

Blackstone Group L.P.  
Form 10-Q  
August 06, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**FORM 10-Q**

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2015**  
**OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM            TO**  
**Commission File Number: 001-33551**

**The Blackstone Group L.P.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**345 Park Avenue**

**New York, New York 10154**

(Address of principal executive offices)(Zip Code)

**(212) 583-5000**

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(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

The number of the Registrant's voting common units representing limited partner interests outstanding as of July 31, 2015 was 555,683,550. The number of the Registrant's non-voting common units representing limited partner interests outstanding as of July 31, 2015 was 59,083,468.

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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, indicator, believes, expects, potential, continues, will, should, seeks, approximately, predicts, intends, plans, estimates, anticipates or the negative version of these words or other words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2014 and in this report, as such factors may be updated from time to time in our periodic filings with the United States Securities and Exchange Commission (SEC), which are accessible on the SEC's website at [www.sec.gov](http://www.sec.gov). These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. The forward-looking statements speak only as of the date of this report, and we undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

### **Website and Social Media Disclosure**

We use our website ([www.blackstone.com](http://www.blackstone.com)), Facebook page ([www.facebook.com/blackstone](http://www.facebook.com/blackstone)), Twitter ([www.twitter.com/blackstone](http://www.twitter.com/blackstone)), LinkedIn ([www.linkedin.com/company/the-blackstone-group](http://www.linkedin.com/company/the-blackstone-group)), Instagram ([instagram.com/Blackstone](http://instagram.com/Blackstone)) and YouTube ([www.youtube.com/user/blackstonegroup](http://www.youtube.com/user/blackstonegroup)) accounts as channels of distribution of company information. The information we post through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following our press releases, SEC filings and public conference calls and webcasts. In addition, you may automatically receive e-mail alerts and other information about Blackstone when you enroll your e-mail address by visiting the Contact Us/Email Alerts section of our website at [ir.blackstone.com](http://ir.blackstone.com) and the Alerts & Subscriptions page under News & Views at [www.blackstone.com](http://www.blackstone.com). The contents of our website, any alerts and social media channels are not, however, a part of this report.

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

Blackstone Funds, our funds and our investment funds refer to the private equity funds, real estate funds, funds of hedge funds, credit-focused funds, collateralized loan obligation (CLO) and collateralized debt obligation (CDO) vehicles, real estate investment trusts and registered investment companies that are managed by Blackstone. Our carry funds refers to the private equity funds, real estate funds and certain of the credit-focused funds (with multi-year drawdown, commitment-based structures that only pay carry on the realization of an investment) that are managed by Blackstone. Blackstone's Private Equity segment comprises its management of corporate private equity funds (including our sector and regional focused funds), which we refer to collectively as our Blackstone Capital Partners (BCP) funds, certain multi-asset class investment funds which we refer to collectively as our Blackstone Tactical Opportunities Accounts (Tactical Opportunities), and Strategic Partners Fund Solutions (Strategic Partners), a secondary private fund of funds business. We refer to our real estate opportunistic funds as our Blackstone Real Estate Partners (BREP) funds and our real estate debt investment funds as our Blackstone Real Estate Debt Strategies (BREDS) funds. We refer to our core+ real estate funds which invest with a more modest risk profile and lower leverage as Blackstone Property Partners (BPP) funds. We refer to our listed real estate investment trusts as REITs. Our hedge funds refers to our funds of hedge funds, certain of our real estate debt investment funds including a registered investment company and certain other credit-focused funds which are managed by Blackstone.

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

- (a) the fair value of the investments held by our carry funds and our side-by-side and co-investment entities managed by us, plus the capital that we are entitled to call from investors in those funds and entities pursuant to the terms of their respective capital commitments, including capital commitments to funds that have yet to commence their investment periods,
- (b) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (c) the invested capital or fair value of assets we manage pursuant to separately managed accounts,
- (d) the amount of debt and equity outstanding for our CLOs and CDOs during the reinvestment period,
- (e) the aggregate par amount of collateral assets, including principal cash, for our CLOs and CDOs after the reinvestment period,
- (f) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies, and
- (g) the fair value of common stock, preferred stock, convertible debt, or similar instruments issued by our public REIT.

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

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

- (a) for our Private Equity segment funds and Real Estate segment carry funds including certain real estate debt investment funds and certain of our Hedge Fund Solutions funds, the amount of capital commitments, remaining invested capital, fair value or par value of assets held, depending on the fee terms of the fund,
- (b) for our credit-focused carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,
- (c) the remaining invested capital of co-investments managed by us on which we receive fees,
- (d) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (e) the invested capital or fair value of assets we manage pursuant to separately managed accounts,

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

(g) the aggregate par amount of collateral assets, including principal cash, of our CLOs and CDOs, and

(h) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies.

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

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

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

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

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 2,164,640	\$ 1,412,472
Cash Held by Blackstone Funds and Other	774,740	1,808,092
Investments (including assets pledged of \$64,383 and \$45,764 at June 30, 2015 and December 31, 2014, respectively)	15,919,810	22,765,589
Accounts Receivable	661,580	559,321
Reverse Repurchase Agreements	61,376	
Due from Affiliates	1,257,311	1,128,408
Intangible Assets, Net	409,828	458,833
Goodwill	1,787,392	1,787,392
Other Assets	338,277	324,760
Deferred Tax Assets	1,308,547	1,252,230
<b>Total Assets</b>	<b>\$ 24,683,501</b>	<b>\$ 31,497,097</b>
<b>Liabilities and Partners' Capital</b>		
Loans Payable	\$ 5,836,622	\$ 8,923,841
Due to Affiliates	1,376,466	1,490,088
Accrued Compensation and Benefits	2,441,232	2,439,257
Securities Sold, Not Yet Purchased	138,783	85,878
Repurchase Agreements	41,654	29,907
Accounts Payable, Accrued Expenses and Other Liabilities	936,976	1,194,579
<b>Total Liabilities</b>	<b>10,771,733</b>	<b>14,163,550</b>
<b>Commitments and Contingencies</b>		
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<b>196,600</b>	<b>2,441,854</b>
<b>Partners' Capital</b>		
The Blackstone Group L.P. Partners' Capital		
Partners' Capital (common units: 616,730,302 issued and outstanding as of June 30, 2015; 595,624,855 issued and outstanding as of December 31, 2014)	7,176,451	6,999,830
Appropriated Partners' Capital		81,301
Accumulated Other Comprehensive Loss	(36,122)	(20,864)
<b>Total The Blackstone Group L.P. Partners' Capital</b>	<b>7,140,329</b>	<b>7,060,267</b>
<b>Non-Controlling Interests in Consolidated Entities</b>	<b>2,314,390</b>	<b>3,415,356</b>
<b>Non-Controlling Interests in Blackstone Holdings</b>	<b>4,260,449</b>	<b>4,416,070</b>



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<b>Total Partners Capital</b>	13,715,168	14,891,693
<b>Total Liabilities and Partners Capital</b>	\$ 24,683,501	\$ 31,497,097

continued

See notes to condensed consolidated financial statements.

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

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

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
<b>Assets</b>		
Cash Held by Blackstone Funds and Other	\$ 507,512	\$ 1,325,094
Investments	4,514,950	7,759,322
Accounts Receivable	228,348	131,996
Due from Affiliates	61,420	65,124
Other Assets	8,111	48,441
<b>Total Assets</b>	<b>\$ 5,320,341</b>	<b>\$ 9,329,977</b>
<b>Liabilities</b>		
Loans Payable	\$ 3,026,959	\$ 6,787,100
Due to Affiliates	106,523	182,107
Accounts Payable, Accrued Expenses and Other	534,105	697,149
<b>Total Liabilities</b>	<b>\$ 3,667,587</b>	<b>\$ 7,666,356</b>

See notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
<b>Revenues</b>				
Management and Advisory Fees, Net	\$ 574,132	\$ 619,523	\$ 1,190,900	\$ 1,192,683
<b>Performance Fees</b>				
Realized				
Carried Interest	937,483	641,659	2,145,077	975,282
Incentive Fees	47,682	39,504	77,320	83,298
Unrealized				
Carried Interest	(441,930)	660,682	(68,090)	991,076
Incentive Fees	25,070	54,639	87,106	118,872
Total Performance Fees	568,305	1,396,484	2,241,413	2,168,528
<b>Investment Income</b>				
Realized				
	157,823	215,710	345,753	368,736
Unrealized				
	(100,999)	10,809	(82,726)	24,309
Total Investment Income	56,824	226,519	263,027	393,045
<b>Interest and Dividend Revenue</b>				
Other	21,965	15,340	43,885	29,409
	3,976	(6)	(1,665)	863
<b>Total Revenues</b>	<b>1,225,202</b>	<b>2,257,860</b>	<b>3,737,560</b>	<b>3,784,528</b>
<b>Expenses</b>				
<b>Compensation and Benefits</b>				
Compensation				
	473,019	500,641	1,032,578	985,992
<b>Performance Fee Compensation</b>				
Realized				
Carried Interest	238,033	260,301	530,281	409,699
Incentive Fees	21,837	18,509	34,064	42,144
Unrealized				
Carried Interest	(50,559)	114,296	23,821	155,026
Incentive Fees	6,130	24,692	31,091	48,223
Total Compensation and Benefits	688,460	918,439	1,651,835	1,641,084
General, Administrative and Other	146,859	136,492	277,832	272,046
Interest Expense	37,414	29,847	68,784	54,514
Fund Expenses	41,699	5,003	58,549	9,988
<b>Total Expenses</b>	<b>914,432</b>	<b>1,089,781</b>	<b>2,057,000</b>	<b>1,977,632</b>
<b>Other Income</b>				
Net Gains from Fund Investment Activities	82,015	138,585	175,570	208,740
<b>Income Before Provision for Taxes</b>	<b>392,785</b>	<b>1,306,664</b>	<b>1,856,130</b>	<b>2,015,636</b>
<b>Provision for Taxes</b>	<b>43,251</b>	<b>83,282</b>	<b>142,595</b>	<b>137,379</b>

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<b>Net Income</b>	349,534	1,223,382	1,713,535	1,878,257
<b>Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	13,780	22,486	21,307	68,278
<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities Interests in Consolidated Entities</b>	66,716	140,061	148,512	184,022
<b>Net Income Attributable to Non-Controlling Interests in Blackstone Holdings</b>	134,870	543,819	780,100	843,324
<b>Net Income Attributable to The Blackstone Group L.P.</b>	\$ 134,168	\$ 517,016	\$ 763,616	\$ 782,633
<b>Distributions Declared Per Common Unit</b>	\$ 0.89	\$ 0.35	\$ 1.67	\$ 0.93
<b>Net Income Per Common Unit</b>				
Common Units, Basic	\$ 0.21	\$ 0.85	\$ 1.21	\$ 1.30
Common Units, Diluted	\$ 0.21	\$ 0.85	\$ 1.21	\$ 1.29
<b>Weighted-Average Common Units Outstanding</b>				
Common Units, Basic	631,881,205	606,690,740	628,597,331	604,123,284
Common Units, Diluted	634,192,649	609,897,829	632,730,589	607,797,760
<b>Revenues Earned from Affiliates</b>				
Management and Advisory Fees, Net	\$ 28,831	\$ 81,343	\$ 76,943	\$ 155,375

See notes to condensed consolidated financial statements.

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net Income	\$ 349,534	\$ 1,223,382	\$ 1,713,535	\$ 1,878,257
Other Comprehensive Income (Loss), Net of Tax Adjustment	14,876	(564)	(32,912)	(1,730)
Comprehensive Income	364,410	1,222,818	1,680,623	1,876,527
Less				
Comprehensive Income in Redeemable Non-Controlling Interests in Consolidated Entities	13,780	22,486	21,307	68,278
Comprehensive Income Attributable to Non-Controlling Interests in Consolidated Entities	75,700	136,166	130,858	180,009
Comprehensive Income Attributable to Non-Controlling Interests in Blackstone Holdings	134,870	543,819	780,100	843,324
Comprehensive Income Attributable to The Blackstone Group L.P.	\$ 140,060	\$ 520,347	\$ 748,358	\$ 784,916

See notes to condensed consolidated financial statements.

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

(Dollars in Thousands, Except Unit Data)

	The Blackstone Group L.P. Accumulated					Non- Controlling Interests in Consolidated Entities	Non- Controlling Interests in Blackstone Holdings	Total Partners Capital	Redeemable Non- Controlling Interests in Consolidated Entities
	Common Units	Partners Capital	Appro- priated Partners Capital	Other Compre- hensive Income (Loss)	Total				
<b>Balance at December 31, 2014</b>	595,624,855	\$ 6,999,830	\$ 81,301	\$ (20,864)	\$ 7,060,267	\$ 3,415,356	\$ 4,416,070	\$ 14,891,693	\$ 2,441,854
Deconsolidation of CLOs and Funds on adoption of ASU 2015-02			(90,928)		(90,928)	(1,002,728)		(1,093,656)	(2,258,289)
Adjustment to Appropriated Partners Capital on adoption of ASU 2014-13			9,627		9,627			9,627	
Net Income		763,616			763,616	148,512	780,100	1,692,228	21,307
Currency Translation Adjustment				(15,258)	(15,258)	(39,546)		(54,804)	
Capital Contributions						221,797		221,797	2,241
Capital Distributions		(1,040,920)			(1,040,920)	(410,702)	(1,005,848)	(2,457,470)	(10,513)
Transfer of Non-Controlling Interests in Consolidated Entities						(18,299)		(18,299)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		17,714			17,714			17,714	
Equity-Based Compensation		255,179			255,179		226,774	481,953	
Net Delivery of Vested Blackstone Holdings Partnership Units and Blackstone Common Units	10,593,940	(33,757)			(33,757)		(1,903)	(35,660)	
Excess Tax Benefits Related to Equity-Based Compensation, Net		60,045			60,045			60,045	
Change in The Blackstone Group L.P.'s Ownership Interest		67,809			67,809		(67,809)		
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	10,511,507	86,935			86,935		(86,935)		
<b>Balance at June 30, 2015</b>	616,730,302	\$ 7,176,451	\$	\$ (36,122)	\$ 7,140,329	\$ 2,314,390	\$ 4,260,449	\$ 13,715,168	\$ 196,600

continued

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See notes to condensed consolidated financial statements.

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

(Dollars in Thousands, Except Unit Data)

	The Blackstone Group L.P.					Non-Controlling Interests in Consolidated Entities	Non-Controlling Interests in Blackstone Holdings	Total Partners Capital	Redeemable Non-Controlling Interests in Consolidated Entities
	Common Units	Partners Capital	Appropriated Partners Capital	Accumulated Other Comprehensive Income (Loss)	Total				
<b>Balance at December 31, 2013</b>	572,592,279	\$ 6,002,592	\$ 300,708	\$ 3,466	\$ 6,306,766	\$ 2,464,047	\$ 3,656,416	\$ 12,427,229	\$ 1,950,442
Transition and Acquisition Adjustments Relating to Consolidation of CLO Entities			8,398		8,398			8,398	
Consolidation of Fund Entity						4,511		4,511	30,922
Net Income		782,633			782,633	184,022	843,324	1,809,979	68,278
Allocation of Losses of Consolidated CLO Entities			(34,505)		(34,505)	34,505			
Currency Translation Adjustment				2,283	2,283	(4,013)		(1,730)	
Allocation of Currency Translation Adjustment of Consolidated CLO Entities			(4,013)		(4,013)	4,013			
Reclassification of Currency Translation Adjustment Due to Deconsolidation of CLO Entities		(2,695)			(2,695)			(2,695)	
Capital Contributions						256,603		256,603	447,785
Capital Distributions		(550,393)			(550,393)	(248,011)	(572,730)	(1,371,134)	(213,258)
Transfer of Non-Controlling Interests in Consolidated Entities						(3,014)		(3,014)	
Purchase of Interests from Certain Non-Controlling Interest Holders		(6)			(6)			(6)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		14,996			14,996			14,996	
Equity-Based Compensation Relinquished with Deconsolidation and Liquidation of Partnership		232,313			232,313		215,825	448,138	
Net Delivery of Vested Blackstone Holdings Partnership Units and Blackstone Common Units	6,185,592	(24,860)			(24,860)		(430)	(25,290)	
Excess Tax Benefits Related to Equity-Based Compensation, Net		12,915			12,915			12,915	
Change in The Blackstone Group L.P.'s Ownership Interest		(11,704)			(11,704)		11,704		
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	9,594,080	64,497			64,497		(64,497)		



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<b>Balance at June 30, 2014</b>	588,371,951	\$ 6,520,288	\$ 218,279	\$ 5,749	\$ 6,744,316	\$ 2,692,608	\$ 4,089,612	\$ 13,526,536	\$ 2,284,169
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See notes to condensed consolidated financial statements.

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

(Dollars in Thousands)

	Six Months Ended June 30,	
	2015	2014
<b>Operating Activities</b>		
Net Income	\$ 1,713,535	\$ 1,878,257
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Blackstone Funds Related		
Unrealized Appreciation on Investments Allocable to Non-Controlling Interests in Consolidated Entities	(28,903)	(290,698)
Net Realized Gains on Investments	(2,689,849)	(1,457,777)
Changes in Unrealized Losses on Investments Allocable to The Blackstone Group L.P.	53,219	45,811
Non-Cash Performance Fees	37,652	(930,489)
Non-Cash Performance Fee Compensation	619,256	655,092
Equity-Based Compensation Expense	482,683	381,553
Excess Tax Benefits Related to Equity-Based Compensation	(60,045)	(17,938)
Amortization of Intangibles	48,422	51,824
Other Non-Cash Amounts Included in Net Income	167,112	113,063
Cash Flows Due to Changes in Operating Assets and Liabilities		
Cash Held by Blackstone Funds and Other	1,033,351	(106,245)
Cash Relinquished in Deconsolidation and Liquidation of Partnership	(442,370)	(293,989)
Accounts Receivable	28,916	280,586
Reverse Repurchase Agreements	(61,376)	118,263
Due from Affiliates	(85,616)	244,803
Other Assets	(87,332)	(30,289)
Accrued Compensation and Benefits	(577,607)	(340,604)
Securities Sold, Not Yet Purchased	56,906	(97,247)
Accounts Payable, Accrued Expenses and Other Liabilities	(444,242)	(440,090)
Repurchase Agreements	11,743	(313,675)
Due to Affiliates	(109,090)	3,672
Treasury Cash Management Strategies		
Investments Purchased	(2,013,059)	(1,595,138)
Cash Proceeds from Sale of Investments	2,035,454	1,767,007
Blackstone Funds Related		
Investments Purchased	(1,716,764)	(3,686,756)
Cash Proceeds from Sale or Pay Down of Investments	3,628,386	5,904,448
Net Cash Provided by Operating Activities	1,600,382	1,843,444
<b>Investing Activities</b>		
Purchase of Furniture, Equipment and Leasehold Improvements	(16,539)	(13,618)
Changes in Restricted Cash	5,843	5,841
Net Cash Used in Investing Activities	(10,696)	(7,777)

continued

See notes to condensed consolidated financial statements.



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

	<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Financing Activities</b>		
Distributions to Non-Controlling Interest Holders in Consolidated Entities	\$ (421,088)	\$ (449,914)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	220,243	690,755
Purchase of Interests from Certain Non-Controlling Interest Holders		(6)
Payments Under Tax Receivable Agreement	(82,830)	(80,565)
Net Settlement of Vested Common Units and Repurchase of Common and Blackstone Holdings Partnership Units	(35,660)	(25,290)
Excess Tax Benefits Related to Equity-Based Compensation	60,045	17,938
Proceeds from Loans Payable	675,831	490,101
Repayment and Repurchase of Loans Payable	(2,652)	(7,934)
Distributions to Unitholders	(2,046,768)	(1,123,123)
<b>Blackstone Funds Related</b>		
Proceeds from Loans Payable	888,535	42,197
Repayment of Loans Payable	(93,358)	(998,743)
Net Cash Used in Financing Activities	(837,702)	(1,444,584)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	184	(8)
<b>Net Increase in Cash and Cash Equivalents</b>	<b>752,168</b>	<b>391,075</b>
Cash and Cash Equivalents, Beginning of Period	1,412,472	831,998
Cash and Cash Equivalents, End of Period	\$ 2,164,640	\$ 1,223,073
<b>Supplemental Disclosure of Cash Flows Information</b>		
Payments for Interest	\$ 62,691	\$ 49,580
Payments for Income Taxes	\$ 91,513	\$ 89,792
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities</b>		
Non-Cash Contributions from Non-Controlling Interest Holders	\$ 1,022	\$ 10,553
Non-Cash Distributions to Non-Controlling Interest Holders	\$ (127)	\$ (11,355)
Net Activities Related to Capital Transactions of Consolidated Blackstone Funds	\$ (277)	\$ 5,239
Net Assets Related to the Consolidation of CLO Vehicles	\$	\$ 8,398
Net Assets Related to the Consolidation of Certain Fund Entities	\$	\$ 35,433
Notes Issuance Costs	\$ 5,269	\$ 4,375
Transfer of Interests to Non-Controlling Interest Holders	\$ (18,299)	\$ (3,014)

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Change in The Blackstone Group L.P.'s Ownership Interest	\$	67,809	\$ (11,704)
Net Settlement of Vested Common Units	\$	108,664	\$ 59,301
Conversion of Blackstone Holdings Partnership Units to Common Units	\$	86,935	\$ 64,497
Acquisition of Ownership Interests from Non-Controlling Interest Holders Deferred Tax Asset	\$	(108,594)	\$ (63,173)
Due to Affiliates	\$	90,880	\$ 48,177
Partners' Capital	\$	17,714	\$ 14,996

See notes to condensed consolidated financial statements.

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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements**

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

**1. ORGANIZATION**

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

The Partnership was formed as a Delaware limited partnership on March 12, 2007. The Partnership is managed and operated by its general partner, Blackstone Group Management L.L.C., which is in turn wholly owned and controlled by one of Blackstone s founders, Stephen A. Schwarzman (the Founder ), and Blackstone s other senior managing directors. The activities of the Partnership are conducted through its holding partnerships: Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P. (collectively, Blackstone Holdings , Blackstone Holdings Partnerships or the Holding Partnerships ). The Partnership, through its wholly owned subsidiaries, is the sole general partner in each of these Holding Partnerships.

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of the Partnership have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) for interim financial information and the instructions to Form 10-Q. The condensed consolidated financial statements, including these notes, are unaudited and exclude some of the disclosures required in audited financial statements. Management believes it has made all necessary adjustments (consisting of only normal recurring items) so that the condensed consolidated financial statements are presented fairly and that estimates made in preparing its condensed consolidated financial statements are reasonable and prudent. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Partnership s Annual Report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission.

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

All intercompany balances and transactions have been eliminated in consolidation.

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



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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

**Consolidation**

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

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

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

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

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

**Fair Value of Financial Instruments**

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

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

Level I Quoted prices are available in active markets for identical financial instruments as of the reporting date. The type of financial instruments in Level I include listed equities, listed derivatives and





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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)**

mutual funds with quoted prices. The Partnership does not adjust the quoted price for these investments, even in situations where Blackstone holds a large position and a sale could reasonably impact the quoted price.

**Level II** Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and loans, including corporate bonds and loans held within CLO vehicles, government and agency securities, less liquid and restricted equity securities, and certain over-the-counter derivatives where the fair value is based on observable inputs. Upon adoption of the new CLO measurement guidance adopted as of January 1, 2015, senior and subordinate notes issued by CLO vehicles are classified within Level II of the fair value hierarchy.

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

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

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

***Level II Valuation Techniques***

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

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

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

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



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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)**

Upon adoption of the new CLO measurement guidance adopted as of January 1, 2015, senior and subordinate notes issued by CLO vehicles are classified based on the more observable fair value of CLO assets less (a) the fair value of any beneficial interests held by Blackstone, and (b) the carrying value of any beneficial interests that represent compensation for services.

***Level III Valuation Techniques***

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

***Private Equity Investments*** The fair values of private equity investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization ( EBITDA ), the discounted cash flow method, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are based on unaudited information at the time received. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (for example, multiplying a key performance metric of the investee company such as EBITDA by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to EBITDA or price/earnings exit multiples.

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

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

***Credit-Focused Liabilities*** Credit-focused liabilities comprise senior and subordinate loans issued by Blackstone's consolidated CLO vehicles. Such liabilities have historically been valued using a discounted cash flow method. On the adoption of new accounting guidance as of January 1, 2015 and the application of a permitted measurement alternative, such liabilities are valued based on the more observable fair value of related assets held by CLO vehicles less (a) the fair value of any beneficial interests held by Blackstone and (b) the carrying value of any beneficial interest that represent compensation for services.

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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)**

***Level III Valuation Process***

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

**Investments, at Fair Value**

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

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

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

In addition, the Partnership has elected the fair value option for the assets and liabilities of CLO vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of variable interest entity consolidation guidance. The Partnership has also elected the fair value option for CLO vehicles consolidated as a result of the acquisitions of CLO management contracts or the acquisition of the share capital of CLO managers. Historically, the adjustment resulting from the difference between the fair value of assets and liabilities for each of these events was presented as a transition and acquisition adjustment to Appropriated Partners' Capital. Assets of the consolidated

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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)**

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 and acquisition are presented within Net Gains (Losses) from Fund Investment Activities. Expenses of consolidated CLO vehicles are presented in Fund Expenses. Historically, amounts attributable to Non-Controlling Interests in Consolidated Entities had a corresponding adjustment to Appropriated Partners Capital. On the adoption of the new CLO measurement guidance, there is no attribution of amounts to Non-Controlling Interests and no corresponding adjustment to Appropriated Partners Capital.

The Partnership has elected the fair value option for certain proprietary investments that would otherwise have been accounted for using the equity method of accounting. The fair value of such investments is based on quoted prices in an active market or using the discounted cash flow method. Changes in fair value are recognized in Investment Income (Loss) in the Condensed Consolidated Statements of Operations.

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

The investments of consolidated Blackstone Funds in funds of hedge funds ( Investee Funds ) are valued at net asset value ( NAV ) per share of the Investee Fund. In limited circumstances, the Partnership may determine, based on its own due diligence and investment procedures, that NAV per share does not represent fair value. In such circumstances, the Partnership will estimate the fair value in good faith and in a manner that it reasonably chooses, in accordance with the requirements of GAAP.

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

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

**Equity Method Investments**

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

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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)**

**Reverse Repurchase and Repurchase Agreements**

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

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

The Partnership takes possession of securities purchased under reverse repurchase agreements and is permitted to repledge, deliver or otherwise use such securities. The Partnership also pledges its financial instruments to counterparties to collateralize repurchase agreements. Financial instruments pledged that can be repledged, delivered or otherwise used by the counterparty are recorded in Investments in the Condensed Consolidated Statements of Financial Condition. Additional disclosures relating to reverse repurchase and repurchase agreements are discussed in Note 10. Reverse Repurchase and Repurchase Agreements .

Blackstone does not offset assets and liabilities relating to reverse repurchase agreements and repurchase agreements in its Condensed Consolidated Statements of Financial Condition. Additional disclosures relating to offsetting are discussed in Note 11. Offsetting of Assets and Liabilities .

**Securities Sold, Not Yet Purchased**

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

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

**Derivative Instruments**

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

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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)**

derivative instrument that is designated as, and is effective as, an economic hedge of a net investment in a foreign operation is reported in the cumulative translation adjustment section of other comprehensive income to the extent it is effective as a hedge. The ineffective portion of a net investment hedge is recognized in current period earnings.

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

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

The Partnership has elected to not offset derivative assets and liabilities or financial assets in its Condensed Consolidated Statements of Financial Condition, including cash, that may be received or paid as part of collateral arrangements, even when an enforceable master netting agreement is in place that provides the Partnership, in the event of counterparty default, the right to liquidate collateral and the right to offset a counterparty's rights and obligations.

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

Blackstone's disclosures regarding offsetting are discussed in Note 11. Offsetting of Assets and Liabilities .

**Affiliates**

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

**Distributions**

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

**Recent Accounting Developments**

In June 2014, the Financial Accounting Standards Board ( FASB ) issued amended guidance on revenue from contracts with customers. The guidance requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity is required to (a) identify the contract(s) with a customer, (b) identify the performance obligations in the contract, (c) determine the transaction price, (d) allocate the transaction price to the performance obligations in the contract, and (e) recognize revenue when (or as) the entity



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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)**

satisfies a performance obligation. In determining the transaction price, an entity may include variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized would not occur when the uncertainty associated with the variable consideration is resolved.

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

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

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

The accounting guidance is effective for the first interim or annual period beginning after December 15, 2014. Adoption did not have a material impact on Blackstone's financial statements. The amended disclosure guidance is effective for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The amended disclosure requirements are presented in Note 10. Reverse Repurchase and Repurchase Agreements. Adoption did not have a material impact on Blackstone's financial statements.

In August 2014, the FASB issued amended guidance on the measurement of financial assets and financial liabilities of a consolidated collateralized financing entity. Under the amended guidance, a reporting entity that consolidates a collateralized financing entity may elect to measure the financial assets and the financial liabilities using the more observable of the fair value of the financial assets and the fair value of the financial liabilities. When this measurement alternative is elected, a reporting entity's consolidated net income (loss) should reflect the reporting entity's own economic interest in the collateralized financing entity, including (a) changes in the fair value of the beneficial interests retained by the reporting entity and (b) beneficial interests that represent compensation for services. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted as of the beginning of the annual period. The Partnership adopted the amended guidance for the quarter ended June 30, 2015 and applied a modified retrospective approach as of January 1, 2015. As a result, prior periods have not been impacted. The guidance impacted the measurement of the financial liabilities of Blackstone's consolidated CLOs. Adoption did not have a material impact on Blackstone's financial statements.

In February 2015, the FASB issued amended guidance on consolidation. The amended guidance modifies the analysis that companies must perform in order to determine whether a legal entity should be consolidated. The amended guidance simplifies current consolidation rules by (a) reducing the number of consolidation models, (b) eliminating the risk that a reporting entity may have to consolidate a legal entity solely based on a fee

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arrangement with another legal entity, (c) placing more weight on the risk of loss in order to identify the party that has a controlling financial interest, (d) reducing the number of instances that related party guidance needs to be applied when determining the party that has a controlling financial interest, and changing rules for companies in certain industries that ordinarily employ limited partnership or VIE structures. The amended guidance is effective for public entities for interim and annual periods beginning after December 15, 2015. Early adoption, including adoption in an interim period, is permitted. The Partnership adopted the guidance for the quarter ended June 30, 2015 and applied a modified retrospective approach as of January 1, 2015. As a result, prior periods have not been impacted. As a result of adoption, certain Blackstone Funds were deconsolidated as of January 1, 2015 resulting in a reduction in consolidated assets and liabilities as of January 1, 2015 of \$8.0 billion and \$4.7 billion, respectively. The impact of adoption on Redeemable Non-Controlling Interests in Consolidated Entities, Appropriated Partners' Capital, and Non-Controlling Interests in Consolidated Entities as of January 1, 2015 was a reduction of \$2.3 billion, \$90.9 million and \$1.0 billion, respectively. Adoption of the amended guidance had no impact on Net Income Attributable to The Blackstone Group L.P.

In April 2015, the FASB issued amended guidance to simplify the presentation of debt issuance costs. The amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability rather than as an Other Asset, consistent with debt discounts. The amendments are effective for fiscal years beginning after December 15, 2015 and interim periods within those years. Early adoption is permitted for financial statements that have not previously been issued. The Partnership adopted the guidance as of June 30, 2015 and applied the guidance retrospectively. Adoption of the amended guidance did not have a material impact on Blackstone's financial statements.

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

The guidance is effective for fiscal years beginning after December 15, 2015 and for interim periods within those years. Early application is permitted. Blackstone adopted the guidance for the quarter ended June 30, 2015 and applied the guidance retrospectively. Adoption of the guidance did not have a material impact on Blackstone's financial statements.

**3. INTANGIBLE ASSETS**

Intangible Assets, Net consists of the following:

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
Finite-Lived Intangible Assets/Contractual Rights	\$ 1,464,017	\$ 1,464,017
Accumulated Amortization	(1,054,189)	(1,005,184)
<b>Intangible Assets, Net</b>	<b>\$ 409,828</b>	<b>\$ 458,833</b>

Amortization expense associated with Blackstone's intangible assets was \$23.6 million and \$48.4 million for the three and six month periods ended June 30, 2015, respectively, and \$25.6 million and \$51.8 million for the three and six month periods ended June 30, 2014, respectively.



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Amortization of Intangible Assets held at June 30, 2015 is expected to be \$95.6 million, \$85.6 million, \$46.5 million, \$46.5 million, and \$46.4 million for each of the years ending December 31, 2015, 2016, 2017, 2018, and 2019, respectively. Blackstone's intangible assets as of June 30, 2015 are expected to amortize over a weighted-average period of 6.6 years.

**4. INVESTMENTS**

Investments consists of the following:

	June 30, 2015	December 31, 2014
Investments of Consolidated Blackstone Funds	\$ 4,566,724	\$ 11,375,407
Equity Method Investments	3,162,211	3,240,825
Blackstone's Treasury Cash Management Strategies	1,699,912	1,666,061
Performance Fees	6,328,235	6,337,045
Other Investments	162,728	146,251
	\$ 15,919,810	\$ 22,765,589

Blackstone's share of Investments of Consolidated Blackstone Funds totaled \$522.5 million and \$704.9 million at June 30, 2015 and December 31, 2014, respectively.

**Investments of Consolidated Blackstone Funds**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Realized Gains	\$ 60,473	\$ 20,226	\$ 127,512	\$ 33,939
Net Change in Unrealized Gains (Losses)	(2,190)	68,333	1,743	41,119
Realized and Net Change in Unrealized Gains from Consolidated Blackstone Funds	58,283	88,559	129,255	75,058
Interest and Dividend Revenue Attributable to Consolidated Blackstone Funds	23,732	50,026	46,315	133,682
Other Income Net Gains from Fund Investment Activities	\$ 82,015	\$ 138,585	\$ 175,570	\$ 208,740

**Equity Method Investments**

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

Blackstone evaluates each of its equity method investments to determine if any were significant as defined by guidance from the United States Securities and Exchange Commission. As of and for the six months ended June 30, 2015 and 2014, no individual equity method investment held by Blackstone met the significance criteria. As such, Blackstone is not required to present summarized financial information for any of its equity method investments.

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The Partnership recognized net gains related to its equity method investments of \$19.5 million and \$135.8 million for the three months ended June 30, 2015 and 2014, respectively. The Partnership recognized net gains related to its equity method investments of \$181.6 million and \$233.0 million for the six months ended June 30, 2015 and 2014, respectively.

**Blackstone's Treasury Cash Management Strategies**

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Realized Gains (Losses)	\$ (3,442)	\$ 1,071	\$ (3,603)	\$ 4,165
Net Change in Unrealized Gains (Losses)	(15,049)	7,122	(3,938)	16,092
	\$ (18,491)	\$ 8,193	\$ (7,541)	\$ 20,257

**Performance Fees**

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

	<b>Private Equity</b>	<b>Real Estate</b>	<b>Hedge Fund Solutions</b>	<b>Credit</b>	<b>Total</b>
Performance Fees, December 31, 2014	\$ 2,215,584	\$ 3,721,751	\$ 15,031	\$ 384,679	\$ 6,337,045
Performance Fees Allocated as a Result of Changes in Fund Fair Values	1,190,791	836,288	32,205	87,621	2,146,905
Foreign Exchange Loss		(20,380)			(20,380)
Fund Distributions	(922,310)	(1,149,900)	(12,526)	(50,599)	(2,135,335)
Performance Fees, June 30, 2015	\$ 2,484,065	\$ 3,387,759	\$ 34,710	\$ 421,701	\$ 6,328,235

**Other Investments**

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>

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Realized Gains (Losses)	\$ (30)	\$ (695)	\$ (8)	\$ 5,612
Net Change in Unrealized Gains (Losses)	(825)	13	(454)	(6,491)
	\$ (855)	\$ (682)	\$ (462)	\$ (879)

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**5. NET ASSET VALUE AS FAIR VALUE**

A summary of fair value by strategy type alongside the remaining unfunded commitments and ability to redeem such investments as of June 30, 2015 is presented below:

Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Diversified Instruments	\$ 26,569	\$	(a)	(a)
Credit Driven	280,204		(b)	(b)
Event Driven	66,327		(c)	(c)
Equity	247		(d)	(d)
Commodities	2,749		(e)	(e)
	\$ 376,096	\$		

- (a) Diversified Instruments include investments in funds that invest across multiple strategies. Investments representing 56% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date. The remaining 44% of investments in this category are redeemable as of the reporting date.
- (b) The Credit Driven category includes investments in hedge funds that invest primarily in domestic and international bonds. Investments representing 36% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date. Investments representing 60% of the fair value of the investments in this category are redeemable as of the reporting date. Investments representing 4% of the total fair value in the credit driven category are subject to redemption restrictions such as the investee fund manager's ability to limit the amount of redemptions.
- (c) The Event Driven category includes investments in hedge funds whose primary investing strategy is to identify certain event-driven investments. Withdrawals are not permitted in this category. Distributions will be received as the underlying investments are liquidated.
- (d) The Equity category includes investments in hedge funds that invest primarily in domestic and international equity securities. Withdrawals are generally not permitted for the investments in this category. Distributions will be received as the underlying investments are liquidated.
- (e) The Commodities category includes investments in commodities-focused funds that primarily invest in futures and physical-based commodity driven strategies. Withdrawals are generally not permitted for the investments in this category. Distributions will be received as the underlying investments are liquidated.

**6. DERIVATIVE FINANCIAL INSTRUMENTS**

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





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

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

Blackstone uses foreign currency forward contracts to hedge portions of Blackstone's net investments in foreign operations. The gains and losses due to change in fair value attributable to changes in spot exchange rates on foreign currency derivatives designated as net investment hedges were recognized in Other Comprehensive Income (Loss), Net of Tax - Currency Translation Adjustment. For the three months ended June 30, 2015 the resulting loss was \$2.1 million. For the six months ended June 30, 2015, the resulting gain was \$5.2 million.

**Freestanding Derivatives**

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

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

	June 30, 2015				December 31, 2014			
	Assets		Liabilities		Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
<b>Net Investment Hedges</b>								
Foreign Currency Contracts	\$ 57,272	\$ 525	\$	\$	\$ 62,078	\$ 523	\$	\$
<b>Freestanding Derivatives</b>								
Blackstone - Other Interest Rate Contracts	\$ 402,923	\$ 2,476	\$ 1,209,567	\$ 4,815	\$ 223,886	\$ 407	\$ 879,412	\$ 4,590
Foreign Currency Contracts	201,936	2,154	119,061	757	192,163	2,798	148,873	681
Credit Default Swaps			98,500	4,445	19,500	85	56,000	868
Investments of Consolidated Blackstone Funds								
Foreign Currency Contracts	63,531	1,134	106,827	7,580	199,364	8,915	250,244	21,875
Interest Rate Contracts					22,659	2,281		
Credit Default Swaps			83,396	2,286			91,372	2,514
	668,390	5,764	1,617,351	19,883	657,572	14,486	1,425,901	30,528
Total	\$ 725,662	\$ 6,289	\$ 1,617,351	\$ 19,883	\$ 719,650	\$ 15,009	\$ 1,425,901	\$ 30,528

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
<b>Net Investment Hedges</b>				
<b>Foreign Currency Contracts</b>				
Hedge Ineffectiveness	\$ (11)	\$	\$ 229	\$
<b>Freestanding Derivatives</b>				
Realized Gains (Losses)				
Interest Rate Contracts	\$ (1,358)	\$ (570)	\$ (5,093)	\$ (1,403)
Foreign Currency Contracts	(3,160)	(4,420)	8,903	(2,981)
Credit Default Swaps	1,955	996	3,781	1,282
Total	\$ (2,563)	\$ (3,994)	\$ 7,591	\$ (3,102)
<b>Freestanding Derivatives</b>				
Net Change in Unrealized Gains (Losses)				
Interest Rate Contracts	\$ 4,707	\$ (1,731)	\$ 3,961	\$ (4,273)
Foreign Currency Contracts	2,779	(13,827)	(8,245)	(21,944)
Credit Default Swaps	(2,469)	2,985	(5,391)	4,798
Total	\$ 5,017	\$ (12,573)	\$ (9,675)	\$ (21,419)

As of June 30, 2015 and December 31, 2014, the Partnership had not designated any derivatives as cash flow hedges.

**7. FAIR VALUE OPTION**

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

	June 30, 2015	December 31, 2014
<b>Assets</b>		
Loans and Receivables	\$ 36,440	\$ 40,397
Equity and Preferred Securities	127,191	102,907
Assets of Consolidated CLO Vehicles		
Corporate Loans	3,014,840	6,279,592
Corporate Bonds	247,083	292,690
Other	281	44,513
	\$ 3,425,835	\$ 6,760,099

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**Liabilities**

Liabilities of Consolidated CLO Vehicles

Senior Secured Notes	\$ 2,912,753	\$ 6,448,352
Subordinated Notes	119,577	348,752
	\$ 3,032,330	\$ 6,797,104

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

	Three Months Ended June 30,			
	2015	2015	2014	2014
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
<b>Assets</b>				
Loans and Receivables	\$	\$ 1,278	\$	\$
Equity and Preferred Securities	(52)	(4,663)	(739)	796
Assets of Consolidated CLO Vehicles				
Corporate Loans	(9,657)	21,295	(26,393)	33,898
Corporate Bonds	91	3,380	(3,284)	3,442
Other	1,318	(840)	(1,703)	22,673
	\$ (8,300)	\$ 20,450	\$ (32,119)	\$ 60,809
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles				
Senior Secured Notes	\$	\$	\$ (1,554)	\$ (39,764)
Subordinated Notes		(7,199)		18,659
	\$	\$ (7,199)	\$ (1,554)	\$ (21,105)

	Six Months Ended June 30,			
	2015	2015	2014	2014
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
<b>Assets</b>				
Loans and Receivables	\$	\$ (597)	\$	\$
Equity and Preferred Securities	(237)	(7,491)	(1,323)	5,914
Assets of Consolidated CLO Vehicles				
Corporate Loans	(4,847)	40,881	(64,635)	48,957
Corporate Bonds	121	4,516	(2,186)	3,694
Other	3,273	(3,331)	13,294	19,555
	\$ (1,690)	\$ 33,978	\$ (54,850)	\$ 78,120
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles				
Senior Secured Notes	\$	\$	\$ (4,092)	\$ (95,638)
Subordinated Notes		(10,238)		55,614

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\$	\$	(10,238)	\$	(4,092)	\$	(40,024)
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The following table presents information for those financial instruments for which the fair value option was elected:

	June 30, 2015			December 31, 2014		
	For Financial Assets Past Due (a)		Fair Value	For Financial Assets Past Due (a)		Fair Value
	Excess (Deficiency) of Fair Value Over Principal	Excess (Deficiency) of Fair Value Over Principal		Excess (Deficiency) of Fair Value Over Principal	Excess (Deficiency) of Fair Value Over Principal	
Loans and Receivables	\$ (6,060)	\$	\$	\$ (5,323)	\$	\$
Assets of Consolidated CLO Vehicles						
Corporate Loans	(4,199)	330	(4,209)	(197,580)	4,369	(21,876)
Corporate Bonds	(1,441)			(7,814)		
	\$ (11,700)	\$ 330	\$ (4,209)	\$ (210,717)	\$ 4,369	\$ (21,876)

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

As of December 31, 2014, no Loans and Receivables for which the fair value option was elected were past due or in non-accrual status. As of June 30, 2015 and December 31, 2014, no Corporate Bonds included within the Assets of Consolidated CLO Vehicles for which the fair value option was elected were past due or in non-accrual status.

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

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

	Level I	Level II	June 30, 2015 Level III	NAV	Total
<b>Assets</b>					
Investments of Consolidated Blackstone Funds (a)					
Investment Funds	\$	\$	\$	\$ 166,886	\$ 166,886
Equity Securities	57,720	80,490	124,500		262,710
Partnership and LLC Interests		146,316	514,769		661,085
Debt Instruments		178,568	34,137		212,705
Assets of Consolidated CLO Vehicles					
Corporate Loans		2,771,457	243,383		3,014,840
Corporate Bonds		226,723	20,360		247,083
Freestanding Derivatives Foreign Currency Contracts		1,134			1,134
Other		281			281
Total Investments of Consolidated Blackstone Funds	57,720	3,404,969	937,149	166,886	4,566,724
Blackstone's Treasury Cash Management Strategies					
Investment Funds	235,520				235,520
Equity Securities	95,869	170			96,039
Debt Instruments		1,137,114	49,524	118,655	1,305,293
Other				63,060	63,060
Total Blackstone's Treasury Cash Management Strategies	331,389	1,137,284	49,524	181,715	1,699,912
Money Market Funds	636,975				636,975
Net Investment Hedges Foreign Currency Contracts		525			525
Freestanding Derivatives					
Interest Rate Contracts	2,058	418			2,476
Foreign Currency Contracts		2,154			2,154
Loans and Receivables			36,440		36,440
Other Investments	33,022		102,210	27,496	162,728
	\$ 1,061,164	\$ 4,545,350	\$ 1,125,323	\$ 376,097	\$ 7,107,934

	Level I	Level II	Level III	Total
<b>Liabilities</b>				
Liabilities of Consolidated Funds and CLO Vehicles (a)				
Senior Secured Notes (b)	\$	\$ 2,912,753	\$	\$ 2,912,753
Subordinated Notes (b)		119,577		119,577
Freestanding Derivatives Foreign Currency Contracts		7,580		7,580



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Freestanding Derivatives	Credit Default Swaps		2,286		2,286
Freestanding Derivatives					
Interest Rate Contracts		2,388	2,427		4,815
Foreign Currency Contracts			757		757
Credit Default Swaps			4,445		4,445
Securities Sold, Not Yet Purchased			138,783		138,783
		\$ 2,388	\$ 3,188,608	\$	\$ 3,190,996

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	December 31, 2014			NAV	Total
	Level I	Level II	Level III		
<b>Assets</b>					
Investments of Consolidated Blackstone Funds (a)					
Investment Funds	\$	\$	\$	\$ 1,103,210	\$ 1,103,210
Equity Securities	58,934	114,115	179,311		352,360
Partnership and LLC Interests		187,140	1,496,422		1,683,562
Debt Instruments		1,502,314	105,970		1,608,284
Assets of Consolidated CLO Vehicles					
Corporate Loans		5,691,517	588,075		6,279,592
Corporate Bonds		292,690			292,690
Freestanding Derivatives Foreign Currency Contracts		8,915			8,915
Freestanding Derivatives Interest Rate Contracts		2,281			2,281
Other	13	19,455	25,045		44,513
<b>Total Investments of Consolidated Blackstone Funds</b>	<b>58,947</b>	<b>7,818,427</b>	<b>2,394,823</b>	<b>1,103,210</b>	<b>11,375,407</b>
Blackstone's Treasury Cash Management Strategies					
Investment Funds	307,111				307,111
Equity Securities	71,746				71,746
Debt Instruments		1,090,794	84,894	50,507	1,226,195
Other				61,009	61,009
<b>Total Blackstone's Treasury Cash Management Strategies</b>	<b>378,857</b>	<b>1,090,794</b>	<b>84,894</b>	<b>111,516</b>	<b>1,666,061</b>
Money Market Funds	198,278				198,278
Net Investment Hedges Foreign Currency Contracts		523			523
Freestanding Derivatives					
Interest Rate Contracts	263	144			407
Foreign Currency Contracts		2,798			2,798
Credit Default Swaps		85			85
Loans and Receivables			40,397		40,397
Other Investments	31,731	436	104,491	9,593	146,251
	\$ 668,076	\$ 8,913,207	\$ 2,624,605	\$ 1,224,319	\$ 13,430,207

	December 31, 2014			Total
	Level I	Level II	Level III	
<b>Liabilities</b>				
Liabilities of Consolidated Funds and CLO Vehicles (a)				
Senior Secured Notes	\$	\$	\$ 6,448,352	\$ 6,448,352
Subordinated Notes			348,752	348,752
Freestanding Derivatives Foreign Currency Contracts			21,875	21,875
Freestanding Derivatives Credit				
Default Swaps			2,514	2,514
Freestanding Derivatives				
Interest Rate Contracts	1,357	3,233		4,590

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Foreign Currency Contracts	681	681		
Credit Default Swaps	868	868		
Securities Sold, Not Yet Purchased	85,878	85,878		
	\$ 1,357	\$ 115,049	\$ 6,797,104	\$ 6,913,510

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

- (a) Pursuant to GAAP consolidation guidance, the Partnership is required to consolidate all VIEs in which it has been identified as the primary beneficiary, including certain CLO vehicles, and other funds in which a consolidated entity of the Partnership, as the general partner of the fund, is presumed to have control. While the Partnership is required to consolidate certain funds, including CLO vehicles, for GAAP purposes, the Partnership has no ability to utilize the assets of these funds and there is no recourse to the Partnership for their liabilities since these are client assets and liabilities.
- (b) Senior and subordinate notes issued by CLO vehicles are classified based on the more observable fair value of CLO assets less (a) the fair value of any beneficial interests held by Blackstone, and (b) the carrying value of any beneficial interests that represent compensation for services.

The following table summarizes the fair value transfers between Level I and Level II for positions that existed as of June 30, 2015 and 2014, respectively:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Transfers from Level I into Level II (a)	\$	\$	\$	\$
Transfers from Level II into Level I (b)	\$ 89	\$ 49,298	\$ 5,777	\$ 67,327

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

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

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of June 30, 2015:

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted-Average (a)
<b>Financial Assets</b>					
Investments of Consolidated Blackstone Funds					
Equity Securities	\$ 86,132	Discounted Cash Flows	Discount Rate	8.7% - 25.0%	12.8%
			Revenue CAGR	1.8% - 22.0%	7.4%
			Exit Multiple - EBITDA	4.5x - 17.0x	9.3x
			Exit Multiple - P/E	10.5x - 15.0x	11.0x
	32,784	Transaction Price	N/A	N/A	N/A
	184	Market Comparable Companies	EBITDA Multiple	6.5x - 7.8x	6.9x
	34	Third Party Pricing	N/A	N/A	N/A
	5,366	Other	N/A	N/A	N/A
Partnership and LLC Interests	483,105	Discounted Cash Flows	Discount Rate	4.4% - 25.7%	9.4%
			Revenue CAGR	-22.0% - 27.9%	8.4%
			Exit Multiple - EBITDA	3.0x - 23.3x	10.2x
			Exit Capitalization Rate	3.1% - 19.5%	6.3%
	17,991	Transaction Price	N/A	N/A	N/A
	11,671	Third Party Pricing	N/A	N/A	N/A
	2,002	Other	N/A	N/A	N/A
Debt Instruments	9,501	Discounted Cash Flows	Discount Rate	6.5% - 34.3%	14.6%
			Revenue CAGR	7.2% - 20.0%	16.1%
			Exit Multiple - EBITDA	6.3x - 9.5x	8.5x
			Exit Capitalization Rate	1.0% - 4.4%	2.0%
	21,222	Third Party Pricing	N/A	N/A	N/A
	3,165	Transaction Pricing	N/A	N/A	N/A
	249	Market Comparable Companies	EBITDA Multiple	6.4x	N/A
Assets of Consolidated CLO Vehicles	198,226	Third Party Pricing	N/A	N/A	N/A
	65,517	Market Comparable Companies	EBITDA Multiple	4.5x - 7.0x	5.1x
Total Investments of Consolidated Blackstone Funds	937,149				

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

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted-Average (a)
Blackstone's Treasury Cash Management Strategies	\$ 35,979	Discounted Cash Flows	Default Rate	1.0% - 2.0%	1.9%
			Recovery Rate	30.0% - 70.0%	67.9%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0% - 30.0%	29.6%
			Reinvestment Rate	LIBOR + 350 bps LIBOR + 450 bps	LIBOR + 395 bps
			Discount Rate	5.8% - 11.3%	6.7%
	13,545	Third Party Pricing	N/A	N/A	N/A
Loans and Receivables	14,727	Discounted Cash Flows	Discount Rate	14.8%	N/A
	21,713	Transaction Price	N/A	N/A	N/A
Other Investments	85,388	Discounted Cash Flows	Discount Rate	1.3% - 12.5%	3.0%
			Default Rate	2.0%	N/A
			Recovery Rate	70.0%	N/A
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
	446	Market Comparable Companies	EBITDA Multiple	6.9x	N/A
	16,376	Transaction Price	N/A	N/A	N/A
<b>Total</b>	<b>\$ 1,125,323</b>				

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

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

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

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted-Average (a)
<b>Financial Assets</b>					
Investments of Consolidated Blackstone Funds					
Equity Securities	\$ 106,727	Discounted Cash Flows	Discount Rate	8.4% - 24.7%	11.8%
			Revenue CAGR	0.7% - 24.4%	7.1%
			Exit Multiple - EBITDA	5.0x - 13.0x	10.1x
			Exit Multiple - P/E	10.5x - 17.0x	11.2x
	67,706	Transaction Price	N/A	N/A	N/A
	163	Market Comparable Companies	EBITDA Multiple	6.7x - 7.6x	6.9x
	45	Third Party Pricing	N/A	N/A	N/A
	4,670	Other	N/A	N/A	N/A
Partnership and LLC Interests	485,748	Discounted Cash Flows	Discount Rate	4.4% - 21.5%	9.5%
			Revenue CAGR	-4.4% - 41.7%	6.5%
			Exit Multiple - EBITDA	1.0x - 19.1x	9.7x
			Exit Capitalization Rate	2.0% - 19.1%	6.8%
	996,199	Transaction Price	N/A	N/A	N/A
	13,793	Third Party Pricing	N/A	N/A	N/A
	682	Other	N/A	N/A	N/A
Debt Instruments	9,570	Discounted Cash Flows	Discount Rate	8.8% - 24.7%	16.1%
			Revenue CAGR	4.7% - 6.8%	5.0%
			Exit Multiple - EBITDA	5.9x - 11.3x	11.0x
			Exit Capitalization Rate	1.0% - 12.4%	9.3%
			Default Rate	2%	N/A
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
	95,542	Third Party Pricing	N/A	N/A	N/A
	686	Transaction Price	N/A	N/A	N/A
	172	Market Comparable Companies	EBITDA Multiple	6.6x - 7.9x	6.6x
Assets of Consolidated CLO Vehicles	318,636	Third Party Pricing	N/A	N/A	N/A
	290,658	Market Comparable Companies	EBITDA Multiple	3.8x - 15.0x	6.1x
	3,826	Discounted Cash Flows	Discount Rate	8.0%	N/A
Total Investments of Consolidated Blackstone Funds	2,394,823				

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

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted-Average (a)
Blackstone's Treasury Cash Management Strategies	\$ 26,167	Discounted Cash Flows	Default Rate	1.0%	N/A
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	30.0%	N/A
			Reinvestment Rate	LIBOR + 450 bps	N/A
			Discount Rate	5.8% - 10.0%	7.2%
	54,257	Third Party Pricing	N/A	N/A	N/A
	4,470	Transaction Price	N/A	N/A	N/A
Loans and Receivables	26,247	Discounted Cash Flows	Discount Rate	10.5% - 12.2%	10.9%
	14,150	Transaction Price	N/A	N/A	N/A
Other Investments	11,887	Transaction Price	N/A	N/A	N/A
	92,604	Discounted Cash Flows	Discount Rate	1.3% - 12.5%	2.9%
			Default Rate	2.0%	N/A
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
		Reinvestment Rate	LIBOR + 400 bps	N/A	
Total	\$ 2,624,605				
<b>Financial Liabilities</b>					
Liabilities of Consolidated CLO Vehicles	\$ 6,797,104	Discounted Cash Flows	Default Rate	2.0%	N/A
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Discount Rate	0.3% - 19.3%	2.3%
			Reinvestment Rate	LIBOR + 400 bps	N/A

N/A Not applicable.

CAGR Compound annual growth rate.

EBITDA Earnings before interest, taxes, depreciation and amortization.

Exit Multiple Ranges include the last twelve months EBITDA, forward EBITDA and price/earnings exit multiples.

(a) Unobservable inputs were weighted based on the fair value of the investments included in the range.

The significant unobservable inputs used in the fair value measurement of the Blackstone's Treasury Cash Management Strategies, debt instruments, other investments and liabilities of consolidated CLO vehicles are discount rates, default rates, recovery rates, recovery lag, pre-payment rates and reinvestment rates. Increases (decreases) in any of the discount rates, default rates, recovery lag and pre-payment rates in isolation would result in a lower (higher) fair value measurement. Increases (decreases) in any of the recovery rates and reinvestment rates in isolation would result in a higher (lower) fair value measurement. Generally, a change in the assumption used for default rates may be accompanied by a directionally similar change in the assumption used for recovery lag and a directionally opposite change in the assumption used for recovery rates and pre-payment rates.

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



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lower (higher) fair value measurement. Increases (decreases) in any of exit multiples and revenue compound annual growth rates in isolation can result in a higher (lower) fair value measurement.

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

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

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

	Level III Financial Assets at Fair Value Three Months Ended June 30,							
	2015				2014			
	Investments of Consolidated Funds	Loans and Receivables	Other Investments (c)	Total	Investments of Consolidated Funds	Loans and Receivables	Other Investments (c)	Total
Balance, Beginning of Period (a)	\$ 920,448	\$ 40,691	\$ 163,798	\$ 1,124,937	\$ 2,442,346	\$ 61,573	\$ 123,525	\$ 2,627,444
Transfer Out Due to Deconsolidation					(140,393)			(140,393)
Transfer In to Level III (b)	59,939		2,772	62,711	196,770		4,293	201,063
Transfer Out of Level III (b)	(156,054)		(24,480)	(180,534)	(234,833)		(9,735)	(244,568)
Purchases	154,173		8,407	162,580	160,206	12,403	55,791	228,400
Sales	(98,872)	(5,464)	(1,819)	(106,155)	(210,913)	(31,345)	(4,126)	(246,384)
Settlements		(1,041)	(115)	(1,156)		(432)	(145)	(577)
Changes in Gains (Losses) Included in Earnings and Other Comprehensive Income	57,515	2,254	3,171	62,940	47,672	526	(2,086)	46,112
Balance, End of Period	\$ 937,149	\$ 36,440	\$ 151,734	\$ 1,125,323	\$ 2,260,855	\$ 42,725	\$ 167,517	\$ 2,471,097
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	\$ 17,044	\$ 2,255	\$ 471	\$ 19,770	\$ 65,791	\$ 526	\$ (1,393)	\$ 64,924

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

	Level III Financial Assets at Fair Value Six Months Ended June 30,							
	2015				2014			
	Investments of Consolidated Funds	Loans and Receivables	Other Investments (c)	Total	Investments of Consolidated Funds	Loans and Receivables	Other Investments (c)	Total
Balance, Beginning of Period (a)	\$ 2,394,821	\$ 40,397	\$ 189,384	\$ 2,624,602	\$ 2,460,907	\$ 137,788	\$ 44,774	\$ 2,643,469
Transfer In Due to Consolidation and Acquisition (d)					205,890			205,890
Transfer Out Due to Deconsolidation	(1,460,538)			(1,460,538)	(238,399)			(238,399)
Transfer In to Level III (b)	58,184		19,897	78,081	222,991		7,972	230,963
Transfer Out of Level III (b)	(149,636)		(47,164)	(196,800)	(292,469)		(10,744)	(303,213)
Purchases	227,260	6,186	33,339	266,785	315,009	93,645	133,430	542,084
Sales	(178,391)	(9,535)	(36,973)	(224,899)	(487,333)	(188,064)	(7,573)	(682,970)
Settlements		(2,079)	(218)	(2,297)		(1,170)	(301)	(1,471)
Changes in Gains (Losses) Included in Earnings and Other Comprehensive Income	45,449	1,471	(6,531)	40,389	74,259	526	(41)	74,744
Balance, End of Period	\$ 937,149	\$ 36,440	\$ 151,734	\$ 1,125,323	\$ 2,260,855	\$ 42,725	\$ 167,517	\$ 2,471,097
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	\$ 13,511	\$ 1,343	\$ 1,879	\$ 16,733	\$ 86,668	\$ 526	\$ 1,172	\$ 88,366

	Level III Financial Liabilities at Fair Value Three Months Ended June 30,					
	2015			2014		
	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total
Balance, Beginning of Period	\$	\$	\$	\$ 7,795,523	\$ 619,188	\$ 8,414,711
Transfer In Due to Consolidation and Acquisition (d)				32,197	10,000	42,197
Transfer Out Due to Deconsolidation				(814,300)	(133,454)	(947,754)
Settlements				(609,646)		(609,646)

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Changes in (Gains) Losses Included in Earnings and Other Comprehensive Income				4,064	(20,977)	(16,913)
Balance, End of Period	\$	\$	\$	\$ 6,407,838	\$ 474,757	\$ 6,882,595
Changes in Unrealized (Gains) Losses Included in Earnings Related to Liabilities Still Held at the Reporting Date	\$	\$	\$	\$ 2,510	\$ (20,977)	\$ (18,467)

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

	Level III Financial Liabilities at Fair Value Six Months Ended June 30,					
	2015			2014		
	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	\$ 6,448,352	\$ 348,752	\$ 6,797,104	\$ 8,302,572	\$ 610,435	\$ 8,913,007
Transfer In Due to Consolidation and Acquisition (d)				504,216	96,182	600,398
Transfer Out Due to Deconsolidation	(4,168,405)	(261,934)	(4,430,339)	(1,453,391)	(173,252)	(1,626,643)
Transfer Out Due to Amended CLO Guidance (e)	(2,279,947)	(86,818)	(2,366,765)			
Issuances						
Settlements				(998,633)	(110)	(998,743)
Changes in (Gains) Losses Included in Earnings and Other Comprehensive Income				53,074	(58,498)	(5,424)
Balance, End of Period	\$	\$	\$	\$ 6,407,838	\$ 474,757	\$ 6,882,595
Changes in Unrealized (Gains) Losses Included in Earnings Related to Liabilities Still Held at the Reporting Date	\$	\$	\$	\$ 48,982	\$ (58,498)	\$ (9,516)

- (a) Beginning of period 2015 balances have been adjusted to remove investments for which fair value is based on NAV. Pursuant to amended fair value guidance, disclosure in the fair value hierarchy is no longer required.
- (b) Transfers in and out of Level III financial assets and liabilities were due to changes in the observability of inputs used in the valuation of such assets and liabilities.
- (c) Represents Blackstone's Treasury Cash Management Strategies and Other Investments.
- (d) Represents the transfer into Level III of financial assets and liabilities as a result of the consolidation of certain fund entities.
- (e) Transfers out due to amended CLO measurement guidance represents the transfer out of Level III for liabilities of consolidated CLO vehicles for which fair value is based on the more observable fair value of CLO assets. Such liabilities are classified as Level II within the fair value hierarchy. As the guidance was adopted as of January 1, 2015, there are no transfers for the three months ending June 30, 2015.

**9. VARIABLE INTEREST ENTITIES**

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



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

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

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
Investments	\$ 774,579	\$ 776,079
Accounts Receivable	28,729	125,316
Due from Affiliates	34,722	53,751
Total VIE Assets	838,030	955,146
Due to Affiliates	30	108
Accounts Payable, Accrued Expenses and Other Liabilities	244	124
Potential Clawback Obligation	260,198	206,725
Maximum Exposure to Loss	\$ 1,098,502	\$ 1,162,103

**10. REVERSE REPURCHASE AND REPURCHASE AGREEMENTS**

At June 30, 2015, the Partnership received securities, primarily U.S. and non-U.S. government and agency securities, asset-backed securities and corporate debt, with a fair value of \$61.2 million as collateral for reverse repurchase agreements that could be repledged, delivered or otherwise used. Securities with a fair value of \$61.2 million and cash were used to cover Securities Sold, Not Yet Purchased. The Partnership also pledged securities with a carrying value of \$64.4 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

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

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

The following table provides information regarding the Partnership's Repurchase Agreements obligation by type of collateral pledged as of June 30, 2015:

	June 30, 2015				Total
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Greater than 90 days	
<b>Repurchase Agreements</b>					
U.S. Treasury and Agency Securities	\$ 1,847	\$	\$	\$	\$ 1,847
Asset-Backed Securities		750	39,057		39,807
Total	\$ 1,847	\$ 750	\$ 39,057	\$	\$ 41,654
Gross Amount of Recognized Liabilities for Repurchase Agreements in Note 11. Offsetting of Assets and Liabilities					\$ 41,654
Amounts Related to Agreements Not Included in Offsetting Disclosure in Note 11. Offsetting of Assets and Liabilities					\$

**11. OFFSETTING OF ASSETS AND LIABILITIES**

The following tables present the offsetting of assets and liabilities as of June 30, 2015:

	Gross and Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
		Financial Instruments	Cash Collateral Received	
<b>Assets</b>				
Net Investment Hedge	\$ 525	\$	\$	\$ 525
Freestanding Derivatives	4,630	1,981	659	1,990
Reverse Repurchase Agreements	61,376	61,150		226
Total	\$ 66,531	\$ 63,131	\$ 659	\$ 2,741

	Gross and Net Amounts of Liabilities Presented in the Statement of	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount



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	Financial Condition	Financial Instruments	Cash Collateral Pledged	
<b>Liabilities</b>				
Freestanding Derivatives	\$ 12,303	\$ 1,981	\$ 10,309	\$ 13
Repurchase Agreements	41,654	40,983	671	
Total	\$ 53,957	\$ 42,964	\$ 10,980	\$ 13

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

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

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

	Gross and Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
		Financial Instruments	Cash Collateral Received	
<b>Assets</b>				
Net Investment Hedges	\$ 523	\$	\$	\$ 523
Freestanding Derivatives	3,290	1,132	352	1,806
Total	\$ 3,813	\$ 1,132	\$ 352	\$ 2,329

	Gross and Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
		Financial Instruments	Cash Collateral Pledged	
<b>Liabilities</b>				
Freestanding Derivatives	\$ 8,653	\$ 1,132	\$ 7,424	\$ 97
Repurchase Agreements	29,907	29,438	469	
Total	\$ 38,560	\$ 30,570	\$ 7,893	\$ 97

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

	June 30, 2015	December 31, 2014
Furniture, Equipment and Leasehold Improvements, Net	\$ 138,902	\$ 135,740
Prepaid Expenses	159,283	102,503
Other Assets	34,937	82,704
Freestanding Derivatives	4,630	3,290
Net Investment Hedges	525	523
	\$ 338,277	\$ 324,760

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

**Notional Pooling Arrangement**

Blackstone has entered into a notional cash pooling arrangement with a financial institution for cash management purposes. This arrangement allows for cash withdrawals based upon aggregate cash balances on deposit at the same financial institution. Cash withdrawals cannot exceed aggregate cash balances on deposit. The net balance of cash on deposit and overdrafts is used as a basis for calculating net interest expense or income. As of June 30, 2015, the aggregate cash balance on deposit relating to the cash pooling arrangement was \$1.2 billion, which was fully offset with an accompanying overdraft.

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**12. BORROWINGS**

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

	June 30, 2015		December 31, 2014	
	Carrying Value	Fair Value (a)	Carrying Value (c)	Fair Value (a)
Blackstone Issued 6.625%, \$600 Million Par, Notes Due 8/15/2019 (b)	\$ 618,812	\$ 678,776	\$ 622,552	\$ 684,158
Blackstone Issued 5.875%, \$400 Million Par, Notes Due 3/15/2021	\$ 397,536	\$ 460,960	\$ 397,357	\$ 462,360
Blackstone Issued 4.750%, \$400 Million Par, Notes Due 2/15/2023	\$ 391,775	\$ 428,840	\$ 391,344	\$ 436,240
Blackstone Issued 6.250%, \$250 Million Par, Notes Due 8/15/2042	\$ 237,564	\$ 290,850	\$ 237,487	\$ 307,125
Blackstone Issued 5.000%, \$500 Million Par, Notes Due 6/15/2044	\$ 488,066	\$ 497,900	\$ 487,966	\$ 527,500
Blackstone Issued 4.450%, \$350 Million Par, Notes Due 7/15/2045	\$ 343,952	\$ 318,780	\$	\$
Blackstone Issued 2.000%, 300 Million Par, Notes Due 5/19/2025	\$ 331,929	\$ 329,293	\$	\$

- (a) Fair value is determined by broker quote and these notes would be classified as Level II within the fair value hierarchy.
- (b) The carrying and fair values are determined using the original \$600 million par amount less \$15 million attributable to these notes which were acquired but not retired by Blackstone during 2012.
- (c) The carrying value has been adjusted to reflect the presentation of debt issuance costs as a direct deduction from the related liability for all periods presented in accordance with amended guidance on simplifying the presentation of such costs.

Included within Loans Payable and Due to Affiliates within the Condensed Consolidated Statements of Financial Condition are amounts due to holders of debt securities issued by Blackstone's consolidated CLO vehicles. Borrowings through the consolidated CLO vehicles consisted of the following:

	June 30, 2015			December 31, 2014		
	Borrowing Outstanding	Weighted-Average Interest Rate	Weighted-Average Remaining Maturity in Years	Borrowing Outstanding	Weighted-Average Interest Rate	Weighted-Average Remaining Maturity in Years
Senior Secured Notes	\$ 2,912,753	1.94%	4.5	\$ 6,594,266	1.27%	3.8
Subordinated Notes	181,480	(a)	N/A	740,050	(a)	N/A
	\$ 3,094,233			\$ 7,334,316		

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

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Senior Secured Notes and Subordinated Notes comprise the following amounts:

	June 30, 2015			December 31, 2014		
	Amounts Due to Non-Consolidated Affiliates			Amounts Due to Non-Consolidated Affiliates		
	Fair Value	Borrowing Outstanding	Fair Value	Fair Value	Borrowing Outstanding	Fair Value
Senior Secured Notes	\$ 2,912,753	\$	\$	\$ 6,448,352	\$ 2,500	\$ 2,504
Subordinated Notes	\$ 119,577	\$ 10,000	\$ 9,616	\$ 348,752	\$ 24,200	\$ 14,377

The Loans Payable of the consolidated CLO vehicles are collateralized by assets held by each respective CLO vehicle and assets of one vehicle may not be used to satisfy the liabilities of another. As of June 30, 2015 and December 31, 2014, the fair value of the consolidated CLO assets was \$3.9 billion and \$8.0 billion, respectively. This collateral consisted of Cash, Corporate Loans, Corporate Bonds and other securities.

Scheduled principal payments for borrowings as of June 30, 2015 were as follows:

	Operating Borrowings	Blackstone Fund Facilities/CLO Vehicles	Total Borrowings
2015	\$	\$ 4,166	\$ 4,166
2016		69	69
2017		392,436	392,436
2018			
2019	585,000		585,000
Thereafter	2,237,080	2,701,797	4,938,877
<b>Total</b>	<b>\$ 2,822,080</b>	<b>\$ 3,098,468</b>	<b>\$ 5,920,548</b>

**13. INCOME TAXES**

Blackstone's effective tax rate was 11.0% and 6.4% for the three months ended June 30, 2015 and 2014, respectively, and 7.7% and 6.8% for the six months ended June 30, 2015 and 2014, respectively. Blackstone's income tax provision was \$43.3 million and \$83.3 million for the three months ended June 30, 2015 and 2014, respectively, and \$142.6 million and \$137.4 million for the six months ended June 30, 2015 and 2014, respectively.

Blackstone's effective tax rate for the three and six months ended June 30, 2015 and 2014 was substantially due to the following: (a) certain corporate subsidiaries are subject to federal, state, local and foreign income taxes as applicable and other subsidiaries are subject to New York City unincorporated business taxes, and (b) a portion of compensation charges are not deductible for tax purposes.

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**14. NET INCOME PER COMMON UNIT**

Basic and diluted net income per common unit for the three and six months ended June 30, 2015 and June 30, 2014 was calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net Income Attributable to The Blackstone Group L.P.	\$ 134,168	\$ 517,016	\$ 763,616	\$ 782,633
<b>Basic Net Income Per Common Unit</b>				
Weighted-Average Common Units Outstanding	631,881,205	606,690,740	628,597,331	604,123,284
Basic Net Income Per Common Unit	\$ 0.21	\$ 0.85	\$ 1.21	\$ 1.30
<b>Diluted Net Income Per Common Unit</b>				
Weighted-Average Common Units Outstanding	631,881,205	606,690,740	628,597,331	604,123,284
Weighted-Average Unvested Deferred Restricted Common Units	2,311,444	3,207,089	4,133,258	3,674,476
Weighted-Average Diluted Common Units Outstanding	634,192,649	609,897,829	632,730,589	607,797,760
Diluted Net Income Per Common Unit	\$ 0.21	\$ 0.85	\$ 1.21	\$ 1.29

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Weighted-Average Blackstone Holdings Partnership Units	555,641,388	544,158,132	552,260,871	546,727,909

**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, 2015 and 2014, no units were repurchased. As of June 30, 2015, the amount remaining available for repurchases under this program was \$335.8 million.

**15. EQUITY-BASED COMPENSATION**

The Partnership has granted equity-based compensation awards to Blackstone's senior managing directors, non-partner professionals, non-professionals and selected external advisers under the Partnership's 2007 Equity

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Incentive Plan (the Equity Plan), the majority of which to date were granted in connection with Blackstone's initial public offering (IPO). The Equity Plan allows for the granting of options, unit appreciation rights or other unit-based awards (units, restricted units, restricted common units, deferred restricted common units, phantom restricted common units or other unit-based awards based in whole or in part on the fair value of the Blackstone common units or Blackstone Holdings Partnership Units) which may contain certain service or performance requirements. As of January 1, 2015, the Partnership had the ability to grant 165,943,809 units under the Equity Plan.

For the three and six months ended June 30, 2015, the Partnership recorded compensation expense of \$210.3 million and \$482.7 million, respectively, in relation to its equity-based awards with corresponding tax benefits of \$3.4 million and \$27.0 million, respectively. For the three and six months ended June 30, 2014, the Partnership recorded compensation expense of \$186.9 million and \$381.6 million, respectively, in relation to its equity-based awards with corresponding tax benefits of \$6.4 million and \$13.6 million, respectively. As of June 30, 2015, there was \$1.1 billion of estimated unrecognized compensation expense related to unvested awards. This cost is expected to be recognized over a weighted-average period of 5.2 years.

Total vested and unvested outstanding units, including Blackstone common units, Blackstone Holdings Partnership Units and deferred restricted common units, were 1,183,966,896 as of June 30, 2015. Total outstanding unvested phantom units were 12,012 as of June 30, 2015.

A summary of the status of the Partnership's unvested equity-based awards as of June 30, 2015 and of changes during the period January 1, 2015 through June 30, 2015 is presented below:

	Blackstone Holdings		The Blackstone Group L.P.			
	Partnership Units	Weighted-Average Grant Date Fair Value	Equity Settled Awards Deferred Restricted Common Units and Options	Weighted-Average Grant Date Fair Value	Cash Settled Awards Phantom Units	Weighted-Average Grant Date Fair Value
<b>Unvested Units</b>						
Balance, December 31, 2014	33,498,237	\$ 26.19	17,569,372	\$ 16.95	1,455	\$ 31.95
Granted	19,874,298	37.86	3,703,892	33.73	998	33.83
Vested	(17,901,009)	30.20	(5,770,811)	18.83	(815)	32.62
Forfeited	43,916	25.17	(46,452)	23.87		
Exchanged			(10,374)	28.23	10,374	28.23
Balance, June 30, 2015	35,515,442	\$ 30.70	15,445,627	\$ 20.24	12,012	\$ 28.85

**Units Expected to Vest**

The following unvested units, after expected forfeitures, as of June 30, 2015, are expected to vest:

	Units	Weighted-Average Service Period in Years
Blackstone Holdings Partnership Units	29,450,530	4.5
Deferred Restricted Blackstone Common Units	13,345,470	2.1



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Total Equity-Based Awards	42,796,000	3.7
Phantom Units	8,606	3.5

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**Equity-Based Awards with Performance Conditions**

The Partnership has also granted certain equity-based awards with performance requirements. These awards are based on the performance of certain businesses over a three to five year period beginning January 2012, relative to a predetermined threshold. Blackstone has determined that it is probable that the relevant performance thresholds will be exceeded in future periods and, therefore, has recorded compensation expense since the beginning of the performance period of \$3.0 million.

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

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

	June 30, 2015	December 31, 2014
<b>Due from Affiliates</b>		
Accrual for Potential Clawback of Previously Distributed Carried Interest	\$ 2,365	\$ 2,518
Primarily Interest Bearing Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees for Investments in Blackstone Funds	267,359	237,341
Amounts Due from Portfolio Companies and Funds	404,149	372,820
Investments Redeemed in Non-Consolidated Funds of Hedge Funds	7,979	32,020
Management and Performance Fees Due from Non-Consolidated Funds	391,745	355,657
Payments Made on Behalf of Non-Consolidated Entities	169,339	111,796
Advances Made to Certain Non-Controlling Interest Holders and Blackstone Employees	14,375	16,256
	<b>\$ 1,257,311</b>	<b>\$ 1,128,408</b>

	June 30, 2015	December 31, 2014
<b>Due to Affiliates</b>		
Due to Certain Non-Controlling Interest Holders in Connection with the Tax Receivable Agreements	\$ 1,244,731	\$ 1,234,890
Accrual for Potential Repayment of Previously Received Performance Fees	3,453	3,889
Due to Note Holders of Consolidated CLO Vehicles	9,616	16,881
Distributions Received on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees	13,825	21,266
Payable to Affiliates for Consolidated Funds		22,447
Distributions Received on Behalf of Blackstone Entities	75,506	176,304
Payments Made by Non-Consolidated Entities	29,335	14,411
	<b>\$ 1,376,466</b>	<b>\$ 1,490,088</b>

**Interests of the Founder, Senior Managing Directors, Employees and Other Related Parties**

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The founder, senior managing directors, employees and certain other related parties invest on a discretionary basis in the consolidated Blackstone Funds both directly and through consolidated entities. These investments generally are subject to preferential management fee and performance fee arrangements. As of June 30, 2015 and

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December 31, 2014, such investments aggregated \$821.2 million and \$1.0 billion, respectively. Their share of the Net Income Attributable to Redeemable Non-Controlling and Non-Controlling Interests in Consolidated Entities aggregated \$31.6 million and \$50.8 million for the three months ended June 30, 2015 and 2014, respectively, and \$81.1 million and \$95.7 million for the six months ended June 30, 2015 and 2014, respectively.

**Revenues Earned from Affiliates**

Management and Advisory Fees, Net earned from affiliates totaled \$28.8 million and \$81.3 million for the three months ended June 30, 2015 and 2014, respectively. Management and Advisory Fees, Net earned from affiliates totaled \$76.9 million and \$155.4 million for the six months ended June 30, 2015 and 2014, respectively. Fees relate primarily to transaction and monitoring fees which are negotiated in the ordinary course of fundraising and investment activities.

**Loans to Affiliates**

Loans to affiliates consist of interest bearing advances to certain Blackstone individuals to finance their investments in certain Blackstone Funds. These loans earn interest at Blackstone's cost of borrowing and such interest totaled \$1.2 million and \$1.0 million for the three months ended June 30, 2015 and 2014, respectively, and \$3.3 million and \$1.1 million for the six months ended June 30, 2015 and 2014, respectively.

**Contingent Repayment Guarantee**

Blackstone and its personnel who have received Carried Interest distributions have guaranteed payment on a several basis (subject to a cap) to the Carry Funds of any clawback obligation with respect to the excess Carried Interest allocated to the general partners of such funds and indirectly received thereby to the extent that either Blackstone or its personnel fails to fulfill its clawback obligation, if any. The Accrual for Potential Repayment of Previously Received Performance Fees represents amounts previously paid to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Carry Funds were to be liquidated based on the fair value of their underlying investments as of June 30, 2015. See Note 17. Commitments and Contingencies Contingencies Contingent Obligations (Clawback) .

**Aircraft and Other Services**

In the normal course of business, Blackstone personnel have made use of aircraft owned as personal assets by Stephen A. Schwarzman and an aircraft owned jointly as a personal asset by Hamilton E. James, Blackstone's President and Chief Operating Officer, and Jonathan D. Gray, Blackstone's Global Head of Real Estate and a Director of Blackstone (each such aircraft, Personal Aircraft). Mr. Schwarzman paid for his purchases of his Personal Aircraft himself and bears all operating, personnel and maintenance costs associated with their operation. Each of Mr. James and Mr. Gray paid for his respective interest in their jointly owned Personal Aircraft himself and bears all operating, personnel and maintenance costs associated with its operation. Payment by Blackstone for the use of the Personal Aircraft by Blackstone employees is made at market rates.

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

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

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**Tax Receivable Agreements**

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

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

Assuming no material changes in the relevant tax law and that the corporate taxpayers earn sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, the expected future payments under the tax receivable agreements (which are taxable to the recipients) will aggregate \$1.3 billion over the next 15 years. The after-tax net present value of these estimated payments totals \$392.4 million assuming a 15% discount rate and using Blackstone's most recent projections relating to the estimated timing of the benefit to be received. Future payments under the tax receivable agreements in respect of subsequent exchanges would be in addition to these amounts. The payments under the tax receivable agreements are not conditioned upon continued ownership of Blackstone equity interests by the pre-IPO owners and the others mentioned above.

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

**Other**

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

**17. COMMITMENTS AND CONTINGENCIES**

**Commitments**

*Investment Commitments*

Blackstone had \$2.3 billion of investment commitments as of June 30, 2015 representing general partner capital funding commitments to the Blackstone Funds, limited partner capital funding to other funds and Blackstone



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principal investment commitments. The consolidated Blackstone Funds had signed investment commitments of \$28.9 million as of June 30, 2015 which includes \$14.2 million of signed investment commitments for portfolio company acquisitions in the process of closing.

**Contingencies***Guarantees*

Certain of Blackstone's consolidated real estate funds guarantee payments to third parties in connection with the on-going business activities and/or acquisitions of their Portfolio Companies. There is no direct recourse to the Partnership to fulfill such obligations. To the extent that underlying funds are required to fulfill guarantee obligations, the Partnership's invested capital in such funds is at risk. Total investments at risk in respect of guarantees extended by consolidated real estate funds was \$4.6 million as of June 30, 2015.

The Blackstone Holdings Partnerships provide guarantees to a lending institution for certain loans held by employees either for investment in Blackstone Funds or for members' capital contributions to Blackstone Group International Partners LLP. The amount guaranteed as of June 30, 2015 was \$109.5 million.

*Litigation*

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

*Contingent Obligations (Clawback)*

Carried Interest is subject to clawback to the extent that the Carried Interest received to date with respect to a fund exceeds the amount due to Blackstone based on cumulative results of that fund. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability. The lives of the carry funds with a potential clawback obligation, including available contemplated extensions, are currently anticipated to expire at various points through 2016. Further extensions of such terms may be implemented under given circumstances.

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

The following table presents the clawback obligations by segment:

Segment	June 30, 2015			December 31, 2014		
	Blackstone Holdings	Current and Former Personnel	Total	Blackstone Holdings	Current and Former Personnel	Total
Real Estate	\$ 45	\$ 1,624	\$ 1,669	\$ 130	\$ 1,647	\$ 1,777
Credit	1,043	741	1,784	1,241	871	2,112
Total	\$ 1,088	\$ 2,365	\$ 3,453	\$ 1,371	\$ 2,518	\$ 3,889





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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, 2015, \$542.3 million was held in segregated accounts for the purpose of meeting any clawback obligations of current and former personnel if such payments are required.

**18. SEGMENT REPORTING**

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

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

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

**Real Estate** Blackstone's Real Estate segment primarily comprises its management of global, European focused and Asian focused opportunistic real estate funds. In addition, the segment has debt investment funds and a publicly traded REIT targeting non-controlling real estate debt-related investment opportunities in the public and private markets, primarily in the United States and Europe.

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

**Credit** Blackstone's Credit segment, which principally includes GSO Capital Partners LP (GSO), manages credit-focused products within private and public debt market strategies. GSO's products include senior credit-focused funds, mezzanine funds, distressed debt funds, general credit-focused funds, registered investment companies, separately managed accounts and CLO vehicles.

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

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

Blackstone uses Economic Income (EI) as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its five segments. EI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges arise from Blackstone's IPO and long-term retention programs outside of annual deferred compensation and other corporate actions, including acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration associated with acquisitions. EI presents revenues and expenses on a basis that deconsolidates the investment

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funds Blackstone manages. Economic Net Income ( ENI ) represents EI adjusted to include current period taxes. Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes.

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

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The following table presents the financial data for Blackstone's five segments for the three months ended June 30, 2015 and 2014:

	Three Months Ended June 30, 2015					Total Segments
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$ 121,918	\$ 140,743	\$ 130,216	\$ 123,615	\$	\$ 516,492
Advisory Fees					76,998	76,998
Transaction and Other Fees, Net	(12,131)	21,510		2,060	289	11,728
Management Fee Offsets	(9,028)	(5,428)	(608)	(3,370)		(18,434)
<b>Total Management and Advisory Fees, Net</b>	<b>100,759</b>	<b>156,825</b>	<b>129,608</b>	<b>122,305</b>	<b>77,287</b>	<b>586,784</b>
<b>Performance Fees</b>						
Realized						
Carried Interest	546,575	363,983		26,925		937,483
Incentive Fees		1,220	16,915	29,684		47,819
Unrealized						
Carried Interest	(305,573)	(188,608)	8,014	44,218		(441,949)
Incentive Fees		3,935	15,855	6,521		26,311
<b>Total Performance Fees</b>	<b>241,002</b>	<b>180,530</b>	<b>40,784</b>	<b>107,348</b>		<b>569,664</b>
<b>Investment Income (Loss)</b>						
Realized						
	50,258	85,432	(1,757)	2,723	(159)	136,497
Unrealized						
	(22,301)	(107,691)	2,032	2,760	(523)	(125,723)
<b>Total Investment Income (Loss)</b>	<b>27,957</b>	<b>(22,259)</b>	<b>275</b>	<b>5,483</b>	<b>(682)</b>	<b>10,774</b>
Interest and Dividend Revenue	7,667	10,259	3,970	5,938	3,192	31,026
Other	2,515	1,077	459	34	(112)	3,973
<b>Total Revenues</b>	<b>379,900</b>	<b>326,432</b>	<b>175,096</b>	<b>241,108</b>	<b>79,685</b>	<b>1,202,221</b>
<b>Expenses</b>						
Compensation and Benefits Compensation						
	67,079	79,484	45,841	47,124	49,824	289,352
Performance Fee Compensation						
Realized						
Carried Interest	106,502	116,168		15,362		238,032
Incentive Fees		671	8,711	12,455		21,837
Unrealized						
Carried Interest	(25,574)	(50,559)	4,077	21,497		(50,559)
Incentive Fees		230	3,764	2,137		6,131
<b>Total Compensation and Benefits</b>	<b>148,007</b>	<b>145,994</b>	<b>62,393</b>	<b>98,575</b>	<b>49,824</b>	<b>504,793</b>

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Other Operating Expenses	62,458	43,346	20,499	23,539	18,559	168,401
Total Expenses	210,465	189,340	82,892	122,114	68,383	673,194
Economic Income	\$ 169,435	\$ 137,092	\$ 92,204	\$ 118,994	\$ 11,302	\$ 529,027

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

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

	Three Months Ended June 30, 2014					Total Segments
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$ 103,204	\$ 157,869	\$ 123,008	\$ 112,489	\$	\$ 496,570
Advisory Fees					114,914	114,914
Transaction and Other Fees, Net	27,616	13,514	126	7,064	876	49,196
Management Fee Offsets	(4,246)	(7,702)	(1,531)	(6,739)		(20,218)
<b>Total Management and Advisory Fees, Net</b>	<b>126,574</b>	<b>163,681</b>	<b>121,603</b>	<b>112,814</b>	<b>115,790</b>	<b>640,462</b>
<b>Performance Fees</b>						
Realized						
Carried Interest	212,394	417,826		11,439		641,659
Incentive Fees		6,070	7,973	25,248		39,291
Unrealized						
Carried Interest	502,210	119,461		39,041		660,712
Incentive Fees		(3,483)	30,556	29,703		56,776
<b>Total Performance Fees</b>	<b>714,604</b>	<b>539,874</b>	<b>38,529</b>	<b>105,431</b>		<b>1,398,438</b>
<b>Investment Income (Loss)</b>						
Realized						
Carried Interest	74,812	122,664	2,394	2,223	106	202,199
Incentive Fees		6,070	7,973	25,248		39,291
Unrealized						
Carried Interest	502,210	119,461		39,041		660,712
Incentive Fees		(3,483)	30,556	29,703		56,776
<b>Total Investment Income</b>	<b>92,474</b>	<b>72,227</b>	<b>3,451</b>	<b>6,744</b>	<b>1,075</b>	<b>175,971</b>
Interest and Dividend Revenue	4,666	8,009	2,340	4,892	2,187	22,094
Other	564	(218)	(203)	11	(160)	(6)
<b>Total Revenues</b>	<b>938,882</b>	<b>783,573</b>	<b>165,720</b>	<b>229,892</b>	<b>118,892</b>	<b>2,236,959</b>
<b>Expenses</b>						
Compensation and Benefits Compensation						
Performance Fee Compensation	73,038	85,582	43,341	51,310	69,744	323,015
Realized						
Carried Interest	112,720	143,442		4,139		260,301
Incentive Fees		3,081	2,918	12,510		18,509
Unrealized						
Carried Interest	66,194	27,339		20,803		114,336
Incentive Fees		(1,783)	11,252	15,223		24,692
<b>Total Compensation and Benefits</b>	<b>251,952</b>	<b>257,661</b>	<b>57,511</b>	<b>103,985</b>	<b>69,744</b>	<b>740,853</b>
Other Operating Expenses	39,193	36,542	25,101	22,159	22,116	145,111
<b>Total Expenses</b>	<b>291,145</b>	<b>294,203</b>	<b>82,612</b>	<b>126,144</b>	<b>91,860</b>	<b>885,964</b>

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Economic Income	\$ 647,737	\$ 489,370	\$ 83,108	\$ 103,748	\$ 27,032	\$ 1,350,995
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**Table of Contents****THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements Continued**

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

The following table reconciles the Total Segments to Blackstone's Income Before Provision for Taxes for the three months ended June 30, 2015 and 2014:

	Three Months Ended June 30, 2015			Three Months Ended June 30, 2014		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	\$ 1,202,221	\$ 22,981(a)	\$ 1,225,202	\$ 2,236,959	\$ 20,901(a)	\$ 2,257,860
Expenses	\$ 673,194	\$ 241,238(b)	\$ 914,432	\$ 885,964	\$ 203,817(b)	\$ 1,089,781
Other Income	\$	\$ 82,015(c)	\$ 82,015	\$	\$ 138,585(c)	\$ 138,585
Economic Income	\$ 529,027	\$ (136,242)(d)	\$ 392,785	\$ 1,350,995	\$ (44,331)(d)	\$ 1,306,664

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

	Three Months Ended June 30,	
	2015	2014
Fund Management Fees and Performance Fees Eliminated in Consolidation and Transactional Investment Loss	\$ (31,781)	\$ (21,040)
Fund Expenses Added in Consolidation	33,677	765
Non-Controlling Interests in Income of Consolidated Entities	80,496	162,547
Transaction-Related Other Income	(377)	(3,687)
<b>Total Consolidation Adjustments and Reconciling Items</b>	<b>\$ 82,015</b>	<b>\$ 138,585</b>

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

	Three Months Ended June 30,	
	2015	2014
Economic Income	\$ 529,027	\$ 1,350,995
Adjustments		
Amortization of Intangibles	(24,720)	(28,310)

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IPO and Acquisition-Related Charges	(192,018)	(178,568)
Non-Controlling Interests in Income of Consolidated Entities	80,496	162,547
Total Consolidation Adjustments and Reconciling Items	(136,242)	(44,331)
Income Before Provision for Taxes	\$ 392,785	\$ 1,306,664



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

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

The following table presents the financial data for Blackstone's segments as of and for the six months ended June 30, 2015 and 2014:

	June 30, 2015 and the Six Months Then Ended					Total
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Segments
<b>Segment Revenues</b>						
<b>Management and Advisory Fees, Net</b>						
Base Management Fees	\$ 230,301	\$ 293,091	\$ 260,853	\$ 248,644	\$	\$ 1,032,889
Advisory Fees					161,236	161,236
Transaction and Other Fees, Net	8,228	36,726	25	3,517	305	48,801
Management Fee Offsets	(13,977)	(10,294)	(888)	(11,220)		(36,379)
<b>Total Management and Advisory Fees, Net</b>	<b>224,552</b>	<b>319,523</b>	<b>259,990</b>	<b>240,941</b>	<b>161,541</b>	<b>1,206,547</b>
<b>Performance Fees</b>						
<b>Realized</b>						
Carried Interest	929,553	1,175,232		40,292		2,145,077
Incentive Fees		1,943	27,431	48,115		77,489
<b>Unrealized</b>						
Carried Interest	261,249	(369,627)	8,014	32,267		(68,097)
Incentive Fees		10,004	63,282	15,645		88,931
<b>Total Performance Fees</b>	<b>1,190,802</b>	<b>817,552</b>	<b>98,727</b>	<b>136,319</b>		<b>2,243,400</b>
<b>Investment Income (Loss)</b>						
<b>Realized</b>						
Carried Interest	95,074	156,776	(12,132)	4,960	(389)	244,289
Incentive Fees	9,186	(70,181)	6,515	9,647	959	(43,874)
<b>Unrealized</b>						
Carried Interest	104,260	86,595	(5,617)	14,607	570	200,415
Interest and Dividend Revenue	15,284	20,256	7,919	11,589	6,429	61,477
Other	690	(2,900)	(1,148)	3,527	(1,068)	(899)
<b>Total Investment Income (Loss)</b>	<b>104,260</b>	<b>86,595</b>	<b>(5,617)</b>	<b>14,607</b>	<b>570</b>	<b>200,415</b>
<b>Total Revenues</b>	<b>1,535,588</b>	<b>1,241,026</b>	<b>359,871</b>	<b>406,983</b>	<b>167,472</b>	<b>3,710,940</b>
<b>Expenses</b>						
<b>Compensation and Benefits Compensation</b>						
Performance Fee Compensation Realized	137,168	164,318	101,945	97,001	118,758	619,190
<b>Unrealized</b>						
Carried Interest	145,984	362,664		21,632		530,280
Incentive Fees		1,027	12,181	20,856		34,064
<b>Unrealized</b>						
Carried Interest	152,546	(148,643)	4,077	15,841		23,821
Incentive Fees		2,805	19,415	8,872		31,092
<b>Total Compensation and Benefits</b>	<b>435,698</b>	<b>382,171</b>	<b>137,618</b>	<b>164,202</b>	<b>118,758</b>	<b>1,238,447</b>
<b>Other Operating Expenses</b>	<b>101,213</b>	<b>83,489</b>	<b>41,705</b>	<b>45,375</b>	<b>39,901</b>	<b>311,683</b>

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Total Expenses	536,911	465,660	179,323	209,577	158,659	1,550,130
Economic Income	\$ 998,677	\$ 775,366	\$ 180,548	\$ 197,406	\$ 8,813	\$ 2,160,810
Segment Assets as of June 30, 2015	\$ 6,684,342	\$ 7,757,463	\$ 1,473,846	\$ 2,873,517	\$ 1,063,761	\$ 19,852,929

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

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

	Six Months Ended June 30, 2014					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$ 201,788	\$ 317,205	\$ 236,392	\$ 218,063	\$	\$ 973,448
Advisory Fees					184,877	184,877
Transaction and Other Fees, Net	70,463	27,078	219	10,408	938	109,106
Management Fee Offsets	(5,959)	(16,926)	(2,986)	(10,991)		(36,862)
<b>Total Management and Advisory Fees, Net</b>	<b>266,292</b>	<b>327,357</b>	<b>233,625</b>	<b>217,480</b>	<b>185,815</b>	<b>1,230,569</b>
<b>Performance Fees</b>						
Realized						
Carried Interest	332,199	612,484		30,599		975,282
Incentive Fees		6,044	47,818	39,266		93,128
Unrealized						
Carried Interest	669,275	259,698		62,027		991,000
Incentive Fees		(746)	48,641	70,147		118,042
<b>Total Performance Fees</b>	<b>1,001,474</b>	<b>877,480</b>	<b>96,459</b>	<b>202,039</b>		<b>2,177,452</b>
<b>Investment Income (Loss)</b>						
Realized						
	135,347	154,021	19,214	5,294	240	314,116
Unrealized						
	8,629	(45,058)	5,488	7,600	1,663	(21,678)
<b>Total Investment Income</b>	<b>143,976</b>	<b>108,963</b>	<b>24,702</b>	<b>12,894</b>	<b>1,903</b>	<b>292,438</b>
Interest and Dividend Revenue	9,894	14,119	5,001	10,753	4,689	44,456
Other	1,428	99	(81)	(248)	(335)	863
<b>Total Revenues</b>	<b>1,423,064</b>	<b>1,328,018</b>	<b>359,706</b>	<b>442,918</b>	<b>192,072</b>	<b>3,745,778</b>
<b>Expenses</b>						
Compensation and Benefits Compensation						
Performance Fee Compensation Realized	146,345	165,815	83,912	102,062	131,426	629,560
Carried Interest						
	198,491	195,275		15,933		409,699
Incentive Fees						
		3,065	16,189	22,890		42,144
Unrealized						
Carried Interest	39,046	84,324		31,656		155,026
Incentive Fees		(401)	18,013	30,611		48,223
<b>Total Compensation and Benefits</b>	<b>383,882</b>	<b>448,078</b>	<b>118,114</b>	<b>203,152</b>	<b>131,426</b>	<b>1,284,652</b>
Other Operating Expenses	72,199	69,649	44,581	54,998	43,458	284,885
<b>Total Expenses</b>	<b>456,081</b>	<b>517,727</b>	<b>162,695</b>	<b>258,150</b>	<b>174,884</b>	<b>1,569,537</b>
<b>Economic Income</b>	<b>\$ 966,983</b>	<b>\$ 810,291</b>	<b>\$ 197,011</b>	<b>\$ 184,768</b>	<b>\$ 17,188</b>	<b>\$ 2,176,241</b>



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

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

The following table reconciles the Total Segments to Blackstone's Income Before Provision for Taxes and Total Assets as of and for the six months ended June 30, 2015 and 2014:

	June 30, 2015 and the Six Months Then Ended			Six Months Ended June 30, 2014		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	\$ 3,710,940	\$ 26,620(a)	\$ 3,737,560	\$ 3,745,778	\$ 38,750(a)	\$ 3,784,528
Expenses	\$ 1,550,130	\$ 506,870(b)	\$ 2,057,000	\$ 1,569,537	\$ 408,095(b)	\$ 1,977,632
Other Income	\$	\$ 175,570(c)	\$ 175,570	\$	\$ 208,740(c)	\$ 208,740
Economic Income	\$ 2,160,810	\$ (304,680)(d)	\$ 1,856,130	\$ 2,176,241	\$ (160,605)(d)	\$ 2,015,636
Total Assets	\$ 19,852,929	\$ 4,830,572(e)	\$ 24,683,501			

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

	Six Months Ended June 30,	
	2015	2014
Fund Management Fees and Performance Fees Eliminated in Consolidation and Transactional Investment Loss	\$ (35,492)	\$ (38,918)
Fund Expenses Added in Consolidation	43,044	19
Non-Controlling Interests in Income of Consolidated Entities	169,819	252,300
Transaction-Related Other Income	(1,801)	(4,661)
<b>Total Consolidation Adjustments and Reconciling Items</b>	<b>\$ 175,570</b>	<b>\$ 208,740</b>

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

	Six Months Ended June 30,	
	2015	2014
Economic Income	\$ 2,160,810	\$ 2,176,241

Adjustments

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Amortization of Intangibles	(50,619)	(57,313)
IPO and Acquisition-Related Charges	(423,880)	(355,592)
Non-Controlling Interests in Income of Consolidated Entities	169,819	252,300
Total Consolidation Adjustments and Reconciling Items	(304,680)	(160,605)
Income Before Provision for Taxes	\$ 1,856,130	\$ 2,015,636

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

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**THE BLACKSTONE GROUP L.P.**

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

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

**19. SUBSEQUENT EVENTS**

There have been no events since June 30, 2015 that require recognition or disclosure in the Condensed Consolidated Financial Statements.

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

(Dollars in Thousands)

	June 30, 2015			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
<b>Assets</b>				
Cash and Cash Equivalents	\$ 2,164,640	\$	\$	\$ 2,164,640
Cash Held by Blackstone Funds and Other	267,116	507,624		774,740
Investments	11,907,076	4,546,626	(533,892)	15,919,810
Accounts Receivable	406,656	254,924		661,580
Reverse Repurchase Agreements	61,376			61,376
Due from Affiliates	1,206,938	63,444	(13,071)	1,257,311
Intangible Assets, Net	409,828			409,828
Goodwill	1,787,392			1,787,392
Other Assets	333,360	4,917		338,277
Deferred Tax Assets	1,308,547			1,308,547
<b>Total Assets</b>	<b>\$ 19,852,929</b>	<b>\$ 5,377,535</b>	<b>\$ (546,963)</b>	<b>\$ 24,683,501</b>
<b>Liabilities and Partners Capital</b>				
Loans Payable	\$ 2,809,633	\$ 3,026,989	\$	\$ 5,836,622
Due to Affiliates	1,274,031	119,788	(17,353)	1,376,466
Accrued Compensation and Benefits	2,441,214	18		2,441,232
Securities Sold, Not Yet Purchased	61,142	77,641		138,783
Repurchase Agreements	1,847	39,807		41,654
Accounts Payable, Accrued Expenses and Other Liabilities	495,347	441,629		936,976
<b>Total Liabilities</b>	<b>7,083,214</b>	<b>3,705,872</b>	<b>(17,353)</b>	<b>10,771,733</b>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>		<b>196,600</b>		<b>196,600</b>
<b>Partners Capital</b>				
Partners Capital	7,177,216	529,555	(530,320)	7,176,451
Appropriated Partners Capital				
Accumulated Other Comprehensive Income (Loss)	(36,832)		710	(36,122)
Non-Controlling Interests in Consolidated Entities	1,368,882	945,508		2,314,390
Non-Controlling Interests in Blackstone Holdings	4,260,449			4,260,449
<b>Total Partners Capital</b>	<b>12,769,715</b>	<b>1,475,063</b>	<b>(529,610)</b>	<b>13,715,168</b>
<b>Total Liabilities and Partners Capital</b>	<b>\$ 19,852,929</b>	<b>\$ 5,377,535</b>	<b>\$ (546,963)</b>	<b>\$ 24,683,501</b>

continued



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

(Dollars in Thousands)

	December 31, 2014			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
<b>Assets</b>				
Cash and Cash Equivalents	\$ 1,412,472	\$	\$	\$ 1,412,472
Cash Held by Blackstone Funds and Other	348,957	1,459,135		1,808,092
Investments	12,123,708	11,835,242	(1,193,361)	22,765,589
Accounts Receivable	364,927	194,394		559,321
Due from Affiliates	1,060,831	723,285	(655,708)	1,128,408
Intangible Assets, Net	458,833			458,833
Goodwill	1,787,392			1,787,392
Other Assets	276,476	48,284		324,760
Deferred Tax Assets	1,252,230			1,252,230
<b>Total Assets</b>	<b>\$ 19,085,826</b>	<b>\$ 14,260,340</b>	<b>\$ (1,849,069)</b>	<b>\$ 31,497,097</b>
<b>Liabilities and Partners Capital</b>				
Loans Payable	\$ 2,136,706	\$ 6,787,135	\$	\$ 8,923,841
Due to Affiliates	1,289,552	1,350,911	(1,150,375)	1,490,088
Accrued Compensation and Benefits	2,439,257			2,439,257
Securities Sold, Not Yet Purchased		85,878		85,878
Repurchase Agreements		29,907		29,907
Accounts Payable, Accrued Expenses and Other Liabilities	430,712	763,867		1,194,579
<b>Total Liabilities</b>	<b>6,296,227</b>	<b>9,017,698</b>	<b>(1,150,375)</b>	<b>14,163,550</b>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>		<b>2,441,854</b>		<b>2,441,854</b>
<b>Partners Capital</b>				
Partners Capital	6,999,830	698,694	(698,694)	6,999,830
Appropriated Partners Capital		81,301		81,301
Accumulated Other Comprehensive Income (Loss)	(21,932)	1,068		(20,864)
Non-Controlling Interests in Consolidated Entities	1,395,631	2,019,725		3,415,356
Non-Controlling Interests in Blackstone Holdings	4,416,070			4,416,070
<b>Total Partners Capital</b>	<b>12,789,599</b>	<b>2,800,788</b>	<b>(698,694)</b>	<b>14,891,693</b>
<b>Total Liabilities and Partners Capital</b>	<b>\$ 19,085,826</b>	<b>\$ 14,260,340</b>	<b>\$ (1,849,069)</b>	<b>\$ 31,497,097</b>

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

Blackstone Distressed Securities Fund L.P.\*

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Blackstone Market Opportunities Fund L.P.\*

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

Blackstone Real Estate Special Situations Fund L.P.

Blackstone Real Estate Special Situations Offshore Fund Ltd.

Blackstone Strategic Alliance Fund II L.P.\*

Blackstone Strategic Alliance Fund L.P.

Blackstone Strategic Capital Holdings B L.P.\*

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Blackstone Strategic Capital Holdings L.P.\*

Blackstone Strategic Equity Fund L.P.\*

Blackstone Value Recovery Fund L.P.\*

Blackstone/GSO Loan Financing Limited

Blackstone/GSO Secured Trust Ltd.\*

BREP Edens Investment Partners L.P.\*

BSSF I AIV L.P.

BTD CP Holdings, LP

GSO Legacy Associates II LLC

GSO Legacy Associates LLC

Shanghai Blackstone Equity Investment Partnership L.P.\*

Private equity side-by-side investment vehicles

Real estate side-by-side investment vehicles

Mezzanine side-by-side investment vehicles

Collateralized loan obligation vehicles

\* Consolidated as of December 31, 2014 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 in this Quarterly Report on Form 10-Q.*

**Our Business**

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

Our business is organized into five business segments:

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

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a single commitment. Through our private equity funds we pursue transactions throughout the world, including leveraged buyout acquisitions of seasoned companies, transactions involving growth equity or start-up businesses in established industries, minority investments, corporate partnerships, distressed debt, structured securities and industry consolidations, in all cases in strictly friendly transactions.

**Real Estate.** We are a world leader in real estate investing, having built the largest private real estate investment business in the world since our start in 1991. We have managed or continue to manage a number of global, European and Asian focused opportunistic real estate funds, several real estate debt investment funds, a registered investment company focused on liquid real estate debt investments ( BREIF ), a publicly traded real estate investment trust ( BXMT ) and core+ real estate investments, including the 2014 launch of our first commingled U.S.-focused open ended core+ fund. Our real estate opportunity funds are diversified geographically and have made significant investments in lodging, office buildings, shopping centers, residential and a variety of real estate operating companies. Our debt

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investment funds target high yield real estate debt related investment opportunities in the public and private markets, primarily in the United States and Europe. Our core+ funds target stabilized office, multifamily, industrial, and retail assets globally. We refer to our real estate opportunistic funds as our Blackstone Real Estate Partners ( BREP ) funds, our real estate debt investment funds as our Blackstone Real Estate Debt Strategies ( BREDS ) funds and our core+ investment funds as our Blackstone Property Partners ( BPP ) funds.

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

**Credit.** Our Credit segment is comprised principally of GSO Capital Partners LP ( GSO ), a global leader in managing credit-focused products within private and public debt market strategies. GSO's products include senior credit-focused funds, mezzanine funds, distressed debt funds, general credit-focused funds, registered investment companies, separately managed accounts and collateralized loan obligation ( CLO ) vehicles.

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

We generate revenue from fees earned pursuant to contractual arrangements with funds, fund investors and fund portfolio companies (including management, transaction and monitoring fees), and from financial and strategic advisory, restructuring and reorganization advisory, capital markets services and fund placement services for alternative investment funds. We invest in the funds we manage and, in most cases, receive a preferred allocation of income (i.e., a carried interest) or an incentive fee from an investment fund in the event that specified cumulative investment returns are achieved (generally collectively referred to as Performance Fees ). The composition of our revenues will vary based on market conditions and the cyclical nature of the different businesses in which we operate. Net investment gains and investment income generated by the Blackstone Funds, principally private equity and real estate funds, are driven by value created by our operating and strategic initiatives as well as overall market conditions. Fair values are affected by changes in the fundamentals of the portfolio company, the portfolio company's industry, the overall economy and other market conditions.

## **Business Environment**

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

Overall global equity indices were flat in the second quarter of 2015, although there was significant variance across regions. In the U.S., the S&P 500 Index was flat but saw a sharp increase in volatility driven primarily by concerns over a potential Greek default and exit from the euro currency block, as well as a sudden down-turn in Chinese equities. U.S. economic fundamentals generally remain strong, with the unemployment rate relatively stable at 5.3% as of June 2015. The Federal Reserve is now widely expected to raise interest rates as early as September of 2015.

Credit markets were relatively flat in the second quarter. In the U.S. high yield spreads were stable and issuance, particularly in leveraged loans, remained active. Base rates in the U.S. remained at historically low levels. In European credit markets, spreads widened year-over-year and high yield issuance fell, weighed by investor concerns over the impact of a potential Greek default.

Global equity capital market activity fell year-over-year but financial sponsors remained active participants, capitalizing on healthy investor demand and attractive valuations to monetize portfolio investments. Merger and acquisition activity increased sharply year-over-year both in the second quarter and first half of 2015, with the U.S. and Asia reaching all-time records for announced deal activity.

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Global real estate supply and demand dynamics continue to support a robust level of investment activity. In the U.S., construction starts remain at only 1.2% of stock, meaningfully below historic levels. Although the U.S. public REIT market declined by 11.3% in the second quarter of 2015, operating fundamentals demonstrated strength, reinforced by quarterly same store net operating income ( NOI ) growth of 5.0% across all sectors, which represents 20 consecutive quarters of NOI growth since bottoming in the fourth quarter of 2009. The recovery in U.S. real estate values has supported the continued growth of debt capital, with commercial mortgage-backed securities issuance of \$52 billion year to date, up 33% compared to the first half of 2014, but still well below 2007 levels. In Europe, the ongoing debt crisis in Greece overshadowed moderate GDP growth across Western and Southern Europe. Economic expansion in India has continued, with 2015 GDP growth forecasted at 7.5%. Although growth in China has recently moderated, middle income population has grown more than six-fold since 2001, which has driven retail consumption across the region. Ongoing capital market dislocation across emerging markets in Asia has provided minimal liquidity for real estate owners and reduced financing for new construction, providing an opportunity for private real estate investment.

## **Significant Transactions**

On May 19, 2015, Blackstone issued 300 million in aggregate principal amount of 2.000% senior notes which will mature on May 19, 2025.

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

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

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### **Organizational Structure**

The simplified diagram below depicts our current organizational structure. The diagram does not depict all of our subsidiaries, including intermediate holding companies through which certain of the subsidiaries depicted are held.

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

We manage our business using traditional financial measures and key operating metrics since we believe these metrics measure the productivity of our investment activities. Our key financial measures and indicators are discussed below.

#### ***Revenues***

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other. Please refer to Part I. Item 1. Business Incentive Arrangements / Fee Structure in our Annual Report on Form 10-K for the year ended December 31, 2014 and Critical Accounting Policies Revenue Recognition for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

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

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

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

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

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

Accrued but unpaid Management and Advisory Fees, net of management fee reductions and management fee offsets, as of the reporting date are included in Accounts Receivable or Due from Affiliates in the Consolidated Statements of Financial Condition. Management fees paid by limited partners to the Blackstone Funds and passed on to Blackstone are not considered affiliate revenues.

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

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

Carried Interest is realized when an underlying investment is profitably disposed of and the fund's cumulative returns are in excess of the preferred return or, in limited instances, after certain thresholds for return of capital are



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met. Carried Interest is subject to clawback to the extent that the Carried Interest received to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received Carried Interest, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Blackstone Carry Funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

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

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

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

***Expenses***

*Compensation and Benefits Compensation* Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight-line basis. Equity-based awards that do not require future service are expensed immediately. Cash settled equity-based awards are classified as liabilities and are remeasured at the end of each reporting period.

*Compensation and Benefits Performance Fee* Performance Fee Compensation consists of Carried Interest (which may be distributed in cash or in-kind) and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone's firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis. Compensation received from advisory clients in the form of securities of such clients may also be allocated to employees and senior managing directors.

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

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

***Non-Controlling Interests in Consolidated Entities***

Non-Controlling Interests in Consolidated Entities represent the component of Partners' Capital in consolidated Blackstone Funds held by third party investors and employees. The percentage interests held by third parties and

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employees is adjusted for general partner allocations and by subscriptions and redemptions in funds of hedge funds and certain credit-focused funds which occur during the reporting period. In addition, all non-controlling interests in consolidated Blackstone Funds are attributed a share of income (loss) arising from the respective funds and a share of other comprehensive income, if applicable. Income (Loss) is allocated to non-controlling interests in consolidated entities based on the relative ownership interests of third party investors and employees after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group L.P.

***Redeemable Non-Controlling Interests in Consolidated Entities***

Non-controlling interests related to funds of hedge funds and certain other credit-focused funds are subject to annual, semi-annual or quarterly redemption by investors in these funds following the expiration of a specified period of time (typically between one and three years), or may be withdrawn subject to a redemption fee in the funds of hedge funds and certain credit-focused funds during the period when capital may not be withdrawn. As limited partners in these types of funds have been granted redemption rights, amounts relating to third party interests in such consolidated funds are presented as Redeemable Non-Controlling Interests in Consolidated Entities within the Condensed Consolidated Statements of Financial Condition. When redeemable amounts become legally payable to investors, they are classified as a liability and included in Accounts Payable, Accrued Expenses and Other Liabilities in the Condensed Consolidated Statements of Financial Condition. For all consolidated funds in which redemption rights have not been granted, non-controlling interests are presented within Partners' Capital in the Condensed Consolidated Statements of Financial Condition as Non-Controlling Interests in Consolidated Entities.

***Non-Controlling Interests in Blackstone Holdings***

Non-Controlling Interests in Blackstone Holdings represent the component of Partners' Capital in the consolidated Blackstone Holdings Partnerships held by Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships.

Certain costs and expenses are borne directly by the Holdings Partnerships. Income (Loss), excluding those costs directly borne by and attributable to the Holdings Partnerships, is attributable to Non-Controlling Interests in Blackstone Holdings. This residual attribution is based on the year to date average percentage of Blackstone Holdings Partnership Units held by Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships.

***Income Taxes***

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

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

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

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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. Blackstone records uncertain tax positions on the basis of a two-step process: (a) determination is made whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (b) those tax positions that meet the more-likely-than-not threshold are recognized as the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority. Blackstone recognizes accrued interest and penalties related to uncertain tax positions in General, Administrative, and Other expenses within the Consolidated Statements of Operations.

There remains some uncertainty regarding Blackstone's future taxation levels. Over the past several years, a number of legislative and administrative proposals to change the taxation of Carried Interest have been introduced and, in certain cases, have been passed by the U.S. House of Representatives that would have, in general, treated income and gains, including gain on sale, attributable to an investment services partnership interest, or ISPI, as income subject to a new blended tax rate that is higher than the capital gains rate applicable to such income under current law, except to the extent such ISPI would have been considered under the legislation to be a qualified capital interest. Our common units and the interests that we hold in entities that are entitled to receive Carried Interest would likely have been classified as ISPIs for purposes of this legislation. It is unclear whether or when the U.S. Congress will pass such legislation or what provisions will be included in any final legislation if enacted.

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

The Obama administration proposed policies similar to Congress that would tax income and gain, including gain on sale, attributable to an ISPI at ordinary rates, with an exception for certain qualified capital interests. The proposal would also characterize certain income and gain in respect of ISPIs as non-qualifying income under the tax rules applicable to publicly traded partnerships after a ten-year transition period from the effective date, with an exception for certain qualified capital interests. The Obama administration proposed similar changes in its published revenue proposals for 2014 and prior years.

In addition, legislation was proposed in 2014 that would, among other things (a) generally treat publicly traded partnerships (other than those deriving 90 percent of their income from activities relating to mining and natural resources) as taxable corporations for tax years beginning after 2016 and (b) recharacterize a portion of capital gain from certain partnership interests held in connection with the performance of services as ordinary income for tax years beginning after 2014.

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

If we were taxed as a corporation or were forced to hold interests in entities earning income from Carried Interest through taxable subsidiary corporations, our effective tax rate could increase significantly. The federal statutory rate for corporations is currently 35%, and the state and local tax rates, net of the federal benefit, aggregate approximately 5%. If a variation of the above described legislation or any other change in the tax laws, rules, regulations or interpretations preclude us from qualifying for treatment as a partnership for U.S. federal income tax

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

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

The Obama administration has announced other proposals for potential reform to the U.S. federal income tax rules for businesses, including reducing the deductibility of interest for corporations, reducing the top marginal rate on corporations and subjecting entities currently treated as partnerships for tax purposes to an entity level income tax similar to the corporate income tax. Several proposals for reform if enacted could adversely affect us. It is unclear what any actual legislation would provide, when it would be proposed or what its prospects for enactment would be.

Other proposals have contemplated the migration of the United States from a worldwide system of taxation, pursuant to which U.S. corporations are taxed on their worldwide income, to a territorial system where U.S. corporations are taxed only on their U.S. source income (subject to certain exceptions for income derived in low-tax jurisdictions from the exploitation of tangible assets) at a top corporate tax rate that would be 25%. Such proposals include revenue raisers to offset the reduction in the tax rate and base which may or may not be detrimental to us, including changes to the rules for depreciating or amortizing assets, including goodwill, and changes to rules affecting real estate investment trusts, partnerships and tax-exempt entities. A variation of this proposal completes a similar territorial U.S. tax system, but with more expansive U.S. taxation of the foreign profits of non-U.S. subsidiaries of U.S. corporations. Such proposal would also eliminate the withholding tax exemption on portfolio interest debt obligations for investors residing in non-treaty jurisdictions. Recent legislation has also proposed audit procedure adjustments that could affect large partnerships like us. Whether these proposals will be enacted by the government and in what form is unknown, as are the ultimate consequences of the proposed legislation.

***Economic Income***

Blackstone uses Economic Income (EI) as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its five segments. EI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges arise from Blackstone's initial public offering (IPO) and long-term retention programs outside of annual deferred compensation and other corporate actions, including acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration associated with acquisitions. EI presents revenues and expenses on a basis that deconsolidates the investment funds we manage. Economic Net Income (ENI) represents EI adjusted to include current period taxes. Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes. EI, our principal segment measure, is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. (See Note 18. Segment Reporting in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements.)

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***Fee Related Earnings***

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

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

***Distributable Earnings***

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

Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Payables Under the Tax Receivable Agreement.

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

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

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

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

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

***Operating Metrics***

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

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

- (a) the fair value of the investments held by our carry funds and our side-by-side and co-investment entities managed by us, plus the capital that we are entitled to call from investors in those funds and entities pursuant to the terms of their respective capital commitments, including capital commitments to funds that have yet to commence their investment periods,
- (b) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (c) the invested capital or fair value of assets we manage pursuant to separately managed accounts,
- (d) the amount of debt and equity outstanding for our CLOs and CDOs during the reinvestment period,
- (e) the aggregate par amount of collateral assets, including principal cash, for our CLOs and CDOs after the reinvestment period,
- (f) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies, and
- (g) the fair value of common stock, preferred stock, convertible debt, or similar instruments issued by our public REIT.

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

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

- (a) for our Private Equity segment funds and Real Estate segment carry funds including certain real estate debt investment funds and certain of our Hedge Fund Solutions funds, the amount of capital commitments, remaining invested capital, fair value or par value of assets held, depending on the fee terms of the fund,
- (b) for our credit-focused carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,
- (c) the remaining invested capital of co-investments managed by us on which we receive fees,
- (d) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (e) the invested capital or fair value of assets we manage pursuant to separately managed accounts,

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

(g) the aggregate par amount of collateral assets, including principal cash, of our CLOs and CDOs, and

(h) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies.

Our calculations of assets under management and fee-earning assets under management may differ from the calculations of other asset managers, and as a result this measure may not be comparable to similar measures presented by other asset managers. In addition, our calculation of assets under management includes commitments to, and the fair value of, invested capital in our funds from Blackstone and our personnel, regardless of whether such



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commitments or invested capital are subject to fees. Our definitions of assets under management or fee-earning assets under management are not based on any definition of assets under management or fee-earning assets under management that is set forth in the agreements governing the investment funds that we manage.

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

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

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

## **Consolidated Results of Operations**

Following is a discussion of our consolidated results of operations for the three and six months ended June 30, 2015 and 2014. For a more detailed discussion of the factors that affected the results of our five business segments (which are presented on a basis that deconsolidates the investment funds we manage) in these periods, see [Segment Analysis](#) below.

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The following tables set forth information regarding our consolidated results of operations and certain key operating metrics for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		2015 vs. 2014		Six Months Ended June 30,		2015 vs. 2014	
	2015	2014	\$	%	2015	2014	\$	%
<b>(Dollars in Thousands)</b>								
<b>Revenues</b>								
Management and Advisory Fees, Net	\$ 574,132	\$ 619,523	\$ (45,391)	-7%	\$ 1,190,900	\$ 1,192,683	\$ (1,783)	-0%
<b>Performance Fees</b>								
<b>Realized</b>								
Carried Interest	937,483	641,659	295,824	46%	2,145,077	975,282	1,169,795	120%
Incentive Fees	47,682	39,504	8,178	21%	77,320	83,298	(5,978)	-7%
<b>Unrealized</b>								
Carried Interest	(441,930)	660,682	(1,102,612)	N/M	(68,090)	991,076	(1,059,166)	N/M
Incentive Fees	25,070	54,639	(29,569)	-54%	87,106	118,872	(31,766)	-27%
Total Performance Fees	568,305	1,396,484	(828,179)	-59%	2,241,413	2,168,528	72,885	3%
<b>Investment Income (Loss)</b>								
<b>Realized</b>								
Realized	157,823	215,710	(57,887)	-27%	345,753	368,736	(22,983)	-6%
Unrealized	(100,999)	10,809	(111,808)	N/M	(82,726)	24,309	(107,035)	N/M
Total Investment Income	56,824	226,519	(169,695)	-75%	263,027	393,045	(130,018)	-33%
<b>Interest and Dividend Revenue</b>								
Interest and Dividend Revenue	21,965	15,340	6,625	43%	43,885	29,409	14,476	49%
Other	3,976	(6)	3,982	N/M	(1,665)	863	(2,528)	N/M
<b>Total Revenues</b>	<b>1,225,202</b>	<b>2,257,860</b>	<b>(1,032,658)</b>	<b>-46%</b>	<b>3,737,560</b>	<b>3,784,528</b>	<b>(46,968)</b>	<b>-1%</b>
<b>Expenses</b>								
Compensation and Benefits Compensation	473,019	500,641	(27,622)	-6%	1,032,578	985,992	46,586	5%
<b>Performance Fee Compensation</b>								
<b>Realized</b>								
Carried Interest	238,033	260,301	(22,268)	-9%	530,281	409,699	120,582	29%
Incentive Fees	21,837	18,509	3,328	18%	34,064	42,144	(8,080)	-19%
<b>Unrealized</b>								
Carried Interest	(50,559)	114,296	(164,855)	N/M	23,821	155,026	(131,205)	-85%
Incentive Fees	6,130	24,692	(18,562)	-75%	31,091	48,223	(17,132)	-36%
Total Compensation and Benefits	688,460	918,439	(229,979)	-25%	1,651,835	1,641,084	10,751	1%
General, Administrative and Other	146,859	136,492	10,367	8%	277,832	272,046	5,786	2%
Interest Expense	37,414	29,847	7,567	25%	68,784	54,514	14,270	26%
Fund Expenses	41,699	5,003	36,696	733%	58,549	9,988	48,561	486%
<b>Total Expenses</b>	<b>914,432</b>	<b>1,089,781</b>	<b>(175,349)</b>	<b>-16%</b>	<b>2,057,000</b>	<b>1,977,632</b>	<b>79,368</b>	<b>4%</b>
<b>Other Income</b>								
Net Gains from Fund Investment Activities	82,015	138,585	(56,570)	-41%	175,570	208,740	(33,170)	-16%
<b>Income Before Provision for Taxes</b>	<b>392,785</b>	<b>1,306,664</b>	<b>(913,879)</b>	<b>-70%</b>	<b>1,856,130</b>	<b>2,015,636</b>	<b>(159,506)</b>	<b>-8%</b>
<b>Provision for Taxes</b>	<b>43,251</b>	<b>83,282</b>	<b>(40,031)</b>	<b>-48%</b>	<b>142,595</b>	<b>137,379</b>	<b>5,216</b>	<b>4%</b>
<b>Net Income</b>	<b>349,534</b>	<b>1,223,382</b>	<b>(873,848)</b>	<b>-71%</b>	<b>1,713,535</b>	<b>1,878,257</b>	<b>(164,722)</b>	<b>-9%</b>
<b>Net Income Attributable to Redeemable Non-Controlling Interests in</b>	<b>13,780</b>	<b>22,486</b>	<b>(8,706)</b>	<b>-39%</b>	<b>21,307</b>	<b>68,278</b>	<b>(46,971)</b>	<b>-69%</b>

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<b>Consolidated Entities</b>								
<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities</b>	66,716	140,061	(73,345)	-52%	148,512	184,022	(35,510)	-19%
<b>Net Income Attributable to Non-Controlling Interests in Blackstone Holdings</b>	134,870	543,819	(408,949)	-75%	780,100	843,324	(63,224)	-7%
<b>Net Income Attributable to The Blackstone Group L.P.</b>	\$ 134,168	\$ 517,016	\$ (382,848)	-74%	\$ 763,616	\$ 782,633	\$ (19,017)	-2%

N/M Not meaningful.

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### *Revenues*

Total Revenues were \$1.2 billion for the three months ended June 30, 2015, a decrease of \$1.0 billion compared to Total Revenues for the three months ended June 30, 2014 of \$2.3 billion. The decrease in revenues was primarily attributable to decreases in Performance Fees and Investment Income of \$828.2 million and \$169.7 million, respectively.

The decrease in Performance Fees was primarily attributable to decreases in our Private Equity and Real Estate segments. The decrease in our Private Equity segment was a result of slightly lower returns despite positive net returns across the segment. In the case of BCP V, net returns were lower due in part to the catch up of performance fees in the fund. However, realized performance fees of \$546.5 million during the quarter were a record for the segment. The decrease in Performance Fees in our Real Estate segment was primarily due to the decrease in the net appreciation from our BREP carry funds. For the three months ended June 30, 2015, the carrying value of investments for Blackstone's contributed Real Estate funds, including fee-paying co-investments, increased 1.2% driven by continued strong operating fundamentals across the portfolio, partially offset by declines in public investment values. Our BREDS drawdown and real estate hedge funds appreciated 3.5% and 1.5%, respectively.

The decrease in Investment Income was due to decreases in our Private Equity and Real Estate segments. The Private Equity segment had strong performance in public investments as well as private investments in the services and healthcare sectors, however was outpaced by public returns and investments in the healthcare and energy sectors from the second quarter of 2014. The decrease in our Real Estate segment was primarily due to the year over year decrease in the net appreciation of investments across our global Real Estate funds.

Total Revenues were \$3.7 billion for the six months ended June 30, 2015, a decrease of \$47.0 million compared to Total Revenues for the six months ended June 30, 2014 of \$3.8 billion. The decrease in revenues was primarily attributable to a decrease of \$130.0 million in Investment Income, partially offset by an increase in Performance Fees of \$72.9 million.

The decrease in Investment Income was primarily attributable to decreases in our Private Equity, Real Estate, and Hedge Fund Solutions segments. The decrease in our Private Equity segment was principally driven by strong returns in our public portfolio and investments in the healthcare and services sectors in the second quarter of 2014 that were greater than the positive returns generated in the second quarter of 2015. The decrease in our Real Estate segment was primarily attributable to the same reason noted above. The decrease in our Hedge Fund Solutions segment was primarily driven by the year over year decrease in the net appreciation of investments of which Blackstone owns a share.

The increase in Performance Fees was principally due to an increase in our Private Equity segment, partially offset by decreases in our Real Estate and Credit segments. The increase in our Private Equity segment was driven mainly by BCP V which crossed its preferred return threshold and has been fully generating performance fees since the second quarter of 2014. The decrease in our Real Estate segment was primarily attributable to the same reasons noted above. For the six months ended June 30, 2015, the carrying value of investments for Blackstone's contributed Real Estate funds, including fee-paying co-investments, increased 9.0% driven by appreciation in the private and public portfolios. Our BREDS drawdown and real estate hedge funds appreciated 4.9% and 4.8%, respectively. The decrease in our Credit segment was primarily attributable to lower returns in the three months ended March 31, 2015 compared to the three months ended March 31, 2014 in certain alternative strategies.

### *Expenses*

Expenses were \$914.4 million for the three months ended June 30, 2015, a decrease of \$175.3 million compared to \$1.1 billion for the three months ended June 30, 2014. The decrease was primarily attributable to a decrease of \$230.0 million in Total Compensation and Benefits, which was comprised of a decrease in Performance Fee Compensation of \$202.4 million due to the decrease in Performance Fees Revenue.

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Expenses were \$2.1 billion for the six months ended June 30, 2015, an increase of \$79 million compared to \$2.0 billion for the six months ended June 30, 2014. The increase was primarily attributable to increases in Total Compensation and Benefits, Interest, and Fund Expenses of \$10.8 million, \$14.3 million, and \$48.6 million, respectively. The increase in Total Compensation and Benefits was comprised of a \$46.6 million increase in Compensation, primarily due to an increase in headcount to support the growth of the businesses. This increase was partially offset by a \$35.8 million decrease in Performance Fee Compensation, which was principally due to decreases in Performance Fee Compensation in the Credit and Real Estate segments. Interest Expense was \$68.8 million for the six months ended June 30, 2015, an increase of \$14.3 million, primarily related to Blackstone's issuance of senior notes during the second quarter of 2014 and the second quarter of 2015. The increase of Fund Expenses was primarily due to the consolidated CLO vehicles in the Credit segment.

*Other Income (Loss)*

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

Other Income Net Gains from Fund Investment Activities was \$82.0 million for the three months ended June 30, 2015, a decrease of \$56.6 million compared to \$138.6 million for the three months ended June 30, 2014. The change was principally driven by decreases in our Private Equity and Real Estate segments.

Other Income Net Gains from Fund Investment Activities was \$175.6 million for the six months ended June 30, 2015, a decrease of \$33.2 million compared to \$208.7 million for the six months ended June 30, 2014. The change was principally driven by decreases in our Private Equity and Hedge Fund Solutions segments, partially offset by increases in our Credit and Real Estate segments.

*Provision for Taxes*

Blackstone's Provision for Taxes for the three months ended June 30, 2015 and 2014 was \$43.3 million and \$83.3 million, respectively. This resulted in an effective tax rate of 11.0% and 6.4%, respectively, based on our Income Before Provision for Taxes of \$392.8 million and \$1.3 billion, respectively. Two factors contributed to the 4.6% increase in the effective tax rate for the three months ended June 30, 2015 compared to the three months ended June 30, 2014. First, pre-tax book income includes pre-tax income of \$247.6 million and \$1.1 billion for three months ended June 30, 2015 and three months ended June 30, 2014, respectively, that was passed through to common unitholders and non-controlling interest holders and was not taxable to the Partnership and its subsidiaries. The change in these amounts resulted in a 7.3% increase in the effective tax rate between the respective three month periods.

Second, in the three months ended June 30, 2015, the tax deductible equity-based compensation expense exceeded the book equity-based compensation expense, while in the three months ended June 30, 2014, the book equity-based compensation expense exceeded the tax deductible equity-based compensation expense. Due to the change of the book and tax expense between the three months ended June 30, 2015 and the three months ended June 30, 2014, the effective tax rates decreased by 0.5% and increased by 1.8%, respectively. The change in these amounts resulted in a 2.3% decrease in the effective tax rate between the respective three month periods.

Blackstone's Provision for Taxes for the six months ended June 30, 2015 and 2014 was \$142.6 million and \$137.4 million, respectively. This resulted in an effective tax rate of 7.7% and 6.8%, respectively, based on our Income Before Provision for Taxes of \$1.9 billion and \$2.0 billion, respectively.

Two factors contributed to the 0.9% increase in the effective tax rate for the six months ended June 30, 2015 compared to the six months ended June 30, 2014. First, pre-tax book income includes pre-tax income of \$1.4 billion

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and \$1.7 billion for the six months ended June 30, 2015 and the six months ended June 30, 2014, respectively, that was passed through to common unitholders and non-controlling interest holders and was not taxable to the Partnership and its subsidiaries. The change in these amounts resulted in a 1.6% increase in the effective tax rate between the respective six month periods.

Second, in both the six months ended June 30, 2015 and the six months ended June 30, 2014, book equity-based compensation expense exceeded the tax deductible equity-based compensation expense due to the issuance of units that were not tax deductible since they represented a value for value exchange for tax purposes. Although the amount of the excess book expense over the tax expense did not change significantly in the six months ended June 30, 2015 compared to the six months ended June 30, 2014, the effective tax rates increased by 0.1% and 1.0% in the six months ended June 30, 2015 and the six months ended June 30, 2014, respectively. The change in these amounts resulted in a 0.9% decrease in the effective tax rate between the respective six month periods.

*Non-Controlling Interests in Consolidated Entities*

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

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

For the three months ended June 30, 2015 and 2014, the net income before taxes allocated to Blackstone Holdings was 47.2% and 47.9%, respectively. For the six months ended June 30, 2015 and 2014, the net income before taxes allocated to Blackstone Holdings was 47.1% and 48.2%, respectively. The decreases of 0.7% and 1.1%, respectively, were primarily due to conversions of Blackstone Holdings Partnership Units to Blackstone common units and the vesting of common units.

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*Operating Metrics*

The following graph summarizes the Fee-Earning Assets Under Management by Segment and Total Assets Under Management by Segment, followed by a rollforward of activity for the three and six months ended June 30, 2015 and 2014. For a description of how Assets Under Management and Fee-Earning Assets Under Management are determined, please see Key Financial Measures and Indicators Operating Metrics Assets Under Management and Fee-Earning Assets Under Management :

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

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	Three Months Ended									
	Private Equity	Real Estate	June 30, 2015 Hedge Fund Solutions	Credit	Total (Dollars in Thousands)	Private Equity	Real Estate	June 30, 2014 Hedge Fund Solutions	Credit	Total
Net Earnings (Losses) Under Management										
Beginning of Period	\$ 49,342,211	\$ 50,783,247	\$ 64,114,498	\$ 59,271,744	\$ 223,511,700	\$ 41,150,728	\$ 53,490,834	\$ 55,571,357	\$ 53,386,685	\$ 203,599,604
Flows, including commitments	1,664,454	17,965,450	2,401,010	4,556,416	26,587,330	3,459,413	2,386,903	3,441,992	5,308,628	14,596,936
Outflows, including distributions	(105,798)	(4,095,483)	(1,740,930)	(1,977,723)	(7,919,934)	(601,787)	(67,501)	(1,990,723)	(831,330)	(3,491,341)
Realizations	(1,516,664)	(2,359,597)	(91,871)	(964,570)	(4,932,702)	(1,383,552)	(2,971,203)	(8,704)	(2,085,949)	(6,449,408)
Net Inflows (Outflows)	41,992	11,510,370	568,209	1,614,123	13,734,694	1,474,074	(651,801)	1,442,565	2,391,349	4,656,187
Market Appreciation (Depreciation)	152,986	390,240	829,463	723,131	2,095,820	263,954	(15,058)	1,070,098	338,975	1,657,969
Balance, End of Period (e)	\$ 49,537,189	\$ 62,683,857	\$ 65,512,170	\$ 61,608,998	\$ 239,342,214	\$ 42,888,756	\$ 52,823,975	\$ 58,084,020	\$ 56,117,009	\$ 209,913,760
Change (Decrease)	\$ 194,978	\$ 11,900,610	\$ 1,397,672	\$ 2,337,254	\$ 15,830,514	\$ 1,738,028	\$ (666,859)	\$ 2,512,663	\$ 2,730,324	\$ 6,314,156
Change (Decrease)	0%	23%	2%	4%	7%	4%	-1%	5%	5%	3%

	Six Months Ended									
	Private Equity	Real Estate	June 30, 2015 Hedge Fund Solutions	Credit	Total (Dollars in Thousands)	Private Equity	Real Estate	June 30, 2014 Hedge Fund Solutions	Credit	Total
Net Earnings (Losses) Under Management										
Beginning of Period	\$ 43,890,167	\$ 52,563,068	\$ 61,417,558	\$ 58,821,006	\$ 216,691,799	\$ 42,600,515	\$ 50,792,803	\$ 52,865,837	\$ 51,722,584	\$ 197,981,739
Flows, including commitments	9,311,196	19,409,865	5,471,659	8,480,306	42,673,026	3,842,118	5,693,677	5,809,622	9,138,826	24,484,243
Outflows, including distributions	(1,091,177)	(4,128,141)	(3,007,425)	(3,949,233)	(12,175,976)	(944,249)	(158,841)	(2,598,345)	(1,702,132)	(5,403,567)
Realizations	(2,763,382)	(4,853,901)	(113,213)	(1,740,508)	(9,471,004)	(2,962,624)	(3,543,966)	(196,268)	(3,734,220)	(10,437,078)
Net Inflows (Outflows)	5,456,637	10,427,823	2,351,021	2,790,565	21,026,046	(64,755)	1,990,870	3,015,009	3,702,474	8,643,598
	190,385	(307,034)	1,743,591	(2,573)	1,624,369	352,996	40,302	2,203,174	691,951	3,288,423



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Market Appreciation (Depreciation)											
Balance, End Period (e)	\$ 49,537,189	\$ 62,683,857	\$ 65,512,170	\$ 61,608,998	\$ 239,342,214	\$ 42,888,756	\$ 52,823,975	\$ 58,084,020	\$ 56,117,009	\$ 209,913,760	
Increase	\$ 5,647,022	\$ 10,120,789	\$ 4,094,612	\$ 2,787,992	\$ 22,650,415	\$ 288,241	\$ 2,031,172	\$ 5,218,183	\$ 4,394,425	\$ 11,932,021	
% Increase	13%	19%	7%	5%	10%	1%	4%	10%	8%	6%	

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	Three Months Ended									
	Private Equity	Real Estate	June 30, 2015 Hedge Fund Solutions	Credit	Total (Dollars in Thousands)	Private Equity	Real Estate	June 30, 2014 Hedge Fund Solutions	Credit	Total
Total Assets Under Management Balance, Beginning of Period	\$ 76,327,189	\$ 92,785,658	\$ 66,378,908	\$ 74,959,534	\$ 310,451,289	\$ 66,142,945	\$ 81,333,562	\$ 58,262,659	\$ 66,006,417	\$ 271,745,583
Inflows, including commitments	18,131,316	2,226,631	2,479,463	8,412,232	31,249,642	2,736,511	2,477,644	3,307,591	6,015,825	14,537,571
Outflows, including distributions	(117,622)	(94,248)	(1,790,668)	(2,207,498)	(4,210,036)	(344,443)	(97,213)	(1,998,947)	(886,908)	(3,327,511)
Realizations	(4,035,864)	(4,817,131)	(100,458)	(1,337,958)	(10,291,411)	(4,165,727)	(6,926,958)	(11,125)	(2,277,052)	(13,380,862)
Net Inflows (outflows)	13,977,830	(2,684,748)	588,337	4,866,776	16,748,195	(1,773,659)	(4,546,527)	1,297,519	2,851,865	(2,170,802)
Market Appreciation	1,721,318	1,477,724	862,621	1,462,399	5,524,062	3,924,876	3,623,953	1,112,581	681,522	9,342,932
Balance, End of Period (e)	\$ 92,026,337	\$ 91,578,634	\$ 67,829,866	\$ 81,288,709	\$ 332,723,546	\$ 68,294,162	\$ 80,410,988	\$ 60,672,759	\$ 69,539,804	\$ 278,917,713
Increase (decrease)	\$ 15,699,148	\$ (1,207,024)	\$ 1,450,958	\$ 6,329,175	\$ 22,272,257	\$ 2,151,217	\$ (922,574)	\$ 2,410,100	\$ 3,533,387	\$ 7,172,130
Increase (decrease)	21%	-1%	2%	8%	7%	3%	-1%	4%	5%	3%

	Six Months Ended									
	Private Equity	Real Estate	June 30, 2015 Hedge Fund Solutions	Credit	Total (Dollars in Thousands)	Private Equity	Real Estate	June 30, 2014 Hedge Fund Solutions	Credit	Total
Total Assets Under Management Balance, Beginning of Period	\$ 73,073,252	\$ 80,863,187	\$ 63,585,671	\$ 72,858,960	\$ 290,381,070	\$ 65,675,031	\$ 79,410,788	\$ 55,657,463	\$ 65,014,348	\$ 265,757,630
Inflows, including commitments	21,001,810	20,587,763	5,562,699	14,536,649	61,688,921	4,842,175	4,884,446	5,594,601	9,411,726	24,732,948
Outflows, including distributions	(142,979)	(262,551)	(3,065,415)	(4,480,770)	(7,951,715)	(512,241)	(677,113)	(2,611,206)	(1,788,580)	(5,589,140)
Realizations	(7,349,682)	(13,972,030)	(126,266)	(2,344,277)	(23,792,255)	(8,847,962)	(8,973,223)	(287,013)	(4,548,850)	(22,657,048)
Net Inflows (outflows)	13,509,149	6,353,182	2,371,018	7,711,602	29,944,951	(4,518,028)	(4,765,890)	2,696,382	3,074,296	(3,513,240)
Market Appreciation	5,443,936	4,362,265	1,873,177	718,147	12,397,525	7,137,159	5,766,090	2,318,914	1,451,160	16,673,323

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Balance, End											
Period (e)	\$ 92,026,337	\$ 91,578,634	\$ 67,829,866	\$ 81,288,709	\$ 332,723,546	\$ 68,294,162	\$ 80,410,988	\$ 60,672,759	\$ 69,539,804	\$ 278,917,713	
Increase	\$ 18,953,085	\$ 10,715,447	\$ 4,244,195	\$ 8,429,749	\$ 42,342,476	\$ 2,619,131	\$ 1,000,200	\$ 5,015,296	\$ 4,525,456	\$ 13,160,083	
Increase	26%	13%	7%	12%	15%	4%	1%	9%	7%	5%	

- (a) Inflows represent contributions in our hedge funds and closed-end mutual funds, increases in available capital for our carry funds (capital raises, recallable capital and increased side-by-side commitments) and CLOs and increases in the capital we manage pursuant to separately managed account programs.
- (b) Outflows represent redemptions in our hedge funds and closed-end mutual funds, client withdrawals from our separately managed account programs and decreases in available capital for our carry funds (expired capital, expense drawdowns and decreased side-by-side commitments). Also included is the distribution of funds associated with the discontinuation of our proprietary single manager hedge funds.
- (c) Realizations represent realizations from the disposition of assets, capital returned to investors from CLOs and the effect of changes in the definition of Total Assets Under Management.
- (d) Market appreciation (depreciation) includes realized and unrealized gains (losses) on portfolio investments and the impact of foreign exchange rate fluctuations.
- (e) Fee-Earning Assets Under Management and Total Assets Under Management as of June 30, 2015 included \$193.3 million and \$247.0 million, respectively, from a joint venture in which we are the minority interest holder.

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*Fee-Earning Assets Under Management*

Fee-Earning Assets Under Management were \$239.3 billion at June 30, 2015, an increase of \$15.8 billion, or 7%, compared to \$223.5 billion at March 31, 2015. The net increase was due to:

Inflows of \$26.6 billion related to:

\$18.0 billion in our Real Estate segment primarily related to \$14.8 billion raised for our eighth global opportunistic fund, and \$1.1 billion raised for BXMT,

\$4.6 billion in our Credit segment principally related to \$1.7 billion raised due to three CLO launches, \$1.6 billion raised in our business development companies ( BDCs ), \$738.3 million raised across our long only platform, and \$461.3 million of fee-earning inflows across our Hedge Fund Strategies funds,

\$2.4 billion in our Hedge Fund Solutions segment primarily related to \$930.6 million in individual investor solutions, \$661.4 million in customized solutions, \$510.8 million in specialized solutions, and \$298.2 million in commingled products, and

\$1.7 billion in our Private Equity segment primarily related to \$821.7 million in Tactical Opportunities platform, \$516.2 million in Strategic Partners, and \$226.1 million in total alternative solutions.

Net market appreciation of \$2.1 billion primarily attributable to:

\$829.5 million of market appreciation in our Hedge Fund Solutions segment due to BAAM's Principal Solutions Composite being up 0.9% net,

\$723.1 million of market appreciation in our Credit segment primarily due to the impact of foreign exchange rate fluctuations in our European CLO business and income appreciation across our long only platform, and

\$390.2 million of market appreciation in our Real Estate segment due to the impact of foreign exchange rate fluctuations.

Offsetting these increases were:

Outflows of \$7.9 billion primarily attributable to:

\$2.0 billion in our Credit segment primarily related to \$502.8 million in Hedge Fund Strategies, \$793.3 million in BDCs, and \$641.9 million in long only platform,

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\$1.7 billion in our Hedge Fund Solutions segment reflecting liquidity needs of our limited partners primarily in commingled and customized products, and

\$4.1 billion in our Real Estate segment primarily related to uninvested reserves at the close of the BREP VII investment period.

Realizations of \$4.9 billion primarily driven by:

\$2.4 billion in our Real Estate segment primarily from the realizations of \$523.2 million in BREP VI, \$423.5 million co-investment, \$274.6 million in BREP Europe III, \$186.5 million in BREP VII, and

\$1.5 billion in our Private Equity segment primarily from BCP V strategic and public dispositions including Biomet, Hilton, Catalent, Nielsen, and Pinnacle; Strategic Partners fund of funds realizations, and

\$964.6 million in our Credit segment primarily due to capital returned to our CLO investors.  
BAAM had net inflows of \$1.3 billion from July 1 through August 1, 2015.

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Fee-Earning Assets Under Management were \$239.3 billion at June 30, 2015, an increase of \$22.7 billion, or 10%, compared to \$216.7 billion at December 31, 2014. The net increase was due to:

Inflows of \$42.7 billion related to:

\$8.5 billion in our Credit segment principally related to \$3.2 billion raised due to six CLO launches, \$2.3 billion of capital raised for our BDCs, \$1.0 billion of fee-earning inflows across our long only platform, an increase of \$827.4 million in our Hedge Fund Strategies funds and \$784.1 million in our carry funds,

\$5.5 billion in our Hedge Fund Solutions segment mainly related to growth in its customized and commingled products and registered liquid alternatives and direct investing platforms, and additional closing on the general partner interests vehicle,

\$19.4 billion in our Real Estate segment primarily related to \$14.8 billion raised for the eighth global opportunistic fund, \$1.0 billion raised for BPP and \$1.0 billion raised in equity offerings for BXMT, and

\$9.3 billion in our Private Equity segment primarily due to the commencement of the investment periods of our second energy fund and second tactical opportunities platform of separately managed accounts.

Net market appreciation of \$1.6 billion primarily due to:

\$1.7 billion in our Hedge Fund Solutions segment due to BAAM's Principal Solutions Composite being up 3.6% net. Offsetting these increases were:

Realizations of \$9.5 billion primarily driven by:

\$1.7 billion in our Credit segment primarily due to capital returned to CLO investors from CLOs that are post their re-investment periods,

\$4.9 billion in our Real Estate segment primarily from BREP VI (\$1.8 billion), BREDS (\$1.3 billion), BREP V (\$427.0 million), co-investment (\$622.3 million), and

\$2.8 billion in our Private Equity segment primarily due to continued disposition activity across the segment.

Outflows of \$12.2 billion primarily attributable to:

\$3.0 billion in our Hedge Fund Solutions segment as a result of, in general, the liquidity needs of limited partners,

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\$3.9 billion in our Credit segment primarily from our long only platform and BDCs,

\$1.1 billion in our Private Equity segment primarily from the end of the investment periods for BEP and tactical opportunities initial platform of separately managed accounts, as well as the deployment of capital from our total alternative solutions funds, and

\$4.1 billion in our Real Estate segment primarily attributable to the same reason noted above.

### *Total Assets Under Management*

Total Assets Under Management were \$332.7 billion at June 30, 2015, an increase of \$22.3 billion, or 7%, compared to \$310.5 billion at March 31, 2015. The net increase was due to:

Inflows of \$31.2 billion related to:

\$8.4 billion in our Credit segment primarily due to the same reasons in Fee-Earning Assets Under Management above, \$2.6 billion of capital raised in energy focused products, and subsequent closings of \$893 million in the European senior debt strategy.

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\$2.5 billion in our Hedge Fund Solutions segment, which primarily related to \$930.6 million in individual investor solutions, \$661.4 million in customized solutions and \$510.8 million in specialized solutions,

\$18.1 billion in our Private Equity segment primarily due to capital raised for BCP VII and the second platform of tactical opportunities separately managed accounts, and

\$2.2 billion in our Real Estate segment primarily related to \$506.8 million raised for the eighth global opportunistic fund, \$1.0 billion raised through equity offerings for BXMT and \$320.6 million for BPP.

Net market appreciation of \$5.5 billion due to:

\$1.5 billion in our Real Estate segment due to a carrying value increase in our opportunistic funds of 1.2% driven by strong operating fundamentals in the opportunistic portfolio despite declines in public investment values,

\$1.7 billion in our Private Equity segment primarily due to fund performance, with a 3.5% overall increase in carrying value, driven by private portfolio appreciation of 4.0% mainly in the services and healthcare sectors, and

\$1.5 billion in our Credit segment due to the same reasons in Fee-Earning Assets Under Management above, and performance in Mezzanine and Rescue Lending strategies.

Offsetting these increases were:

Realizations of \$10.3 billion primarily driven by:

\$4.8 billion in our Real Estate segment primarily due to the realizations across the segment with 78% of realizations generated from BREP VI, BREP VII, BREP Europe III and co-investment,

\$1.3 billion in our Credit segment primarily due to the same reasons in Fee-Earning Assets Under Management above, and capital returned to investors in the Mezzanine and Rescue Lending strategies, and

\$4.0 billion in our Private Equity segment primarily due to continued disposition activity across the segment.

Outflows of \$4.2 billion primarily attributable to:

\$2.2 billion in our Credit segment primarily due to the same reasons in Fee-Earning Assets Under Management above, and

\$1.8 billion in our Hedge Fund Solutions segment primarily related to the liquidity needs of limited partners.

Total Assets Under Management were \$332.7 billion at June 30, 2015, an increase of \$42.3 billion, or 15%, compared to \$290.4 billion at December 31, 2014. The net increase was due to:



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Inflows of \$61.7 billion related to:

\$14.5 billion in our Credit segment primarily due to the same reasons in Fee-Earning Assets Under Management above and capital raised in energy focused products and the European senior debt strategy.

\$5.6 billion in our Hedge Fund Solutions segment primarily due to the same reasons in Fee-Earning Assets Under Management above,

\$21.0 billion in our Private Equity segment primarily related to capital raised for BCP VII, BEP II and the second platform of tactical opportunities separately managed accounts, and

\$20.6 billion in our Real Estate segment related to \$15.1 billion raised for the eighth global opportunistic fund, \$1.0 billion raised through equity offerings for BXMT, and \$1.9 billion for BPP.

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Market appreciation of \$12.4 billion due to:

\$5.4 billion in our Private Equity segment primarily due to strong fund performance, with a 9.4% overall increase in carrying value, including 14.2% in BCP V, 7.3% in BCP VI and 8.0% in BEP,

\$4.4 billion in our Real Estate segment due to a carrying value increase in our opportunistic funds of 9.0% driven by appreciation in the private and public portfolios, and

\$1.9 billion in our Hedge Fund Solutions segment due to BAAM's Principal Solutions Composite being up 3.6% net.

Offsetting these increases were:

Realizations of \$23.8 billion primarily driven by:

\$14.0 billion in our Real Estate segment primarily due to realizations across the segment with 81% of realizations generated from BREP V, BREP VI, BREP VII and co-investment,

\$7.3 billion in our Private Equity segment primarily due to continued disposition activity across the segment, mainly from our BCP V fund, and

\$2.3 billion in our Credit segment primarily due to the same reasons in Fee-Earning Assets Under Management above and capital returned to investors in the Mezzanine and Rescue Lending strategies.

Outflows of \$8.0 billion primarily attributable to:

\$3.1 billion in our Hedge Fund Solutions segment primarily related to the liquidity needs of limited partners, and

\$4.5 billion in our Credit segment primarily due to the same reasons in Fee-Earning Assets Under Management above.  
*Limited Partner Capital Invested*

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

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

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	Three Months Ended		2015 vs. 2014		Six Months Ended		2015 vs. 2014	
	June 30,		\$	%	June 30,		\$	%
	2014	2015			2014	2015		
(Dollars in Thousands)								
Limited Partner Capital Invested								
Private Equity	\$ 1,857,330	\$ 1,800,854	\$ (56,476)	-3%	\$ 3,886,349	\$ 4,175,453	\$ 289,104	7%
Real Estate	3,017,193	2,963,609	(53,584)	-2%	4,709,425	4,406,772	(302,653)	-6%
Hedge Fund Solutions	188,236	2,131	(186,105)	-99%	355,406	135,482	(219,924)	-62%
Credit	363,752	47,768	(315,984)	-87%	943,858	862,191	(81,667)	-9%
Total	\$ 5,426,511	\$ 4,814,362	\$ (612,149)	-11%	\$ 9,895,038	\$ 9,579,898	\$ (315,140)	-3%

Limited Partner Capital Invested was \$4.8 billion for the three months ended June 30, 2015, a decrease of \$612.1 million, or 11%, from \$5.4 billion for the three months ended June 30, 2014. Limited Partner Capital Invested was \$9.6 billion for the six months ended June 30, 2015, a decrease of \$315.1 million, or 3%, compared to \$9.9 billion for the six months ended June 30, 2014. The amount of Limited Partner Capital Invested is a function of finding opportunistic investments that fit our investment philosophy and strategy in each of our segments as well as the relative timing of investment closings within those segments. All of our segments deployed capital at a lower rate during the six months ended June 30, 2015 than in the six months ended June 30, 2014 due to a reduction in the general pace of new investments.

The following presents the committed undrawn capital available for investment ( dry powder ) as of June 30, 2014 and 2015:

Note: Totals may not add due to rounding. Amounts are as of June 30, for each of the periods indicated.

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

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The following table presents the accrued performance fees, net of performance fee compensation, of the Blackstone Funds as of June 30, 2015 and 2014. Net accrued performance fees presented do not include clawback amounts, if any, which are disclosed in Note 17. Commitments and Contingencies Contingencies Contingent Obligations (Clawback) in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1. Financial Statements of this filing.

	<b>June 30,</b>	
	<b>2015</b>	<b>2014</b>
	<b>(Dollars in Millions)</b>	
<b>Private Equity</b>		
BCP IV Carried Interest	\$ 186	\$ 383
BCP V Carried Interest	1,119	558
BCP VI Carried Interest	320	233
BEP Carried Interest	82	81
Tactical Opportunities Carried Interest	36	19
BTAS Carried Interest	2	
Strategic Partners Carried Interest	18	1
Other Carried Interest	1	
<b>Total Private Equity (a)</b>	<b>1,764</b>	<b>1,275</b>
<b>Real Estate</b>		
BREP IV Carried Interest	36	2
BREP V Carried Interest	583	618
BREP VI Carried Interest	868	1,389
BREP VII Carried Interest	565	459
BREP International I Carried Interest		2
BREP Europe III Carried Interest	200	144
BREP Europe IV Carried Interest	86	10
BREP Asia Carried Interest	43	9
BPP Carried Interest	18	1
BPP Incentive Fees	4	
BREDS Carried Interest	11	18
BREDS Incentive Fees	3	3
Asia Platform Incentive Fees	7	9
<b>Total Real Estate (a)</b>	<b>2,424</b>	<b>2,664</b>
<b>Hedge Fund Solutions</b>		
Incentive Fees	60	57
<b>Total Hedge Fund Solutions</b>	<b>60</b>	<b>57</b>
<b>Credit</b>		
Carried Interest	183	176
Incentive Fees	41	69
<b>Total Credit</b>	<b>224</b>	<b>245</b>
<b>Total Blackstone</b>		
Carried Interest	4,357	4,103
Incentive Fees	115	138

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Net Accrued Performance Fees

\$ 4,472

\$ 4,241

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

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*Performance Fee Eligible Assets Under Management*

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

Note: Totals may not add due to rounding. Amounts are as of June 30, 2015.

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

*Investment Record*

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

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The following table presents the investment record of our significant drawdown funds from inception through June 30, 2015:

Fund (Investment Period)	Committed Capital	Available Capital (a)	Unrealized Investments			Realized Investments		Total Investments		Net IRR (c)	
			Value	MOIC (b)	% Public	Value	MOIC (b)	Value	MOIC (b)	Realized	Total
(Dollars in Thousands, Except Where Noted)											
<b>Private Equity</b>											
BCP I (Oct 1987 / Oct 1993)	\$ 859,081	\$	\$	N/A		\$ 1,741,738	2.6x	\$ 1,741,738	2.6x	19%	19%
BCP II (Oct 1993 / Aug 1997)	1,361,100			N/A		3,256,819	2.5x	3,256,819	2.5x	32%	32%
BCP III (Aug 1997 / Nov 2002)	3,967,422			N/A		9,184,688	2.3x	9,184,688	2.3x	14%	14%
BCOM (Jun 2000 / Jun 2006)	2,137,330	199,298	244,793	1.2x		2,619,040	1.4x	2,863,833	1.3x	7%	6%
BCP IV (Nov 2002 / Dec 2005)	6,773,182	221,559	2,552,980	1.4x	38%	18,651,006	3.2x	21,203,986	2.8x	45%	36%
BCP V (Dec 2005 / Jan 2011)	21,028,965	1,308,522	15,918,338	1.8x	62%	22,107,154	1.9x	38,025,492	1.9x	10%	9%
BCP VI (Jan 2011 / Jan 2017)	15,182,283	5,981,314	12,028,108	1.4x	17%	1,776,759	1.8x	13,804,867	1.4x	49%	14%
BEP (Aug 2011 / Feb 2015)	2,438,402	300,285	2,917,957	1.5x	25%	537,505	2.0x	3,455,462	1.5x	56%	28%
BEP II (Feb 2015 / Feb 2021)	4,951,351	4,951,351		N/A			N/A		N/A	N/A	N/A
BCP VII (TBD)	15,723,875	15,723,875		N/A			N/A		N/A	N/A	N/A
Total Corporate Private Equity	74,422,991	28,686,204	33,662,176	1.6x	40%	59,874,709	2.3x	93,536,885	1.9x	20%	16%
Tactical Opportunities	10,052,258	5,553,528	5,178,390	1.1x	2%	1,072,776	1.5x	6,251,166	1.2x	35%	14%
Strategic Partners	17,157,488	4,600,759	6,716,759	1.7x	N/A	12,162,598	1.2x	18,879,357	1.3x	N/A	15%
Other Funds and Co-Investment (d)	1,890,393	363,521	1,251,384	1.1x	51%	105,614	1.7x	1,356,998	1.1x	N/A	N/A
Total Private Equity	\$ 103,523,130	\$ 39,204,012	\$ 46,808,709	1.5x	30%	\$ 73,215,697	2.0x	\$ 120,024,406	1.7x	19%	16%
<b>Real Estate</b>											
<b>Dollar</b>											
Pre-BREP	\$ 140,714	\$	\$	N/A	N/A	\$ 345,190	2.5x	\$ 345,190	2.5x	33%	33%
BREP I (Sep 1994 / Oct 1996)	380,708			N/A	N/A	1,327,708	2.8x	1,327,708	2.8x	40%	40%
BREP II (Oct 1996 / Mar 1999)	1,198,339			N/A	N/A	2,531,613	2.1x	2,531,613	2.1x	19%	19%
BREP III (Apr 1999 / Apr 2003)	1,522,708			N/A	N/A	3,328,504	2.4x	3,328,504	2.4x	21%	21%
BREP IV (Apr 2003 / Dec 2005)	2,198,694		1,095,583	1.0x	15%	3,627,456	2.2x	4,723,039	1.7x	45%	14%
BREP V (Dec 2005 / Feb 2007)	5,539,418		5,402,980	2.3x	31%	7,458,152	2.2x	12,861,132	2.2x	14%	12%
BREP VI (Feb 2007 / Aug 2011)	11,059,523	584,641	10,191,646	2.5x	66%	16,123,433	2.4x	26,315,079	2.4x	15%	14%
BREP VII (Aug 2011 / Apr 2015)	13,484,365	3,163,143	15,111,273	1.5x	1%	7,338,402	1.9x	22,449,675	1.6x	35%	25%
BREP VIII (Apr 2015 / Oct 2020)	15,060,000	15,041,248	102,944	1.0x	N/A		N/A	102,944	1.0x	N/A	N/A
Total Global BREP	\$ 50,584,469	\$ 18,789,032	\$ 31,904,426	1.8x	28%	\$ 42,080,458	2.2x	\$ 73,984,884	2.0x	22%	18%
<b>Euro</b>											
	824,172		1,547	0.2x	N/A	1,362,975	2.1x	1,364,522	2.1x	24%	23%

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BREP Int I (Jan 2001 / Sep 2005)											
BREP Int I II (Sep 2005 / Jun 2008)	1,629,748	53,416	1,500,586	1.5x	32%	785,346	2.0x	2,285,932	1.6x	11%	6%
BREP Europe III (Jun 2008 / Sep 2013)	3,205,140	465,841	3,631,038	1.8x	9%	2,005,051	2.1x	5,636,089	1.9x	25%	20%
BREP Europe IV (Sep 2013 / Mar 2019)	6,691,740	3,664,780	4,250,499	1.2x	N/A	261,576	1.3x	4,512,075	1.3x	38%	22%
<b>Total Euro BREP</b>	<b>12,350,800</b>	<b>4,184,037</b>	<b>9,383,670</b>	<b>1.5x</b>	<b>9%</b>	<b>4,414,948</b>	<b>2.0x</b>	<b>13,798,618</b>	<b>1.6x</b>	<b>21%</b>	<b>14%</b>
<b>BREP Co-Investment (e)</b>											
BREP Asia (Jun 2013 / Dec 2017)	\$ 5,571,295	\$	\$ 5,848,998	2.0x	69%	\$ 5,766,461	2.2x	\$ 11,615,459	2.1x	16%	17%
BREDS (g)	5,075,917	3,130,004	2,463,724	1.3x	N/A	28,400	1.1x	2,492,124	1.3x	10%	16%
<b>Total BREP</b>	<b>\$ 77,300,971</b>	<b>\$ 26,671,685</b>	<b>\$ 52,492,491</b>	<b>1.7x</b>	<b>26%</b>	<b>\$ 53,743,005</b>	<b>2.2x</b>	<b>\$ 106,235,496</b>	<b>1.9x</b>	<b>21%</b>	<b>17%</b>
BPP (f)	\$ 5,383,751	\$ 2,242,222	\$ 3,661,781	1.2x	N/A	\$	N/A	\$ 3,661,781	1.2x	N/A	19%
<b>BREDS (g)</b>	<b>\$ 7,256,058</b>	<b>\$ 2,365,171</b>	<b>\$ 2,603,472</b>	<b>1.2x</b>		<b>\$ 4,282,116</b>	<b>1.3x</b>	<b>\$ 6,885,588</b>	<b>1.3x</b>	<b>14%</b>	<b>12%</b>
<b>Hedge Fund Solutions</b>											
BSCH (Dec 2013 / Jun 2020) (h)	\$ 3,301,000	\$ 3,016,230	\$ 287,881	1.1x		\$ 25,782	N/A	\$ 313,663	1.2x	N/A	16%
<b>Total Hedge Fund Solutions</b>	<b>\$ 3,301,000</b>	<b>\$ 3,016,230</b>	<b>\$ 287,881</b>	<b>1.1x</b>		<b>\$ 25,782</b>	<b>N/A</b>	<b>\$ 313,663</b>	<b>1.2x</b>	<b>N/A</b>	<b>16%</b>
<b>Credit (i)</b>											
Mezzanine I (Jul 2007 / Jul 2012)	\$ 2,000,000	\$ 108,801	\$ 731,424	1.7x		\$ 4,117,474	1.6x	\$ 4,848,898	1.6x	N/A	18%
Mezzanine II (Nov 2011 / Nov 2016)	4,120,000	2,624,554	2,765,478	1.3x		1,225,751	1.5x	3,991,229	1.3x	N/A	23%
Rescue Lending I (Sep 2009 / May 2013)	3,253,143	550,910	2,407,564	1.4x		3,532,791	1.5x	5,940,355	1.5x	N/A	14%
Rescue Lending II (Jun 2013 / Jun 2018)	5,125,000	3,761,279	1,778,060	1.3x		88,846	1.1x	1,866,906	1.2x	N/A	N/M
<b>Total Credit</b>	<b>\$ 14,498,143</b>	<b>\$ 7,045,544</b>	<b>\$ 7,682,526</b>	<b>1.4x</b>		<b>\$ 8,964,862</b>	<b>1.5x</b>	<b>\$ 16,647,388</b>	<b>1.4x</b>	<b>N/A</b>	<b>18%</b>

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



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N/M Not meaningful.

N/A Not applicable.

- (a) Available Capital represents total investable capital commitments, including side-by-side, adjusted for certain expenses and expired or recallable capital, less invested capital. This amount is not reduced by outstanding commitments to investments.
- (b) Multiple of Invested Capital ( MOIC ) represents carrying value, before management fees, expenses and Carried Interest, divided by invested capital.
- (c) Net Internal Rate of Return ( IRR ) represents the annualized inception to June 30, 2015 IRR on total invested capital based on realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest.
- (d) Returns for Other Funds and Co-Invest are not meaningful as these funds have limited transaction activity.
- (e) BREP Co-Investment represents co-investment capital raised for various BREP investments. The Net IRR reflected is calculated by aggregating each co-investment's realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest.
- (f) BPP, or Blackstone Property Partners, are the core+ real estate funds which invest with a more modest risk profile and lower leverage.
- (g) Excludes Capital Trust drawdown funds.
- (h) BSCH is a permanent capital vehicle focused on acquiring strategic minority positions in alternative asset managers.
- (i) The Total Investments MOIC for Mezzanine I, Mezzanine II, Rescue Lending I and Rescue Lending II Funds, excluding recycled capital during the investment period, was 2.0x, 1.7x, 1.7x and 1.5x, respectively. Funds presented represent the flagship credit drawdown funds only. The Total Credit Net IRR is the combined IRR of the four flagship credit drawdown funds presented.

**Segment Analysis**

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

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

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

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

	Three Months Ended June 30,		2015 vs. 2014		Six Months Ended June 30,		2015 vs. 2014	
	2015	2014	\$	%	2015	2014	\$	%
<b>(Dollars in Thousands)</b>								
<b>Segment Revenues</b>								
<b>Management Fees, Net</b>								
Base Management Fees	\$ 121,918	\$ 103,204	\$ 18,714	18%	\$ 230,301	\$ 201,788	\$ 28,513	14%
Transaction and Other Fees, Net	(12,131)	27,616	(39,747)	N/M	8,228	70,463	(62,235)	-88%
Management Fee Offsets	(9,028)	(4,246)	(4,782)	-113%	(13,977)	(5,959)	(8,018)	-135%
<b>Total Management Fees, Net</b>	<b>100,759</b>	<b>126,574</b>	<b>(25,815)</b>	<b>-20%</b>	<b>224,552</b>	<b>266,292</b>	<b>(41,740)</b>	<b>-16%</b>
<b>Performance Fees</b>								
<b>Realized</b>								
Carried Interest	546,575	212,394	334,181	157%	929,553	332,199	597,354	180%
<b>Unrealized</b>								
Carried Interest	(305,573)	502,210	(807,783)	N/M	261,249	669,275	(408,026)	-61%
<b>Total Performance Fees</b>	<b>241,002</b>	<b>714,604</b>	<b>(473,602)</b>	<b>-66%</b>	<b>1,190,802</b>	<b>1,001,474</b>	<b>189,328</b>	<b>19%</b>
<b>Investment Income (Loss)</b>								
<b>Realized</b>								
Carried Interest	50,258	74,812	(24,554)	-33%	95,074	135,347	(40,273)	-30%
<b>Unrealized</b>								
Carried Interest	(22,301)	17,662	(39,963)	N/M	9,186	8,629	557	6%
<b>Total Investment Income</b>	<b>27,957</b>	<b>92,474</b>	<b>(64,517)</b>	<b>-70%</b>	<b>104,260</b>	<b>143,976</b>	<b>(39,716)</b>	<b>-28%</b>
Interest and Dividend Revenue	7,667	4,666	3,001	64%	15,284	9,894	5,390	54%
Other	2,515	564	1,951	346%	690	1,428	(738)	-52%
<b>Total Revenues</b>	<b>379,900</b>	<b>938,882</b>	<b>(558,982)</b>	<b>-60%</b>	<b>1,535,588</b>	<b>1,423,064</b>	<b>112,524</b>	<b>8%</b>
<b>Expenses</b>								
<b>Compensation and Benefits</b>								
Compensation	67,079	73,038	(5,959)	-8%	137,168	146,345	(9,177)	-6%
<b>Performance Fee Compensation</b>								
<b>Realized</b>								
Carried Interest	106,502	112,720	(6,218)	-6%	145,984	198,491	(52,507)	-26%
<b>Unrealized</b>								
Carried Interest	(25,574)	66,194	(91,768)	N/M	152,546	39,046	113,500	291%
<b>Total Compensation and Benefits</b>	<b>148,007</b>	<b>251,952</b>	<b>(103,945)</b>	<b>-41%</b>	<b>435,698</b>	<b>383,882</b>	<b>51,816</b>	<b>13%</b>
Other Operating Expenses	62,458	39,193	23,265	59%	101,213	72,199	29,014	40%
<b>Total Expenses</b>	<b>210,465</b>	<b>291,145</b>	<b>(80,680)</b>	<b>-28%</b>	<b>536,911</b>	<b>456,081</b>	<b>80,830</b>	<b>18%</b>
<b>Economic Income</b>	<b>\$ 169,435</b>	<b>\$ 647,737</b>	<b>\$ (478,302)</b>	<b>-74%</b>	<b>\$ 998,677</b>	<b>\$ 966,983</b>	<b>\$ 31,694</b>	<b>3%</b>

N/M Not meaningful.

*Revenues*

Revenues were \$379.9 million for the three months ended June 30, 2015, a decrease of \$559.0 million compared to \$938.9 million for the three months ended June 30, 2014. The decrease in revenues was primarily attributable to decreases in Performance Fees, Investment Income and Total Management Fees, Net of \$473.6 million, \$64.5 million and \$25.8 million, respectively.

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Performance Fees, which are determined on a fund by fund basis, were \$241.0 million for the three months ended June 30, 2015, a decrease of \$473.6 million compared to \$714.6 million for the three months ended June 30, 2014. The decrease was a result of slightly lower returns despite positive net returns across the segment. In the case of BCP V, net returns were lower due in part to the catch up of performance fees in the fund. However, realized performance fees of \$546.6 million during the quarter were a record for the segment

Investment Income was \$28.0 million for the three months ended June 30, 2015, a decrease of \$64.5 million compared to \$92.5 million for the three months ended June 30, 2014. The segment had strong performance in public investments as well as private investments in the services and healthcare sectors, however was outpaced by public returns and investments in the healthcare and energy sectors from the second quarter of 2014.

Total Management Fees were \$100.8 million for the three months ended June 30, 2015, a decrease of \$25.8 million compared to \$126.6 million for the three months ended June 30, 2014, primarily driven by a decrease in Transaction and Other Fees, Net, partially offset by an increase in Base Management Fees. Transaction and Other Fees, Net were \$(12.1) million for the three months ended June 30, 2015, a decrease of \$39.7 million compared to \$27.6 million for the three months ended June 30, 2014, principally as a result of one-time items related to fundraising fees and legal reserves. Base Management Fees were \$121.9 million for the three months ended June 30, 2015, an increase of \$18.7 million compared to the \$103.2 million for the three months ended June 30, 2014, principally due to the commencement of the investment periods for BEP II and the tactical opportunities second vintage of separately managed accounts.

Revenues were \$1.5 billion for the six months ended June 30, 2015, an increase of \$112.5 million compared to \$1.4 billion for the six months ended June 30, 2014. The increase in revenues was primarily attributable to increases in Performance Fees of \$189.3 million, partially offset by decreases in Total Management Fees, Net, and Investment Income of \$41.7 million and \$39.7 million, respectively.

Performance Fees, which are determined on a fund by fund basis, were \$1.2 billion for the six months ended June 30, 2015, an increase of \$189.3 million, compared to \$1.0 billion for the six months ended June 30, 2014, driven mainly by BCP V which crossed its preferred return threshold and has been fully generating performance fees since the second quarter of 2014.

Total Management Fees were \$224.6 million for the six months ended June 30, 2015, a decrease of \$41.7 million compared to \$266.3 million for the six months ended June 30, 2014, primarily driven by a decrease in Transaction and Other Fees, Net. Transaction and Other Fees, Net were \$8.2 million for the six months ended June 30, 2015, a decrease of \$62.2 million compared to \$70.5 million for the six months ended June 30, 2014, principally due to timing of investment closings, as well as one-time items related to fundraising fees and legal reserves.

Investment Income was \$104.3 million for the six months ended June 30, 2015, a decrease of \$39.7 million, compared to \$144.0 million for the six months ended June 30, 2014. The decrease in the segment was principally driven by strong returns in our public portfolio and investments in the healthcare and services sectors in the second quarter of 2014 that were greater than the positive returns generated in the second quarter of 2015.

*Expenses*

Expenses were \$210.5 million for the three months ended June 30, 2015, a decrease of \$80.7 million compared to \$291.1 million for the three months ended June 30, 2014. The decrease was primarily attributable to decreases of \$98.0 million in Performance Fee Compensation and \$6.0 million in Compensation, partially offset by an increase of \$23.3 million in Other Operating Expenses. Performance Fee Compensation decreased as a result of the decrease in Performance Fees Revenue. Compensation decreased primarily due to the decrease in Revenues, on which a portion of compensation is based. Other Operating Expenses increased principally as a result of one-time items related to fundraising fees and legal reserves.

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Expenses were \$536.9 million for the six months ended June 30, 2015, an increase of \$80.8 million compared to \$456.1 million for the six months ended June 30, 2014. The increase was attributable to an increase of \$61.0 million in Performance Fee Compensation, and \$29.0 million in Other Operating Expenses. Performance Fee Compensation increased as a result of the increase in Performance Fees Revenue. Other Operating Expenses increased principally as a result of one-time items related to fundraising fees and legal reserves. Interest allocated to the segment also increased year-over-year.

*Fund Returns*

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

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

Fund (b)	Three Months Ended June 30,				Six Months Ended June 30,				June 30, 2015 Inception to Date			
	2015		2014 (a)		2015		2014 (a)		Realized		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BCP IV	2%	1%	1%	1%	1%		4%	4%	59%	45%	50%	36%
BCP V	2%	2%	11%	9%	16%	10%	17%	14%	12%	10%	11%	9%
BCP VI	4%	3%	10%	8%	7%	6%	25%	19%	65%	49%	22%	14%
BEP I	7%	6%	16%	14%	8%	7%	23%	20%	61%	56%	35%	28%
BEP II (c)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Tactical Opportunities	4%	3%	7%	5%	7%	5%	10%	8%	39%	35%	19%	14%
Strategic Partners	5%	4%	6%	6%	8%	7%	10%	10%	N/A	N/A	18%	15%

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

N/A Not applicable.

- Changes in previous period returns are due to the repayment of fund level financing with capital drawn down from the respective funds' general and limited partners.
- Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and Carried Interest allocations.
- BEP II's investment returns are presented as N/A as its investment period commenced in February 2015.

The corporate private equity funds within the Private Equity segment have four contributed funds with closed investment periods: BCP IV, BCP V, BCOM and BEP I. As of June 30, 2015, BCP IV was above its Carried Interest threshold (i.e., the preferred return payable to its limited partners before the general partner is eligible to receive Carried Interest) and would still be above its Carried Interest threshold even if all remaining investments were valued at zero. BCP V is comprised of two fund classes based on the timings of fund closings, the BCP V main fund and BCP V-AC fund. Within these fund classes, the general partner (GP) is subject to equalization such that (a) the GP accrues Carried Interest when the total Carried Interest for the combined fund classes is positive and (b) the GP realizes Carried Interest so long as clawback obligations, if any, for the combined fund classes are fully satisfied. During the quarter, both fund classes were above their respective Carried Interest thresholds. BCOM is currently above its Carried Interest threshold and has generated inception to date positive returns. We are entitled to retain previously realized Carried Interest up to 20% of BCOM's net gains. As a result, Performance Fees are recognized from BCOM on current period gains and losses. BEP I is currently above its Carried Interest threshold.

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

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

	Three Months Ended		2015 vs. 2014		Six Months Ended		2015 vs. 2014	
	2015	2014	\$	%	2015	2014	\$	%
(Dollars in Thousands)								
<b>Segment Revenues</b>								
<b>Management Fees, Net</b>								
Base Management Fees	\$ 140,743	\$ 157,869	\$ (17,126)	-11%	\$ 293,091	\$ 317,205	\$ (24,114)	-8%
Transaction and Other Fees, Net	21,510	13,514	7,996	59%	36,726	27,078	9,648	36%
Management Fee Offsets	(5,428)	(7,702)	2,274	30%	(10,294)	(16,926)	6,632	39%
<b>Total Management Fees, Net</b>	<b>156,825</b>	<b>163,681</b>	<b>(6,856)</b>	<b>-4%</b>	<b>319,523</b>	<b>327,357</b>	<b>(7,834)</b>	<b>-2%</b>
<b>Performance Fees</b>								
<b>Realized</b>								
Carried Interest	363,983	417,826	(53,843)	-13%	1,175,232	612,484	562,748	92%
Incentive Fees	1,220	6,070	(4,850)	-80%	1,943	6,044	(4,101)	-68%
<b>Unrealized</b>								
Carried Interest	(188,608)	119,461	(308,069)	N/M	(369,627)	259,698	(629,325)	N/M
Incentive Fees	3,935	(3,483)	7,418	N/M	10,004	(746)	10,750	N/M
<b>Total Performance Fees</b>	<b>180,530</b>	<b>539,874</b>	<b>(359,344)</b>	<b>-67%</b>	<b>817,552</b>	<b>877,480</b>	<b>(59,928)</b>	<b>-7%</b>
<b>Investment Income (Loss)</b>								
<b>Realized</b>								
Realized	85,432	122,664	(37,232)	-30%	156,776	154,021	2,755	2%
<b>Unrealized</b>								
Unrealized	(107,691)	(50,437)	(57,254)	-114%	(70,181)	(45,058)	(25,123)	-56%
<b>Total Investment Income (Loss)</b>	<b>(22,259)</b>	<b>72,227</b>	<b>(94,486)</b>	<b>N/M</b>	<b>86,595</b>	<b>108,963</b>	<b>(22,368)</b>	<b>-21%</b>
Interest and Dividend Revenue	10,259	8,009	2,250	28%	20,256	14,119	6,137	43%
Other	1,077	(218)	1,295	N/M	(2,900)	99	(2,999)	N/M
<b>Total Revenues</b>	<b>326,432</b>	<b>783,573</b>	<b>(457,141)</b>	<b>-58%</b>	<b>1,241,026</b>	<b>1,328,018</b>	<b>(86,992)</b>	<b>-7%</b>
<b>Expenses</b>								
<b>Compensation and Benefits</b>								
<b>Compensation</b>								
Compensation	79,484	85,582	(6,098)	-7%	164,318	165,815	(1,497)	-1%
<b>Performance Fee Compensation</b>								
<b>Realized</b>								
Carried Interest	116,168	143,442	(27,274)	-19%	362,664	195,275	167,389	86%
Incentive Fees	671	3,081	(2,410)	-78%	1,027	3,065	(2,038)	-66%
<b>Unrealized</b>								
Carried Interest	(50,559)	27,339	(77,898)	N/M	(148,643)	84,324	(232,967)	N/M
Incentive Fees	230	(1,783)	2,013	N/M	2,805	(401)	3,206	N/M
<b>Total Compensation and Benefits</b>	<b>145,994</b>	<b>257,661</b>	<b>(111,667)</b>	<b>-43%</b>	<b>382,171</b>	<b>448,078</b>	<b>(65,907)</b>	<b>-15%</b>
<b>Other Operating Expenses</b>	<b>43,346</b>	<b>36,542</b>	<b>6,804</b>	<b>19%</b>	<b>83,489</b>	<b>69,649</b>	<b>13,840</b>	<b>20%</b>
<b>Total Expenses</b>	<b>189,340</b>	<b>294,203</b>	<b>(104,863)</b>	<b>-36%</b>	<b>465,660</b>	<b>517,727</b>	<b>(52,067)</b>	<b>-10%</b>
<b>Economic Income</b>	<b>\$ 137,092</b>	<b>\$ 489,370</b>	<b>\$ (352,278)</b>	<b>-72%</b>	<b>\$ 775,366</b>	<b>\$ 810,291</b>	<b>\$ (34,925)</b>	<b>-4%</b>

N/M Not meaningful.

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*Revenues*

Revenues were \$326.4 million for the three months ended June 30, 2015, a decrease of \$457.1 million compared to \$783.6 million for the three months ended June 30, 2014. The decrease in revenues was primarily attributable to decreases of \$359.3 million in Performance Fees and \$94.5 million in Investment Income.

Performance Fees, which are determined on a fund by fund basis, were \$180.5 million for the three months ended June 30, 2015, a decrease of \$359.3 million compared to \$539.9 million for the three months ended June 30, 2014. The decrease in Performance Fees was primarily due to the decrease in the net appreciation from our BREP carry funds. For the three months ended June 30, 2015, the carrying value of investments for Blackstone's contributed Real Estate funds, including fee-paying co-investments, increased 1.2% driven by continued strong operating fundamentals across the portfolio partially offset by declines in public investment values. Our BREDS drawdown and real estate hedge funds appreciated 3.5% and 1.5%, respectively.

Investment Income (Loss) was \$(22.3) million for the three months ended June 30, 2015, a decrease of \$94.5 million compared to \$72.2 million for the three months ended June 30, 2014, primarily due to the year over year decrease in the net appreciation of investments across our global Real Estate funds.

Revenues were \$1.2 billion for the six months ended June 30, 2015, a decrease of \$87.0 million compared to \$1.3 billion for the six months ended June 30, 2014. The decrease in revenues was primarily attributable to decreases of \$59.9 million in Performance Fees and \$22.4 million in Investment Income.

Performance Fees, which are determined on a fund by fund basis, were \$817.6 million for the six months ended June 30, 2015, a decrease of \$60.0 million compared to \$877.5 million for the six months ended June 30, 2014. Performance Fees decreased due to the same reasons noted above. For the six months ended June 30, 2015, the carrying value of investments for Blackstone's contributed Real Estate funds, including fee-paying co-investments, increased 9.0% driven by appreciation in the private and public portfolios. Our BREDS drawdown and real estate hedge funds appreciated 4.9% and 4.8%, respectively.

Investment Income was \$86.6 million for the six months ended June 30, 2015, a decrease of \$22.4 million compared to \$109.0 million for the six months ended June 30, 2014, primarily attributable to the same reason noted above.

*Expenses*

Expenses were \$189.3 million for the three months ended June 30, 2015, a decrease of \$104.9 million compared to \$294.2 million for the three months ended June 30, 2014. The decrease was primarily attributable to decreases of \$105.6 million in Performance Fee Compensation and \$6.1 million in Compensation, partially offset by an increase of \$6.8 million in Other Operating Expenses. The decrease in Performance Fee Compensation was due to the decrease in Performance Fees Revenue. The decrease in Compensation was due to an overall decrease in Revenues, on which a portion of compensation is based. Other Operating Expenses increased primarily due to a one-time placement fee related to BREP VIII.

Expenses were \$465.7 million for the six months ended June 30, 2015, a decrease of \$52.1 million compared to \$517.7 million for the six months ended June 30, 2014. The decrease was attributable to a decrease of \$64.4 million in Performance Fee Compensation, partially offset by an increase in Other Operating Expenses of \$13.8 million. The decrease in Performance Fee Compensation was due to the decrease in Performance Fees Revenue. The increase in Other Operating Expenses was primarily due to interest expense allocated to the segment and a one-time placement fee related to BREP VIII.



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*Fund Returns*

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

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

Fund (a)	Three Months Ended June 30,				Six Months Ended June 30,				June 30, 2015 Inception to Date			
	2015		2014		2015		2014		Realized		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BREP IV	5%	4%	-0%	-0%	8%	6%	4%	3%	72%	45%	23%	14%
BREP V	3%	3%	5%	4%	15%	13%	9%	8%	18%	14%	15%	12%
BREP International II (b)	2%	2%	4%	4%	19%	18%	7%	7%	14%	11%	8%	6%
BREP VI	-5%	-4%	6%	5%	8%	6%	7%	6%	20%	15%	18%	14%
BREP Europe III (b)	4%	3%	7%	5%	12%	10%	12%	9%	37%	25%	31%	20%
BREP VII	6%	5%	8%	6%	10%	8%	15%	11%	48%	35%	35%	25%
BREP Asia	6%	5%	4%	2%	14%	9%	10%	6%	13%	10%	27%	16%
BREP Europe IV (b)	8%	6%	7%	4%	16%	11%	15%	8%	64%	38%	33%	22%
BREDS	5%	2%	5%	3%	5%	2%	7%	5%	17%	14%	16%	12%
CMBS	1%	0%	4%	3%	3%	2%	7%	5%	N/A	N/A	16%	11%
BREIF	1%	1%	3%	2%	7%	5%	3%	2%	N/A	N/A	10%	6%
BREP Co-Investment	-9%	-8%	7%	7%	5%	5%	12%	11%	18%	16%	19%	17%

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

N/A Not applicable.

- (a) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and performance fee allocations.
- (b) Euro-based internal rates of return.

The following table presents the Carried Interest status of our real estate carry funds with expired investment periods which are currently not generating performance fees as of June 30, 2015:

Fully Invested Funds	Amount (Amounts in Millions)	Gain to Cross Carried Interest Threshold (a) % Change in	
		Total Enterprise Value (b)	% Change in Equity Value
BREP Int 1 II (Sep 2005 / Jun 2008)	304	8%	22%

- (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.



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(b) Total Enterprise Value is the respective fund's pro rata ownership of the privately held portfolio companies' Enterprise Value. The Real Estate segment has four funds in their investment period, which were above their respective Carried Interest thresholds as of June 30, 2015: BREP Asia, BREP Europe IV and two funds within BREDS.

**Hedge Fund Solutions**

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

	Three Months Ended		2015 vs. 2014		Six Months Ended		2015 vs. 2014	
	June 30, 2015	June 30, 2014	\$	%	June 30, 2015	June 30, 2014	\$	%
(Dollars in Thousands)								
<b>Segment Revenues</b>								
<b>Management Fees, Net</b>								
Base Management Fees	\$ 130,216	\$ 123,008	\$ 7,208	6%	\$ 260,853	\$ 236,392	\$ 24,461	10%
Transaction and Other Fees, Net		126	(126)	-100%	25	219	(194)	-89%
Management Fee Offsets	(608)	(1,531)	923	60%	(888)	(2,986)	2,098	70%
<b>Total Management Fees, Net</b>	<b>129,608</b>	<b>121,603</b>	<b>8,005</b>	<b>7%</b>	<b>259,990</b>	<b>233,625</b>	<b>26,365</b>	<b>11%</b>
<b>Performance Fees</b>								
<b>Realized</b>								
Incentive Fees	16,915	7,973	8,942	112%	27,431	47,818	(20,387)	-43%
<b>Unrealized</b>								
Carried Interest	8,014		8,014	N/M	8,014		8,014	N/M
Incentive Fees	15,855	30,556	(14,701)	-48%	63,282	48,641	14,641	30%
<b>Total Performance Fees</b>	<b>40,784</b>	<b>38,529</b>	<b>2,255</b>	<b>6%</b>	<b>98,727</b>	<b>96,459</b>	<b>2,268</b>	<b>2%</b>
<b>Investment Income (Loss)</b>								
<b>Realized</b>								
Unrealized	(1,757)	2,394	(4,151)	N/M	(12,132)	19,214	(31,346)	N/M
<b>Unrealized</b>								
Unrealized	2,032	1,057	975	92%	6,515	5,488	1,027	19%
<b>Total Investment Income (Loss)</b>	<b>275</b>	<b>3,451</b>	<b>(3,176)</b>	<b>-92%</b>	<b>(5,617)</b>	<b>24,702</b>	<b>(30,319)</b>	<b>N/M</b>
Interest and Dividend Revenue	3,970	2,340	1,630	70%	7,919	5,001	2,918	58%
Other	459	(203)	662	N/M	(1,148)	(81)	(1,067)	N/M
<b>Total Revenues</b>	<b>175,096</b>	<b>165,720</b>	<b>9,376</b>	<b>6%</b>	<b>359,871</b>	<b>359,706</b>	<b>165</b>	<b>0%</b>
<b>Expenses</b>								
<b>Compensation and Benefits</b>								
Compensation	45,841	43,341	2,500	6%	101,945	83,912	18,033	21%
<b>Performance Fee Compensation</b>								
<b>Realized</b>								
Incentive Fees	8,711	2,918	5,793	199%	12,181	16,189	(4,008)	-25%
<b>Unrealized</b>								
Carried Interest	4,077		4,077	N/M	4,077		4,077	N/M
Incentive Fees	3,764	11,252	(7,488)	-67%	19,415	18,013	1,402	8%
<b>Total Compensation and Benefits</b>	<b>62,393</b>	<b>57,511</b>	<b>4,882</b>	<b>8%</b>	<b>137,618</b>	<b>118,114</b>	<b>19,504</b>	<b>17%</b>
<b>Other Operating Expenses</b>	<b>20,499</b>	<b>25,101</b>	<b>(4,602)</b>	<b>-18%</b>	<b>41,705</b>	<b>44,581</b>	<b>(2,876)</b>	<b>-6%</b>
<b>Total Expenses</b>	<b>82,892</b>	<b>82,612</b>	<b>280</b>	<b>0%</b>	<b>179,323</b>	<b>162,695</b>	<b>16,628</b>	<b>10%</b>

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Economic Income	\$ 92,204	\$ 83,108	\$ 9,096	11%	\$ 180,548	\$ 197,011	\$ (16,463)	-8%
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N/M Not meaningful.

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*Revenues*

Revenues were \$175.1 million for the three months ended June 30, 2015, an increase of \$9.4 million compared to \$165.7 million for the three months ended June 30, 2014. The increase in revenues was primarily attributable to an increase of \$8.0 million in Total Management Fees, Net, partially offset by a decrease of \$3.2 million in Investment Income.

Total Management Fees, Net were \$129.6 million for the three months ended June 30, 2015, an increase of \$8.0 million compared to \$121.6 million for the three months ended June 30, 2014, primarily due to an increase in Base Management Fees. Base Management Fees were \$130.2 million for the three months ended June 30, 2015, an increase of \$7.2 million compared to \$123.0 million for the three months ended June 30, 2014. This increase was driven by an increase in Fee-Earning Assets Under Management of 13% from the prior year period, which was from net inflows and market appreciation.

Investment Income was \$275 thousand for the three months ended June 30, 2015, a decrease of \$3.2 million compared to \$3.5 million for the three months ended June 30, 2014. The decrease in Investment Income was primarily driven by the year over year net depreciation of investments of which Blackstone owns a share.

Revenues were \$359.9 million for the six months ended June 30, 2015, relatively stable compared to \$359.7 million for the six months ended June 30, 2014.

*Expenses*

Expenses were \$82.9 million for the three months ended June 30, 2015, relatively stable compared to \$82.6 million for the three months ended June 30, 2014.

Expenses were \$179.3 million for the six months ended June 30, 2015, an increase of \$16.6 million compared to \$162.7 million for the six months ended June 30, 2014. The increase in expenses was primarily attributable to an \$18.0 million increase in Compensation, partially offset by a decrease of \$2.9 million in Other Operating Expenses. The increase in Compensation was primarily due to an increase in Total Management Fees, on which a portion of compensation is based, as well as an increase in headcount to support the growth of the businesses. The decrease in Other Operating Expenses resulted primarily due to a fund expense waiver offset by an increase in interest allocated to the segment.

**Table of Contents***Operating Metrics*

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

	<b>Fee-Earning Assets Under Management Eligible for Incentive Fees As of June 30,</b>		<b>Estimated % Above High Water Mark and/or Hurdle (a) As of June 30,</b>	
	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>
	<b>(Dollars in Thousands)</b>			
BAAM Managed Funds (b)	\$ 31,286,770	\$ 36,653,020	85%	93%

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

- (a) Estimated % Above High Water Mark and/or Hurdle represents the percentage of Fee-Earning Assets Under Management Eligible for Incentive Fees that as of the dates presented would earn incentive fees when the applicable BAAM managed fund has positive investment performance (relative to a hurdle, where applicable). Incremental positive performance in the applicable Blackstone Funds may cause additional assets to reach their respective High Water Mark and/or Hurdle, thereby resulting in an increase in Estimated % Above High Water Mark and/or Hurdle.
- (b) For the BAAM managed funds, at June 30, 2015 the incremental appreciation needed for the 7% of Fee-Earning Assets Under Management below their respective High Water Marks and/or Hurdle to reach their respective High Water Marks and/or Hurdle was \$19.7 million, a decrease of \$48.2 million, or 71%, compared to \$67.9 million at June 30, 2014. Of the Fee-Earning Assets Under Management below their respective High Water Marks and/or Hurdle as of June 30, 2015, 99% were within 5% of reaching their respective High Water Mark and/or Hurdle.

*Composite Returns*

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

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

Composite	Three Months Ended				Six Months Ended				Average Annual Returns (a)							
	June 30,				June 30,				Periods Ended June 30, 2015							
	2015		2014		2015		2014		One Year		Three Year		Five Year		Historical	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BAAM Managed Funds, BAAM Principal Solutions Composite (b)	1%	1%	2%	2%	4%	4%	4%	4%	6%	5%	10%	9%	8%	7%	8%	7%

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

- (a) Composite returns present a summarized asset-weighted return measure to evaluate the overall performance of the applicable class of Blackstone Funds.
- (b) BAAM's Principal Solutions ( BPS ) Composite covers the period from January 2000 to present, although BAAM's inception date is September 1990. BPS Composite does not include BAAM's individual investor solutions (liquid alternatives), long-only equity, long-biased commodities, ventures (seeding and minority interests), strategic opportunities (co-investments), Senfina (direct trading) and advisory (non-discretionary) platforms, except for investments by BPS funds directly into those platforms. BAAM-managed funds in liquidation are also excluded. On a net of fees basis, the BPS Composite was up 0.9% for the quarter and 3.6% year-to-date.

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

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

	Three Months Ended June 30,		2015 vs. 2014		Six Months Ended June 30,		2015 vs. 2014	
	2015	2014	\$	%	2015	2014	\$	%
(Dollars in Thousands)								
<b>Segment Revenues</b>								
<b>Management Fees, Net</b>								
Base Management Fees	\$ 123,615	\$ 112,489	\$ 11,126	10%	\$ 248,644	\$ 218,063	\$ 30,581	14%
Transaction and Other Fees, Net	2,060	7,064	(5,004)	-71%	3,517	10,408	(6,891)	-66%
Management Fee Offsets	(3,370)	(6,739)	3,369	50%	(11,220)	(10,991)	(229)	-2%
<b>Total Management Fees, Net</b>	<b>122,305</b>	<b>112,814</b>	<b>9,491</b>	<b>8%</b>	<b>240,941</b>	<b>217,480</b>	<b>23,461</b>	<b>11%</b>
<b>Performance Fees</b>								
<b>Realized</b>								
Carried Interest	26,925	11,439	15,486	135%	40,292	30,599	9,693	32%
Incentive Fees	29,684	25,248	4,436	18%	48,115	39,266	8,849	23%
<b>Unrealized</b>								
Carried Interest	44,218	39,041	5,177	13%	32,267	62,027	(29,760)	-48%
Incentive Fees	6,521	29,703	(23,182)	-78%	15,645	70,147	(54,502)	-78%
<b>Total Performance Fees</b>	<b>107,348</b>	<b>105,431</b>	<b>1,917</b>	<b>2%</b>	<b>136,319</b>	<b>202,039</b>	<b>(65,720)</b>	<b>-33%</b>
<b>Investment Income</b>								
<b>Realized</b>								
Realized	2,723	2,223	500	22%	4,960	5,294	(334)	-6%
<b>Unrealized</b>								
Unrealized	2,760	4,521	(1,761)	-39%	9,647	7,600	2,047	27%
<b>Total Investment Income</b>	<b>5,483</b>	<b>6,744</b>	<b>(1,261)</b>	<b>-19%</b>	<b>14,607</b>	<b>12,894</b>	<b>1,713</b>	<b>13%</b>
Interest and Dividend Revenue	5,938	4,892	1,046	21%	11,589	10,753	836	8%
Other	34	11	23	209%	3,527	(248)	3,775	N/M
<b>Total Revenues</b>	<b>241,108</b>	<b>229,892</b>	<b>11,216</b>	<b>5%</b>	<b>406,983</b>	<b>442,918</b>	<b>(35,935)</b>	<b>-8%</b>
<b>Expenses</b>								
<b>Compensation and Benefits</b>								
<b>Compensation</b>								
Compensation	47,124	51,310	(4,186)	-8%	97,001	102,062	(5,061)	-5%
<b>Performance Fee Compensation</b>								
<b>Realized</b>								
Carried Interest	15,362	4,139	11,223	271%	21,632	15,933	5,699	36%
Incentive Fees	12,455	12,510	(55)	-0%	20,856	22,890	(2,034)	-9%
<b>Unrealized</b>								
Carried Interest	21,497	20,803	694	3%	15,841	31,656	(15,815)	-50%
Incentive Fees	2,137	15,223	(13,086)	-86%	8,872	30,611	(21,739)	-71%
<b>Total Compensation and Benefits</b>	<b>98,575</b>	<b>103,985</b>	<b>(5,410)</b>	<b>-5%</b>	<b>164,202</b>	<b>203,152</b>	<b>(38,950)</b>	<b>-19%</b>
<b>Other Operating Expenses</b>	<b>23,539</b>	<b>22,159</b>	<b>1,380</b>	<b>6%</b>	<b>45,375</b>	<b>54,998</b>	<b>(9,623)</b>	<b>-17%</b>
<b>Total Expenses</b>	<b>122,114</b>	<b>126,144</b>	<b>(4,030)</b>	<b>-3%</b>	<b>209,577</b>	<b>258,150</b>	<b>(48,573)</b>	<b>-19%</b>
<b>Economic Income</b>	<b>\$ 118,994</b>	<b>\$ 103,748</b>	<b>\$ 15,246</b>	<b>15%</b>	<b>\$ 197,406</b>	<b>\$ 184,768</b>	<b>\$ 12,638</b>	<b>7%</b>



N/M Not meaningful.

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*Revenues*

Revenues were \$241.1 million for the three months ended June 30, 2015, an increase of \$11.2 million compared to \$229.9 million for the three months ended June 30, 2014. This change was primarily attributable to increases of \$9.5 million in Total Management Fees and \$1.9 million in Performance Fees.

Total Management Fees were \$122.3 million for the three months ended June 30, 2015, an increase of \$9.5 million compared to \$112.8 million for the three months ended June 30, 2014. This change was primarily attributable to an increase of \$11.1 million in Base Management Fees resulting from the growth in our Fee-Earning Assets Under Management.

Performance Fees were \$107.3 million for the three months ended June 30, 2015, an increase of \$1.9 million compared to \$105.4 million for the three months ended June 30, 2014. This change was primarily attributable to a greater rate of appreciation in our significant drawdown funds. The net returns of Blackstone's significant Credit segment funds were 1.4% for Hedge Fund Strategies, 5.0% for Mezzanine Strategies and 5.3% for Rescue Lending Strategies for the three months ended June 30, 2015.

Revenues were \$407.0 million for the six months ended June 30, 2015, a decrease of \$35.9 million compared to \$442.9 million for the six months ended June 30, 2014. This change was primarily attributable to a decrease of \$65.7 million in Performance Fees, partially offset by an increase of \$23.5 million in Total Management Fees.

Performance Fees were \$136.3 million for the six months ended June 30, 2015, a decrease of \$65.7 million compared to \$202.0 million for the six months ended June 30, 2014. This change was primarily attributable to lower returns in the three months ended March 31, 2015 compared to the three months ended March 31, 2014 in certain alternative strategies. The net returns of Blackstone's significant Credit segment funds were 2.6% for Hedge Fund Strategies, 7.5% for Mezzanine Strategies and 4.9% for Rescue Lending Strategies for the six months ended June 30, 2015.

Total Management Fees were \$240.9 million for the six months ended June 30, 2015, an increase of \$23.5 million compared to \$217.5 million for the six months ended June 30, 2014. This change was primarily attributable to an increase of \$30.6 million in Base Management Fees resulting from the growth in our Fee-Earning Assets Under Management.

*Expenses*

Expenses were \$122.1 million for the three months ended June 30, 2015, a decrease of \$4.0 million compared to \$126.1 million for the three months ended June 30, 2014. The decrease in expenses was primarily attributable to a decrease of \$4.2 million in Compensation due to long term compensation realignment.

Expenses were \$209.6 million for the six months ended June 30, 2015, a decrease of \$48.6 million compared to \$258.2 million for the six months ended June 30, 2014. The decrease in expenses was primarily attributable to decreases of \$33.9 million in Performance Fee Compensation and \$9.6 million in Other Operating Expenses. The decrease in Performance Fee Compensation was due to the decrease in Performance Fees Revenue. The decrease in Other Operating Expenses was driven by a non-recurring placement fee in the first quarter of 2014.

*Fund Returns*

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

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As of June 30, 2015, the Credit segment's returns reflect composite returns for funds included within each alternative strategy as set forth below. Previously, these returns reflected only the composite returns for the flagship funds in each strategy. The historical returns presented in the tables below have been updated to conform to the current presentation.

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

Composite	Three Months Ended June 30,		Six Months Ended June 30,				Average Annual Returns (a) Periods Ended June 30, 2015									
	2015		2014		2015		2014		One Year		Three Year		Five Year		Historical	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Hedge Fund Strategies (b)	2%	1%	3%	2%	4%	3%	7%	5%	-1%	-2%	14%	10%	14%	11%	12%	9%

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

- (a) Average annual returns present a summarized asset-weighted return measure to evaluate the overall performance of the applicable class of Blackstone Funds.
- (b) The Hedge Fund Strategies' returns represent a weighted-average composite of the fee-earning funds exceeding \$100 million of fair value at each respective quarter end excluding the Blackstone Funds that were contributed to GSO as part of Blackstone's acquisition of GSO in March 2008. The historical returns are from August 1, 2005.

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

Composite (a)	Three Months Ended June 30,				Six Months Ended June 30,				June 30, 2015 Inception to Date	
	2015		2014		2015		2014		Gross	Net
	Gross	Net	Gross	Net	Gross	Net	Gross	Net		
Mezzanine Strategies (b)	6%	5%	4%	3%	9%	8%	9%	6%	25%	19%
Rescue Lending Strategies (c)	6%	5%	5%	5%	6%	5%	11%	9%	21%	16%

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

- (a) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and performance fee allocations, net of tax advances.
- (b) The Mezzanine Strategies' returns represent the IRR of the combined cash flows of the fee-earning funds exceeding \$100 million of fair value at each respective quarter end excluding the Blackstone Funds that were contributed to GSO as part of Blackstone's acquisition of GSO in March 2008. The inception to date returns are from July 16, 2007.
- (c) The Rescue Lending Strategies' returns represent the IRR of the combined cash flows of the fee-earning funds exceeding \$100 million of fair value at each respective quarter end. The inception to date returns are from September 29, 2009.

As of June 30, 2015, the drawdown funds within the Mezzanine and Rescue Lending Strategies' returns were above their respective Carried Interest thresholds.

**Table of Contents****Financial Advisory**

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

	Three Months Ended June 30,		2015 vs. 2014		Six Months Ended June 30,		2015 vs. 2014	
	2015	2014	\$	%	2015	2014	\$	%
(Dollars in Thousands)								
<b>Segment Revenues</b>								
Advisory Fees	\$ 76,998	\$ 114,914	\$ (37,916)	-33%	\$ 161,236	\$ 184,877	\$ (23,641)	-13%
Transaction and Other Fees, Net	289	876	(587)	-67%	305	938	(633)	-67%
Total Advisory and Transaction Fees	77,287	115,790	(38,503)	-33%	161,541	185,815	(24,274)	-13%
<b>Investment Income (Loss)</b>								
Realized	(159)	106	(265)	N/M	(389)	240	(629)	N/M
Unrealized	(523)	969	(1,492)	N/M	959	1,663	(704)	-42%
Total Investment Income (Loss)	(682)	1,075	(1,757)	N/M	570	1,903	(1,333)	-70%
Interest and Dividend Revenue	3,192	2,187	1,005	46%	6,429	4,689	1,740	37%
Other	(112)	(160)	48	30%	(1,068)	(335)	(733)	-219%
Total Revenues	79,685	118,892	(39,207)	-33%	167,472	192,072	(24,600)	-13%
<b>Expenses</b>								
<b>Compensation and Benefits</b>								
Compensation	49,824	69,744	(19,920)	-29%	118,758	131,426	(12,668)	-10%
Other Operating Expenses	18,559	22,116	(3,557)	-16%	39,901	43,458	(3,557)	-8%
Total Expenses	68,383	91,860	(23,477)	-26%	158,659	174,884	(16,225)	-9%
Economic Income	\$ 11,302	\$ 27,032	\$ (15,730)	-58%	\$ 8,813	\$ 17,188	\$ (8,375)	-49%

N/M Not meaningful.

**Revenues**

Revenues were \$79.7 million for the three months ended June 30, 2015, a decrease compared to the three months ended June 30, 2014. The decrease in revenues was primarily due to decreases in our fund placement and Blackstone Advisory Partners ( BAP ) businesses. Partially offsetting this was an increase in Restructuring and Reorganization revenues driven by a higher number of fee paying clients relative to the prior year period. Our capital markets business decreased due to a higher amount of transaction fees recorded in the prior year period. The decrease in fees earned by Blackstone's fund placement business was due primarily to a decrease in the size of the transactions that closed in the secondary advisory business during the period. BAP, Restructuring and Reorganization and the fund placement businesses all have strong backlogs.

Revenues were \$167.5 million for the six months ended June 30, 2015, a decrease of \$24.6 million compared to \$192.1 million for the six months ended June 30, 2014. Revenues were down in all four components of the segment. BAP's revenues decreased as certain deals were delayed. Restructuring and Reorganization and the capital markets businesses decreased due to a lower amount of transaction fees relative to the prior year period. The decrease in fees earned by Blackstone's fund placement business was due primarily to a decrease in the size of transactions that closed in the secondary advisory business while partially offset by an increase in the volume and size of transactions that closed in the Private Equity and Real Estate business during the period.

*Expenses*

Expenses were \$68.4 million for the three months ended June 30, 2015, a decrease of \$23.5 million compared to the three months ended June 30, 2014. Compensation decreased \$19.9 million compared to \$69.7 million for the three months ended June 30, 2014, primarily due to an overall decrease in Revenues across the segment.

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Expenses were \$158.7 million for the six months ended June 30, 2015, a decrease of \$16.2 million compared to the six months ended June 30, 2014. Compensation decreased \$12.7 million compared to \$131.4 million for the six months ended June 30, 2014, primarily due to an overall decrease in Revenues across the segment.

### **Liquidity and Capital Resources**

#### ***General***

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

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

Total assets were \$24.7 billion as of June 30, 2015, a decrease of \$6.8 billion from December 31, 2014. The decrease in total assets was primarily attributable to a decrease of \$6.8 billion in Investments following the adoption of new consolidation accounting guidance which resulted in the deconsolidation of a number of Blackstone Funds.

Total liabilities were \$10.8 billion as of June 30, 2015, a decrease of \$3.4 billion from December 31, 2014. The decrease in total liabilities was primarily due to a decrease in Loans Payable of \$3.1 billion, which was attributable to the adoption of new consolidation accounting guidance which resulted in the deconsolidation of a number of Blackstone Funds.

For the three months ended June 30, 2015, we had Total Fee Related Revenues of \$590.8 million and related expenses of \$412.3 million, generating Fee Related Earnings of \$178.4 million and Distributable Earnings of \$1.0 billion. For the six months ended June 30, 2015, we had Total Fee Related Revenues of \$1.2 billion and related expenses of \$846.6 million, generating Fee Related Earnings of \$359.1 million and Distributable Earnings of \$2.3 billion.

#### ***Sources of Liquidity***

We have multiple sources of liquidity to meet our capital needs, including annual cash flows, accumulated earnings in the businesses, investments in our own Treasury and liquid funds and access to our debt capacity, including our \$1.1 billion committed revolving credit facility and the proceeds from our issuances of senior notes. As of June 30, 2015, we had \$2.2 billion in cash and cash equivalents, \$2.0 billion invested in Blackstone's Treasury Cash Management Strategies, \$178.3 million invested in liquid Blackstone Funds, \$2.0 billion invested in illiquid Blackstone Funds and \$272.2 million invested in other investments, against \$2.8 billion in borrowings from our bond issuances, and no borrowings outstanding under our revolving credit facility.

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

On May 19, 2015, Blackstone issued 300 million in aggregate principal amount of 2.000% senior notes which will mature on May 19, 2025.

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

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

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

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



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

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

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

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- (a) This adjustment adds back to Income (Loss) Before Provision (Benefit) for Taxes amounts for Transaction-Related Charges which include principally equity-based compensation charges associated with Blackstone's initial public offering and long-term retention programs outside of annual deferred compensation and other corporate actions.
- (b) This adjustment adds back to Income (Loss) Before Provision (Benefit) for Taxes amounts for the Amortization of Intangibles which are associated with Blackstone's initial public offering and other corporate actions.
- (c) This adjustment adds back to Income (Loss) Before Provision (Benefit) for Taxes the amount of (Income) Loss Associated with Non-Controlling Interests of Consolidated Entities and includes the amount of Management Fee Revenues associated with Consolidated CLO Entities.
- (d) Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision (Benefit) for Taxes.
- (e) This adjustment removes from EI the total segment amount of Performance Fees.
- (f) This adjustment removes from EI the total segment amount of Investment Income (Loss).
- (g) This adjustment represents Interest Income and Dividend Revenue less Interest Expense.
- (h) This adjustment removes from expenses the compensation and benefit amounts related to Blackstone's profit sharing plans related to Performance Fees.
- (i) Represents the adjustment for realized Performance Fees net of corresponding actual amounts due under Blackstone's profit sharing plans related thereto.
- (j) Represents the adjustment for Blackstone's Investment Income (Loss) Realized.
- (k) Taxes and Related Payables Including Payable Under Tax Receivable Agreement represent the current tax provision (benefit) calculated on Income (Loss) Before Provision (Benefit) for Taxes and the Payable Under Tax Receivable Agreement.
- (l) Represents equity-based award expense included in EI.

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

We expect that our primary liquidity needs will be cash to (a) provide capital to facilitate the growth of our existing businesses which principally includes funding our general partner and co-investment commitments to our funds, (b) provide capital to facilitate our expansion into new businesses that are complementary, (c) pay operating expenses, including cash compensation to our employees and other obligations as they arise, (d) fund modest capital expenditures, (e) repay borrowings and related interest costs, (f) pay income taxes, and (g) make distributions to our unitholders and the holders of Blackstone Holdings Partnership Units. Our own capital commitments to our funds, the funds we invest in and our investment strategies as of June 30, 2015 consisted of the following:

Fund	Blackstone and General Partner		Senior Managing Directors and Certain Other Professionals (a)	
	Original Commitment	Remaining Commitment	Original Commitment	Remaining Commitment
(Dollars in Thousands)				
<b>Private Equity</b>				
BCP VII	\$ 500,000	\$ 500,000	\$ 225,000	\$ 225,000
BCP VI	719,718	290,646	250,000	100,958
BCP V	629,356	42,258		
BEP	50,000	7,323		
BEP II	80,000	80,000	26,667	26,667
Tactical Opportunities	189,582	103,391	39,920	21,771
Strategic Partners	150,592	110,044	20,294	8,474
Other (b)	208,310	13,041		
<b>Real Estate</b>				
BREP VIII	300,000	298,025	100,000	100,000
BREP VII	300,000	69,047	100,000	23,016
BREP VI	750,000	38,840	150,000	12,947
BREP Europe III	100,000	13,231	35,000	4,410
BREP Europe IV	130,000	65,625	43,333	21,875
BREP Asia	50,392	26,534	16,797	8,845
BREDS II	50,000	30,532	16,667	10,177
CT Opportunity Partners I	25,000	23,410		
Other (b)	155,503	35,714		
<b>Hedge Fund Solutions</b>				
Strategic Alliance	50,000	2,033		
Strategic Alliance II	50,000	2,862		
Strategic Holdings LP	50,000	45,458		
Other (b)	300	139		
<b>Credit</b>				
Capital Opportunities Fund II L.P.	120,000	71,324	110,340	65,582
GSO Capital Solutions II	125,000	103,967	120,156	99,939
Blackstone/GSO Capital Solutions	50,000	9,462	27,666	5,236
BMezz II	17,692	3,085		
Other (b)	273,828	239,747	28,343	22,647
<b>Other</b>				
Treasury	56,533	56,533		
<b>Total</b>	<b>\$ 5,181,806</b>	<b>\$ 2,282,271</b>	<b>\$ 1,310,183</b>	<b>\$ 757,544</b>

- (a) For some of the general partner commitments shown in the table above, we require our senior managing directors and certain other professionals to fund a portion of the commitment even though the ultimate obligation to fund the aggregate commitment is ours pursuant to the governing agreements of the respective funds. The amounts of the aggregate applicable general partner original and remaining

commitment are shown

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in the table above. In addition, certain senior managing directors and other professionals are required to fund a de minimis amount of the commitment in the other private equity, real estate and credit-focused carry funds. We expect our commitments to be drawn down over time and to be funded by available cash and cash generated from operations and realizations. Taking into account prevailing market conditions and both the liquidity and cash or liquid investment balances, we believe that the sources of liquidity described above will be more than sufficient to fund our working capital requirements.

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

Blackstone, through indirect subsidiaries, has a \$1.1 billion unsecured revolving credit facility (the "Credit Facility") with Citibank, N.A., as Administrative Agent with a maturity date of May 29, 2019. Borrowings may also be made in U.K. sterling, euros, Swiss francs or Japanese yen, in each case subject to certain sub-limits. The Credit Facility contains customary representations, covenants and events of default. Financial covenants consist of a maximum net leverage ratio and a requirement to keep a minimum amount of fee-earning assets under management, each tested quarterly.

In August 2009, Blackstone Holdings Finance Co. L.L.C. issued \$600 million in aggregate principal amount of 6.625% Senior Notes which will mature on August 15, 2019, unless earlier redeemed or repurchased. In September 2010, Blackstone Holdings Finance Co. L.L.C. issued \$400 million in aggregate principal amount of 5.875% Senior Notes which will mature on March 15, 2021, unless earlier redeemed or repurchased. In August 2012, Blackstone Holdings Finance Co. L.L.C. issued \$400 million in aggregate principal amount of 4.75% Senior Notes which will mature on February 15, 2023 and \$250 million in aggregate principal amount of 6.25% Senior Notes which will mature on August 15, 2042. In April 2014, Blackstone Holdings Finance Co. L.L.C. issued \$500 million in aggregate principal amount of 5.000% Senior Notes which will mature on June 15, 2044, unless earlier redeemed or repurchased. (These issuances of Senior Notes are collectively referred to as the "Notes".) The Notes are unsecured and unsubordinated obligations of Blackstone Holdings Finance Co. L.L.C. and are fully and unconditionally guaranteed, jointly and severally, by The Blackstone Group L.P. and each of the Blackstone Holdings Partnerships. The Notes contain customary covenants and financial restrictions that, among other things, limit Blackstone Holdings Finance Co. L.L.C. and the guarantors' ability, subject to certain exceptions, to incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The Notes also contain customary events of default. All or a portion of the Notes may be redeemed at our option, in whole or in part, at any time and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the Notes. If a change of control repurchase event occurs, the Notes are subject to repurchase at the repurchase price as set forth in the Notes.

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

On May 19, 2015, Blackstone Holdings Finance Co. L.L.C. issued 300 million in aggregate principal amount of 2.000% senior notes which will mature on May 19, 2025, unless earlier redeemed or repurchased.

In January 2008, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to \$500 million of our common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. This unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date. During the three months ended June 30, 2015, no units were repurchased. As of June 30, 2015, the amount remaining under this program available for repurchases was \$335.8 million.

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***Distributions***

Distributable Earnings, which is derived from Blackstone's segment reported results, is a supplemental measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships. Distributable Earnings is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Related Payables Including the Payable Under Tax Receivable Agreement.

Our intention is to distribute quarterly to common unitholders approximately 85% of The Blackstone Group L.P.'s share of Distributable Earnings, subject to adjustment by amounts determined by Blackstone's general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its business and funds, to comply with applicable law, any of its debt instruments or other agreements, or to provide for future cash requirements such as tax-related payments, clawback obligations and distributions to unitholders for any ensuing quarter. The amount to be distributed could also be adjusted upward in any one quarter.

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

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

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

With respect to fiscal year 2015, we have paid to common unitholders a distribution of \$0.74 in respect of the second quarter, aggregating \$1.63 per common unit in respect of the six months ended June 30, 2015. With respect to fiscal year 2014, we paid common unitholders aggregate distributions of \$2.12 per common unit.

***Leverage***

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

Generally our private equity funds, real estate funds, funds of hedge funds and credit-focused funds have not utilized substantial leverage at the fund level other than for (a) short-term borrowings between the date of an investment and the receipt of capital from the investing fund's investors, and (b) long-term borrowings for certain investments in aggregate amounts which are generally 1% to 20% of the capital commitments of the respective fund. Our carry funds make direct or indirect investments in companies that utilize leverage in their capital structure. The degree of leverage employed varies among portfolio companies.



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

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

	<b>Reverse Repurchase Agreements</b>	<b>Repurchase Agreements (Dollars in Millions)</b>	<b>Securities Sold, Not Yet Purchased</b>
Balance, June 30, 2015	\$ 61.4	\$ 41.7	\$ 138.8
Balance, December 31, 2014	\$	\$ 29.9	\$ 85.9
Six Months Ended June 30, 2015			
Average Daily Balance	\$ 83.4	\$ 75.1	\$ 166.0
Maximum Daily Balance	\$ 120.7	\$ 147.2	\$ 204.6

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

The following table sets forth information relating to our contractual obligations as of June 30, 2015 on a consolidated basis and on a basis deconsolidating the Blackstone Funds:

Contractual Obligations	July 1, 2015 to December 31, 2015					Total
	2016	2017	2018	2019	Thereafter	
	(Dollars in Thousands)					
Operating Lease Obligations (a)	\$ 39,800	\$ 174,761	\$ 168,023	\$ 705,845	\$ 1,088,429	
Purchase Obligations	13,715	16,499	3,041		33,255	
Blackstone Issued Notes and Revolving Credit Facility (b)			585,000	2,237,080	2,822,080	
Interest on Blackstone Issued Notes and Revolving Credit Facility (c)	75,687	288,396	273,862	1,486,868	2,124,813	
Blackstone Funds and CLO Vehicles Debt Obligations Payable (d)	4,166	392,505		2,701,797	3,098,468	
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (e)	29,948	510,425	105,400	3,105,659	3,751,432	
Blackstone Funds Capital Commitments to Investee Funds (f)	28,862				28,862	
Due to Certain Non-Controlling Interest Holders in Connection with Tax Receivable Agreements (g)		151,255	168,242	953,420	1,272,917	
Unrecognized Tax Benefits, Including Interest and Penalties (h)	5,644				5,644	
Blackstone Operating Entities Capital Commitments to Blackstone Funds and Other (i)	2,282,272				2,282,272	
<b>Consolidated Contractual Obligations</b>	<b>2,480,094</b>	<b>1,533,841</b>	<b>1,303,568</b>	<b>11,190,669</b>	<b>16,508,172</b>	
Blackstone Funds and CLO Vehicles Debt Obligations Payable (d)	(4,166)	(392,505)		(2,701,797)	(3,098,468)	
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (e)	(29,948)	(510,425)	(105,400)	(3,105,659)	(3,751,432)	
Blackstone Funds Capital Commitments to Investee Funds (f)	(28,862)				(28,862)	
<b>Blackstone Operating Entities Contractual Obligations</b>	<b>\$ 2,417,118</b>	<b>\$ 630,911</b>	<b>\$ 1,198,168</b>	<b>\$ 5,383,213</b>	<b>\$ 9,629,410</b>	

- (a) We lease our primary office space under agreements that expire through 2032. In connection with certain lease agreements, we are responsible for escalation payments. The contractual obligation table above includes only guaranteed minimum lease payments for such leases and does not project potential escalation or other lease-related payments. These leases are classified as operating leases for financial statement purposes and as such are not recorded as liabilities on the Condensed Consolidated Statements of Financial Condition. The amounts are presented net of contractual sublease commitments.
- (b) Represents the principal amount due on the senior notes we issued. As of June 30, 2015, we had no outstanding borrowings under our revolver.
- (c) Represents interest to be paid over the maturity of our senior notes and borrowings under our revolving credit facility which has been calculated assuming no pre-payments will be made and debt will be held until its final maturity date. These amounts exclude commitment fees for unutilized borrowings under our revolver.
- (d) These obligations are those of the Blackstone Funds including the consolidated CLO vehicles.
- (e) Represents interest to be paid over the maturity of the related consolidated Blackstone Funds and CLO vehicles debt obligations which has been calculated assuming no pre-payments will be made and debt will be held until its final maturity date. The future interest payments are calculated using variable rates in effect as of



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June 30, 2015, at spreads to market rates pursuant to the financing agreements, and range from 0.27% to 7.12%. The majority of the borrowings are due on demand and for purposes of this schedule are assumed to mature within one year. Interest on the majority of these borrowings rolls over into the principal balance at each reset date.

- (f) These obligations represent commitments of the consolidated Blackstone Funds to make capital contributions to investee funds and portfolio companies. These amounts are generally due on demand and are therefore presented in the less than one year category.
- (g) Represents obligations by the Partnership's corporate subsidiary to make payments under the Tax Receivable Agreements to certain non-controlling interest holders for the tax savings realized from the taxable purchases of their interests in connection with the reorganization at the time of Blackstone's initial public offering in 2007 and subsequent purchases. The obligation represents the amount of the payments currently expected to be made, which are dependent on the tax savings actually realized as determined annually without discounting for the timing of the payments. As required by GAAP, the amount of the obligation included in the Condensed Consolidated Financial Statements and shown in Note 16. Related Party Transactions (see Part I. Item 1. Financial Statements) differs to reflect the net present value of the payments due to certain non-controlling interest holders.
- (h) The total represents gross unrecognized tax benefits of \$3.2 million and interest and penalties of \$2.4 million. In addition, Blackstone is not able to make a reasonably reliable estimate of the timing of payments in individual years in connection with gross unrecognized benefits of \$16.6 million and interest of \$5.8 million; therefore, such amounts are not included in the above contractual obligations table.
- (i) These obligations represent commitments by us to provide general partner capital funding to the Blackstone Funds, limited partner capital funding to other funds and Blackstone principal investment commitments. These amounts are generally due on demand and are therefore presented in the less than one year category; however, a substantial amount of the capital commitments are expected to be called over the next three years. We expect to continue to make these general partner capital commitments as we raise additional amounts for our investment funds over time.

***Guarantees***

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

***Indemnifications***

In many of its service contracts, Blackstone agrees to indemnify the third party service provider under certain circumstances. The terms of the indemnities vary from contract to contract and the amount of indemnification liability, if any, cannot be determined and has not been included in the table above or recorded in our Condensed Consolidated Financial Statements as of June 30, 2015.

***Clawback Obligations***

Carried Interest is subject to clawback to the extent that the Carried Interest received to date with respect to a fund exceeds the amount due to Blackstone based on cumulative results of that fund. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability. The lives of the carry funds with a potential clawback obligation, including available contemplated extensions, are currently anticipated to expire at various points through 2016. Further extensions of such terms may be implemented under given circumstances.

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

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As of June 30, 2015, the total clawback obligations were \$3.5 million, of which \$1.1 million related to Blackstone Holdings and \$2.4 million related to current and former Blackstone personnel. (See Note 16. Related Party Transactions and Note 17. Commitments and Contingencies in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements of this filing.)

### **Critical Accounting Policies**

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

### ***Principles of Consolidation***

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

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

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

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

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### ***Revenue Recognition***

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other. Please refer to Part I. Item 1. Business Incentive Arrangements / Fee Structure in our Annual Report on Form 10-K for the year ended December 31, 2014 for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

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

The Partnership earns base management fees from limited partners of funds in each of its managed funds, at a fixed percentage of assets under management, net asset value, total assets, committed capital or invested capital, or in some cases, a fixed fee. Base management fees are recognized based on contractual terms specified in the underlying investment advisory agreements. The range of management fee rates and the calculation base from which they are earned, generally, are as follows:

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

0.25% to 1.75% of committed capital or invested capital during the investment period,

0.25% to 1.75% of invested capital or investment fair value subsequent to the investment period for private equity and real estate funds, and

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

On real estate and credit-focused funds structured like hedge funds:

1.50% to 2.00% of net asset value.

On credit-focused separately managed accounts:

0.30% to 1.35% of net asset value.

On real estate separately managed accounts:

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

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

0.50% to 1.25% of net asset value.

On CLO vehicles:

0.40% to 1.25% of total assets.

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

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

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

Transaction and other fees (including monitoring fees) are fees charged directly to managed funds and portfolio companies. The investment advisory agreements generally require that the investment adviser reduce the amount of management fees payable by the limited partners to the Partnership (management fee reductions) by an amount

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equal to a portion of the transaction and other fees directly paid to the Partnership by the portfolio companies. The amount of the reduction varies by fund, the type of fee paid by the portfolio company and the previously incurred expenses of the fund.

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

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

Accrued but unpaid Management and Advisory Fees, net of management fee reductions and management fee offsets, as of the reporting date are included in Accounts Receivable or Due from Affiliates in the Condensed Consolidated Statements of Financial Condition. Management fees paid by limited partners to the Blackstone Funds and passed on to Blackstone are not considered affiliate revenues.

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

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

Carried Interest is realized when an underlying investment is profitably disposed of and the fund's cumulative returns are in excess of the preferred return or, in limited instances, after certain thresholds for return of capital are met. Carried Interest is subject to clawback to the extent that the Carried Interest received to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously



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received Carried Interest, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Blackstone Carry Funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

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

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

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

***Expenses***

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

*Compensation and Benefits Compensation* Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight-line basis. Equity-based awards that do not require future service are expensed immediately. Cash settled equity-based awards are classified as liabilities and are remeasured at the end of each reporting period.

*Compensation and Benefits Performance Fee* Performance Fee Compensation consists of Carried Interest (which may be distributed in cash or in kind) and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone's firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis. Compensation received from advisory clients in the form of securities of such clients may also be allocated to employees and senior managing directors.

***Fair Value of Financial Instruments***

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

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

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

**Level II** Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and loans, including corporate bonds and loans held within CLO vehicles, government and agency securities, less liquid and restricted equity securities, and certain over-the-counter derivatives where the fair value is based on observable inputs. Upon adoption of the new CLO measurement guidance adopted as of January 1, 2015, senior and subordinate notes issued by CLO vehicles are classified within Level II of the fair value hierarchy.

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

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

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

### *Level II Valuation Techniques*

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

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

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

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



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Upon adoption of the new CLO measurement guidance adopted as of January 1, 2015, senior and subordinate notes issued by CLO vehicles are classified based on the more observable fair value of CLO assets less (a) the fair value of any beneficial interests held by Blackstone, and (b) the carrying value of any beneficial interests that represent compensation for services.

*Level III Valuation Techniques*

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

*Private Equity Investments* The fair values of private equity investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization ( EBITDA ), the discounted cash flow method, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are based on unaudited information at the time received. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (for example, multiplying a key performance metric of the investee company such as EBITDA by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to EBITDA or price/earnings exit multiples.

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

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

*Credit-Focused Liabilities* Credit-focused liabilities comprise senior and subordinate loans issued by Blackstone's consolidated CLO vehicles. Such liabilities have historically been valued using a discounted cash flow method. On the adoption of new accounting guidance as of January 1, 2015 and the application of a permitted measurement alternative, such liabilities are valued based on the more observable fair value of related assets held by CLO vehicles less (a) the fair value of any beneficial interests held by Blackstone and (b) the carrying value of any beneficial interest that represent compensation for services.

*Level III Valuation Process*

Investments classified within Level III of the fair value hierarchy are valued on a quarterly basis, taking into consideration any changes in Blackstone's weighted-average cost of capital assumptions, discounted cash flow projections and exit multiple assumptions, as well as any changes in economic and other relevant conditions, and

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valuation models are updated accordingly. The valuation process also includes a review by an independent valuation party, at least annually for all investments, and quarterly for certain investments, to corroborate the values determined by management. The valuations of Blackstone's investments are reviewed quarterly by a valuation committee that is chaired by Blackstone's Vice Chairman and includes senior heads of each of Blackstone's businesses, as well as representatives of legal and finance. Each quarter, the valuations of Blackstone's investments are also reviewed by the Audit Committee in a meeting attended by the chairman of the valuation committee. The valuations are further tested by comparison to actual sales prices obtained on disposition of the investments.

***Investments, at Fair Value***

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

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

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

In addition, the Partnership has elected the fair value option for the assets and liabilities of CLO vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of variable interest entity consolidation guidance. The Partnership has also elected the fair value option for CLO vehicles consolidated as a result of the acquisitions of CLO management contracts or the acquisition of the share capital of CLO managers. Historically, the adjustment resulting from the difference between the fair value of assets and liabilities for each of these events was presented as a transition and acquisition adjustment to Appropriated Partners' Capital. Assets of the consolidated CLOs are presented within Investments within the Condensed Consolidated Statements of Financial Condition and Liabilities within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by non-consolidated affiliates. Changes in the fair value of consolidated CLO assets and liabilities and related interest, dividend and other income subsequent to adoption and acquisition are presented within Net Gains (Losses) from Fund Investment Activities. Expenses of consolidated CLO vehicles are presented in Fund Expenses. Historically, amounts attributable to Non-Controlling Interests in Consolidated Entities had a corresponding adjustment to Appropriated Partners' Capital. On the adoption of the new CLO measurement guidance, there is no attribution of amounts to Non-Controlling Interests and no corresponding adjustment to Appropriated Partners' Capital.

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The Partnership has elected the fair value option for certain proprietary investments that would otherwise have been accounted for using the equity method of accounting. The fair value of such investments is based on quoted prices in an active market or using the discounted cash flow method. Changes in fair value are recognized in Investment Income (Loss) in the Condensed Consolidated Statements of Operations.

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

The investments of consolidated Blackstone Funds in funds of hedge funds ( Investee Funds ) are valued at net asset value ( NAV ) per share of the Investee Fund. In limited circumstances, the Partnership may determine, based on its own due diligence and investment procedures, that NAV per share does not represent fair value. In such circumstances, the Partnership will estimate the fair value in good faith and in a manner that it reasonably chooses, in accordance with the requirements of GAAP.

Certain investments of Blackstone and of the consolidated Blackstone funds of hedge funds and credit-focused funds measure their investments in underlying funds at fair value using NAV per share without adjustment. The terms of the investee s investment generally provide for minimum holding periods or lock-ups, the institution of gates on redemptions or the suspension of redemptions or an ability to side pocket investments, at the discretion of the investee s fund manager, and as a result, investments may not be redeemable at, or within three months of, the reporting date. A side pocket is used by hedge funds and funds of hedge funds to separate investments that may lack a readily ascertainable value, are illiquid or are subject to liquidity restriction. Redemptions are generally not permitted until the investments within a side pocket are liquidated or it is deemed that the conditions existing at the time that required the investment to be included in the side pocket no longer exist. As the timing of either of these events is uncertain, the timing at which the Partnership may redeem an investment held in a side pocket cannot be estimated. Further disclosure on instruments for which fair value is measured using NAV per share is presented in Note 5. Net Asset Value as Fair Value in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements of this filing.

### ***Intangibles and Goodwill***

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

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

Goodwill is reviewed for impairment at least annually, and more frequently if circumstances indicate impairment may have occurred. We test goodwill for impairment at the operating segment level (the same as our segments). Management has organized the firm into five operating segments. All of the components in each segment have similar economic characteristics and management makes key operating decisions based on the performance of each segment. Therefore, we believe that operating segment is the appropriate reporting level for testing the impairment of goodwill.

The carrying value of goodwill was \$1.8 billion as of June 30, 2015 and December 31, 2014, respectively. At June 30, 2015 and December 31, 2014, we determined that there was no evidence of Goodwill impairment.

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### **Off-Balance Sheet Arrangements**

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

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

Note 6. Derivative Financial Instruments ,

Note 9. Variable Interest Entities , and

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

### **Recent Accounting Developments**

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

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

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

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

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

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

#### **Effect on Fund Management Fees**

Our management fees are based on (a) third parties' capital commitments to a Blackstone Fund, (b) third parties' capital invested in a Blackstone Fund or (c) the net asset value, or NAV, of a Blackstone Fund, as described in our Condensed Consolidated Financial Statements. Management fees will only be directly affected by short-term





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changes in market conditions to the extent they are based on NAV or represent permanent impairments of value. These management fees will be increased (or reduced) in direct proportion to the effect of changes in the fair value of our investments in the related funds. The proportion of our management fees that are based on NAV is dependent on the number and types of Blackstone Funds in existence and the current stage of each fund's life cycle. For the six months ended June 30, 2015 and June 30, 2014, the percentages of our fund management fees based on the NAV of the applicable funds or separately managed accounts, were as follows:

	Six Months Ended June 30,	
	2015	2014
Fund Management Fees Based on the NAV of the Applicable Funds or Separately Managed Accounts	36%	34%

**Market Risk**

The Blackstone Funds hold investments which are reported at fair value. Based on the fair value as of June 30, 2015 and June 30, 2014, we estimate that a 10% decline in fair value of the investments would result in the following declines in Management Fees, Performance Fees, Net of Related Compensation Expense and Investment Income:

	June 30,					
	2015 Management Fees (a)	2015 Performance Fees, Net of Related Compensation Expense (b)	2015 Investment Income (b)	2014 Management Fees (a)	2014 Performance Fees, Net of Related Compensation Expense (b)	2014 Investment Income (b)
10% Decline in Fair Value of the Investments	\$ 86,220	\$ 1,485,164	\$ 248,615	\$ 80,238	\$ 1,219,254	\$ 282,859

(Dollars in Thousands)

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

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

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

	June 30, 2015	
	Total Assets Under Management, Excluding Undrawn Capital Commitments and the Amount of Capital Raised for CLOs (Dollars in Thousands)	Percentage Amount Classified as Level III Investments
Private Equity	\$ 50,546,858	72%
Real Estate	\$ 60,139,568	73%
Credit	\$ 44,489,798	49%

The fair value of our investments and securities can vary significantly based on a number of factors that take into consideration the diversity of the Blackstone Funds' investment portfolio and on a number of factors and inputs such as similar transactions, financial metrics, and industry comparatives, among others. (See Part I. Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2014. Also see Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Investments, at Fair Value. ) We believe these fair value amounts should be utilized with caution as our intent and strategy is to hold investments

and securities until prevailing market conditions are beneficial for investment sales.

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

**Exchange Rate Risk**

The Blackstone Funds hold investments that are denominated in non-U.S. dollar currencies that may be affected by movements in the rate of exchange between the U.S. dollar and non-U.S. dollar currencies. Additionally, a portion of our management fees are denominated in non-U.S. dollar currencies. We estimate that as of June 30, 2015 and June 30, 2014, a 10% decline in the rate of exchange of all foreign currencies against the U.S. dollar would result in the following declines in Management Fees, Performance Fees, Net of Related Compensation Expense and Investment Income:

	June 30,					
	Management Fees (a)	2015 Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)	Management Fees (a)	2014 Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)
10% Decline in the Rate of Exchange of All Foreign Currencies Against the U.S. Dollar	\$ 14,078	\$ 289,460	\$ 42,725	\$ 20,316	\$ 246,445	\$ 39,329

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

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

**Interest Rate Risk**

Blackstone has debt obligations payable that accrue interest at variable rates. Interest rate changes may therefore affect the amount of our interest payments, future earnings and cash flows. Based on our debt obligations payable as of June 30, 2015 and June 30, 2014, we estimate that interest expense relating to variable rates would increase on an annual basis, in the event interest rates were to increase by one percentage point, as follows:

	June 30,	
	2015 (Dollars in Thousands)	2014
Annualized Increase in Interest Expense Due to a One Percentage Point Increase in Interest Rates	\$ 42	\$ 65

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

	2015		June 30, 2014	
	Annualized Decrease in Investment Income	Annualized Increase in Interest Income from Floating Rate Assets (Dollars in Thousands)	Annualized Decrease in Investment Income	Annualized Increase in Interest Income from Floating Rate Assets
One Percentage Point Increase in Interest Rates	\$ 21,432(a)	\$ 17,162	\$ 12,483(a)	\$ 10,581

(a) As of June 30, 2015 and 2014, this represents 0.5% and 0.5% of the Treasury Liquidity Portfolio, respectively.

**Credit Risk**

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

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

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

	June 30, 2015      2014	
	(Dollars in Thousands)	
Decrease in Annualized Investment Income Due to a One Percentage Point Increase in Credit Spreads (a)	\$ 50,308	\$ 28,904

(a) As of June 30, 2015 and 2014, this represents 1.2% and 1.2% of the Treasury Liquidity Portfolio, respectively.

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

**ITEM 4. CONTROLS AND PROCEDURES**

We maintain disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure



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controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives.

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

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

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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

We may from time to time be involved in litigation and claims incidental to the conduct of our business. Our businesses are also subject to extensive regulation, which may result in regulatory proceedings against us. See Part I. Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2014. We are not currently subject to any pending judicial, administrative or arbitration proceedings that we expect to have a material impact on our consolidated financial statements. However, given the inherent unpredictability of these types of proceedings and the potentially large and/or indeterminate amounts that could be sought, it is possible that an adverse outcome in certain matters could have a material effect on Blackstone's financial results in any particular period.

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

**ITEM 1A. RISK FACTORS**

For a discussion of our potential risks and uncertainties, see the information under the heading Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2014 and in our subsequently filed Quarterly Reports on Form 10-Q, all of which are accessible on the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov).

See Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Business Environment in this report for a discussion of the conditions in the financial markets and economic conditions affecting our businesses. This discussion updates, and should be read together with, the risk factor entitled Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments made by our investment funds, reducing the ability of our investment funds to raise or deploy capital and reducing the volume of the transactions involving our financial advisory business, each of which could materially reduce our revenue and cash flow and adversely affect our financial condition in our Annual Report on Form 10-K for the year ended December 31, 2014.

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

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

In January 2008, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to \$500 million of Blackstone common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. The unit repurchase program may be suspended or

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discontinued at any time and does not have a specified expiration date. During the three months ended June 30, 2015, no units were repurchased. As of June 30, 2015, the amount remaining available for repurchases was \$335.8 million under this program. See Part I. Item 1. Financial Statements Notes to Condensed Consolidated Financial Statements Note 14. Net Income Per Common Unit and Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity Needs for further information regarding this unit repurchase program.

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

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

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

**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
10.1	Form of Special Equity Award - Deferred Holdings Unit Agreement under The Blackstone Group L.P. 2007 Equity Incentive Plan.
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
99.1	Section 13(r) Disclosure.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.



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101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

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

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**SIGNATURES**

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

Date: August 6, 2015

**The Blackstone Group L.P.**

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

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