returns for the BREP funds for the three and six months ended June 30, 2009. Generally, improvement in the fundamentals of the BREP funds hotels, improving market conditions in the BREP funds office investments and the opportunity to acquire certain property level debt below par, has led to increases in the valuation of our investments.

The following table presents the investment record of the real estate funds from inception through June 30, 2010 for funds with closed investment periods:

	Fully Invested Funds							
	Total Investments				Realized /Partially Realized Investments (a)			
Fund (Investment Period)	**Total Invested Capital**	**Total Carrying Value (b)**	**Net IRR (c)**	**MOIC (d)**	**Total Invested Capital**	**Total Carrying Value (b) (e)**	**Net IRR (c)**	**MOIC (d)**
	(Dollars in Millions)				(Dollars in Millions)			
Pre-BREP	$ 141	$ 345	33%	2.5	$ 141	$ 345	33%	2.5
BREP I (Sep 1994 / Oct 1996)	467	1,328	40%	2.8	467	1,328	40%	2.8
BREP II (Oct 1996 / Mar 1999)	1,219	2,525	19%	2.1	1,219	2,525	19%	2.1
BREP III (Apr 1999 / Apr 2003)	1,415	3,328	22%	2.4	1,338	3,300	23%	2.5
BREP Int l (Jan 2001 / Sep 2005)	757	1,577	28%	2.1	658	1,514	36%	2.3
BREP IV (Apr 2003 / Dec 2005)	2,737	3,662	14%	1.3	1,057	2,477	69%	2.3
BREP V (Dec 2005 / Feb 2007)	5,183	5,236	-2%	1.0	951	1,817	76%	1.9
BREP Int l II (Sep 2005 / Jun 2008)	1,778	1,114	-20%	0.6	208	248	4%	1.2

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

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(a) Investments are considered partially realized when distributed proceeds, excluding current income (rent, dividends, interest, etc.), are a material portion of invested capital.
(b) Carrying value includes realized proceeds and unrealized fair value.
(c) IRR represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized fair value. Net IRR is after management fees, expenses and Carried Interest.
(d) MOIC represents carrying value, before management fees, expenses and Carried Interest, divided by total invested capital.
(e) The Total Realized / Partially Realized Carrying Value includes remaining unrealized value of $721.9 million.

The following table presents the investment record of the real estate funds, excluding separately managed accounts, from inception through June 30, 2010 for funds with open investment periods:

	Funds in the Investment Period				
		Total Investment			
Fund (Investment Period)	Available Capital (a)	Total Invested Capital	Carrying Value (b)	Net IRR (c)	MOIC (d)
	(Dollars in Millions)				
BREP VI (Feb 2007 / Aug 2012)	$ 5,718	$ 5,321	$ 4,516	-11%	0.8
BREP Europe III (Jun 2008 / Dec 2013)	3,920	126	320	23%	2.5
BSSF II (Jul 2009 / Aug 2017)	435	520	624	22%	1.2

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

(a) Available Capital represents total capital commitments, adjusted for certain expenses and expired or recallable capital, less invested capital, and includes $1.4 billion committed to deals but not yet invested. Additionally, the segment has $1.1 billion of Available Capital that has been reserved for add-on investments in funds that are fully invested.
(b) Carrying value includes realized proceeds and unrealized fair value.
(c) IRR represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized fair value. Net IRR is after management fees, expenses and Carried Interest.
(d) MOIC represents carrying value, before management fees, expenses and Carried Interest, divided by total invested capital.

The following table presents the Carried Interest status of our real estate funds with expired investment periods which are currently not generating performance fees as of June 30, 2010:

	Gain to Cross Carried Interest Threshold (b)	
Fully Invested Funds (a)	Amount	% Change in Total Enterprise Value (c)
	(Dollars in Millions)	
BREP V (Dec 2005 / Feb 2007)	$ 1,188	9%
BREP Int 1 II (Sep 2005 / Jun 2008)	$ 1,038	18%

(a) As of June 30, 2010: (a) BREP International was above its Carried Interest preferred return threshold even if all remaining investments were deemed worthless, and (b) BREP IV was above its Carried Interest preferred return threshold.

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(b) 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.

(c) Total Enterprise Value is the respective fund s pro rata ownership of the privately held portfolio companies Enterprise Value and the Equity Value of the public por