

Blackstone Group L.P.  
Form 10-Q  
May 08, 2014  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**FORM 10-Q**

(Mark One)

X **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2014**  
**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**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

The number of the Registrant's voting common units representing limited partner interests outstanding as of April 30, 2014 was 511,616,604.

The number of the Registrant's non-voting common units representing limited partner interests outstanding as of April 30, 2014 was 69,083,468.

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>PART I. FINANCIAL INFORMATION</b>	
ITEM 1. <u>FINANCIAL STATEMENTS</u>	4
<u>Unaudited Condensed Consolidated Financial Statements – March 31, 2014 and 2013:</u>	
<u>Condensed Consolidated Statements of Financial Condition as of March 31, 2014 and December 31, 2013</u>	4
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2014 and 2013</u>	6
<u>Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2014 and 2013</u>	7
<u>Condensed Consolidated Statements of Changes in Partners’ Capital for the Three Months Ended March 31, 2014 and 2013</u>	8
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2014 and 2013</u>	10
<u>Notes to Condensed Consolidated Financial Statements</u>	12
ITEM 1A. <u>UNAUDITED SUPPLEMENTAL PRESENTATION OF STATEMENTS OF FINANCIAL CONDITION</u>	52
ITEM 2. <u>MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	54
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	114
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	117
<b>PART II. OTHER INFORMATION</b>	
ITEM 1. <u>LEGAL PROCEEDINGS</u>	118
ITEM 1A. <u>RISK FACTORS</u>	118
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	119
ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	119
ITEM 4. <u>MINE SAFETY DISCLOSURES</u>	119
ITEM 5. <u>OTHER INFORMATION</u>	119
ITEM 6. <u>EXHIBITS</u>	120
<u>SIGNATURES</u>	121

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## **Table of Contents**

### **Forward-Looking Statements**

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as outlook, believes, expects, potential, continues, may, will, should, seeks, approximately, predicts, intends, plans, estimates, anticipates or the negative version of these words or other comparative 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, 2013 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)), our corporate Facebook page ([www.facebook.com/blackstone](http://www.facebook.com/blackstone)) and our corporate Twitter account (@Blackstone) 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 "E-mail Alerts" section of our website at <http://ir.blackstone.com/alerts.cfm>?. The contents of our website and social media channels are not, however, a part of this report.

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

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

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,

**Table of Contents**

- (b) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (c) the 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 fair value of assets we manage pursuant to separately managed accounts,
- (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.

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

For our carry funds, total assets under management includes the fair value of the investments held, whereas fee-earning assets under management includes the amount of capital commitments, 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>March 31, 2014</b>	<b>December 31, 2013</b>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 787,521	\$ 831,998
Cash Held by Blackstone Funds and Other	1,210,586	1,045,882
Investments (including assets pledged of \$240,334 and \$316,564 at March 31, 2014 and December 31, 2013, respectively)	21,905,850	21,729,523
Accounts Receivable	1,108,848	888,356
Reverse Repurchase Agreements	162,708	148,984
Due from Affiliates	956,449	1,192,044
Intangible Assets, Net	534,490	560,748
Goodwill	1,787,392	1,787,392
Other Assets	348,375	284,472
Deferred Tax Assets	1,226,326	1,209,207
<b>Total Assets</b>	<b>\$ 30,028,545</b>	<b>\$ 29,678,606</b>
<b>Liabilities and Partners Capital</b>		
Loans Payable	\$ 9,987,304	\$ 10,466,504
Due to Affiliates	1,366,052	1,436,859
Accrued Compensation and Benefits	1,971,434	2,132,939
Securities Sold, Not Yet Purchased	296,434	76,195
Repurchase Agreements	216,861	316,352
Accounts Payable, Accrued Expenses and Other Liabilities	1,418,699	872,086
<b>Total Liabilities</b>	<b>15,256,784</b>	<b>15,300,935</b>
<b>Commitments and Contingencies</b>		
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<b>2,176,354</b>	<b>1,950,442</b>
<b>Partners Capital</b>		
Partners Capital (common units: 584,091,792 issued and outstanding as of March 31, 2014; 572,592,279 issued and outstanding as of December 31, 2013)	6,108,525	6,002,592
Appropriated Partners Capital	234,509	300,708
Accumulated Other Comprehensive Income	2,418	3,466
Non-Controlling Interests in Consolidated Entities	2,563,146	2,464,047
Non-Controlling Interests in Blackstone Holdings	3,686,809	3,656,416
<b>Total Partners Capital</b>	<b>12,595,407</b>	<b>12,427,229</b>
<b>Total Liabilities and Partners Capital</b>	<b>\$ 30,028,545</b>	<b>\$ 29,678,606</b>

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, Except Unit Data)**

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

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
<b>Assets</b>		
Cash Held by Blackstone Funds and Other	\$ 829,263	\$ 618,881
Investments	9,423,931	9,700,804
Accounts Receivable	589,371	231,052
Due from Affiliates	20,958	27,022
Other Assets	23,803	29,755
<b>Total Assets</b>	<b>\$ 10,887,326</b>	<b>\$ 10,607,514</b>
<b>Liabilities</b>		
Loans Payable	\$ 8,124,054	\$ 8,802,155
Due to Affiliates	120,323	143,444
Accounts Payable, Accrued Expenses and Other	975,074	284,818
<b>Total Liabilities</b>	<b>\$ 9,219,451</b>	<b>\$ 9,230,417</b>

See notes to condensed consolidated financial statements.

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

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Revenues</b>		
Management and Advisory Fees, Net	\$ 573,160	\$ 482,133
Performance Fees		
Realized		
Carried Interest	333,623	294,170
Incentive Fees	43,794	23,741
Unrealized		
Carried Interest	330,394	177,347
Incentive Fees	64,233	105,798
Total Performance Fees	772,044	601,056
Investment Income		
Realized		
	153,026	42,353
Unrealized		
	13,500	106,230
Total Investment Income	166,526	148,583
Interest and Dividend Revenue		
Other	14,069	12,557
	869	2,144
<b>Total Revenues</b>	<b>1,526,668</b>	<b>1,246,473</b>
<b>Expenses</b>		
Compensation and Benefits		
Compensation		
	485,351	451,430
Performance Fee Compensation		
Realized		
Carried Interest	149,398	89,437
Incentive Fees	23,635	10,508
Unrealized		
Carried Interest	40,730	95,472
Incentive Fees	23,531	44,478
Total Compensation and Benefits	722,645	691,325
General, Administrative and Other	135,554	109,306
Interest Expense	24,667	27,062
Fund Expenses	4,985	7,408
<b>Total Expenses</b>	<b>887,851</b>	<b>835,101</b>
<b>Other Income</b>		
Net Gains from Fund Investment Activities	70,155	67,210

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<b>Income Before Provision for Taxes</b>	708,972	478,582
<b>Provision for Taxes</b>	54,097	50,993
<b>Net Income</b>	654,875	427,589
<b>Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	45,792	62,316
<b>Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities</b>	43,961	(9,452)
<b>Net Income Attributable to Non-Controlling Interests in Blackstone Holdings</b>	299,505	207,090
<b>Net Income Attributable to The Blackstone Group L.P.</b>	\$ 265,617	\$ 167,635
<b>Distributions Declared Per Common Unit</b>	\$ 0.58	\$ 0.42
<b>Net Income Per Common Unit Basic and Diluted</b>	\$ 0.44	\$ 0.29
<b>Weighted-Average Common Units Outstanding</b>		
Common Units, Basic	601,527,299	582,322,183
Common Units, Diluted	605,669,164	585,699,899
<b>Revenues Earned from Affiliates</b>		
Management and Advisory Fees, Net	\$ 74,032	\$ 39,371

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>March 31,</b>	
	<b>2014</b>	<b>2013</b>
Net Income	\$ 654,875	\$ 427,589
Other Comprehensive Loss, Net of Tax    Currency Translation Adjustment	(1,166)	(11,950)
Comprehensive Income	653,709	415,639
Less:		
Comprehensive Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	45,792	62,316
Comprehensive Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities	43,843	(17,280)
Comprehensive Income Attributable to Non-Controlling Interests in Blackstone Holdings	299,505	207,090
Comprehensive Income Attributable to The Blackstone Group L.P.	\$ 264,569	\$ 163,513

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.								
	Common Units	Partners Capital	Appro- priated Partners Capital	Accumulated Other Compre- hensive Income	Non- Controlling Interests in Consolidated Entities	Non- Controlling Interests in Blackstone Holdings	Total Partners Capital	Redeemable Non- Controlling Interests in Consolidated Entities
<b>Balance at December 31, 2013</b>	572,592,279	\$ 6,002,592	\$ 300,708	\$ 3,466	\$ 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	
Consolidation of Fund Entity					4,511		4,511	30,922
Net Income		265,617			43,961	299,505	609,083	45,792
Allocation of Losses of Consolidated CLO Entities			(39,019)		39,019			
Currency Translation Adjustment Allocation of Currency Translation Adjustment of Consolidated CLO Entities			(118)	(1,048)	(118)		(1,166)	
Reclassification of Currency Translation Adjustment Due to Deconsolidation of CLO Entities		(2,695)					(2,695)	
Capital Contributions					147,862		147,862	282,641
Capital Distributions		(341,318)			(135,987)	(367,544)	(844,849)	(133,443)
Transfer of Non-Controlling Interests in Consolidated Entities					(212)		(212)	
Purchase of Interests from Certain Non-Controlling Interest Holders		(6)					(6)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		12,645					12,645	
Equity-Based Compensation Relinquished with Deconsolidation and Liquidation of Partnership		142,117				133,128	275,245	
Net Delivery of Vested Blackstone Holdings Partnership Units and Blackstone Common Units	4,759,747	(19,129)					(19,129)	
Excess Tax Benefits Related to Equity-Based Compensation, Net Change in The Blackstone Group L.P.'s Ownership Interest		14,006					14,006	
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	6,739,766	45,050				(45,050)		
<b>Balance at March 31, 2014</b>	584,091,792	\$ 6,108,525	\$ 234,509	\$ 2,418	\$ 2,563,146	\$ 3,686,809	\$ 12,595,407	\$ 2,176,354

continued

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.							Redeemable
			Accumulated					Non-
	Common	Partners	Appropriated	Other	Non-	Non-	Total	Controlling
	Units	Capital	Partners	Comprehensive	Controlling	Controlling	Partners	Interests in
			Capital	Income	Interests in	Interests in	Capital	Consolidated
				(Loss)	Consolidated	Blackstone		Entities
					Entities	Holdings		Entities
<b>Balance at December 31, 2012</b>	556,354,387	\$ 4,955,649	\$ 509,028	\$ 2,170	\$ 1,443,559	\$ 2,748,356	\$ 9,658,762	\$ 1,556,185
Net Income (Loss)		167,635			(9,452)	207,090	365,273	62,316
Allocation of Losses of Consolidated CLO Entities			(81,254)		81,254			
Currency Translation Adjustment				(4,122)	(7,828)		(11,950)	
Allocation of Currency Translation Adjustment of Consolidated CLO Entities			(7,828)		7,828			
Capital Contributions					34,648	107	34,755	151,450
Capital Distributions		(240,498)			(66,689)	(321,017)	(628,204)	(130,874)
Transfer of Non-Controlling Interests in Consolidated Entities					(208)		(208)	
Purchase of Interests from Certain Non-Controlling Interest Holders		(11)					(11)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		75,859					75,859	
Equity-Based Compensation		126,994				125,354	252,348	
Relinquished with Deconsolidation and Liquidation of Partnership			(9,776)				(9,776)	50
Net Delivery of Vested Common Units	4,574,312	(9,741)					(9,741)	
Change in The Blackstone Group L.P.'s Ownership Interest		(9,748)				9,748		
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	383,129	1,902				(1,902)		
<b>Balance at March 31, 2013</b>	561,311,828	\$ 5,068,041	\$ 410,170	\$ (1,952)	\$ 1,483,112	\$ 2,767,736	\$ 9,727,107	\$ 1,639,127

See notes to condensed consolidated financial statements.

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

(Dollars in Thousands)

	Three Months Ended March 31,	
	2014	2013
<b>Operating Activities</b>		
Net Income	\$ 654,875	\$ 427,589
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	(108,233)	(125,897)
Net Realized Gains on Investments	(543,367)	(425,967)
Changes in Unrealized Gains on Investments Allocable to The Blackstone Group L.P.	3,833	(86,763)
Non-Cash Performance Fees	(276,508)	(134,220)
Non-Cash Performance Fee Compensation	237,294	239,896
Equity-Based Compensation Expense	194,645	195,343
Excess Tax Benefits Related to Equity-Based Compensation	(16,513)	
Amortization of Intangibles	26,258	22,913
Other Non-Cash Amounts Included in Net Income	53,939	51,607
Cash Flows Due to Changes in Operating Assets and Liabilities		
Cash Held by Blackstone Funds and Other	(52,120)	153,381
Cash Relinquished in Deconsolidation and Liquidation of Partnership	(75,327)	(103,985)
Accounts Receivable	364,988	178,416
Reverse Repurchase Agreements	(13,724)	(10,025)
Due from Affiliates	275,550	44,438
Other Assets	(81,645)	9,333
Accrued Compensation and Benefits	(288,791)	(289,260)
Securities Sold, Not Yet Purchased	70,318	(12,762)
Accounts Payable, Accrued Expenses and Other Liabilities	(223,761)	(386,227)
Repurchase Agreements	(138,678)	(39,412)
Due to Affiliates	(28,278)	(53,020)
Treasury Cash Management Strategies		
Investments Purchased	(808,884)	(931,481)
Cash Proceeds from Sale of Investments	1,020,997	1,199,355
Blackstone Funds Related		
Investments Purchased	(1,652,358)	(1,564,358)
Cash Proceeds from Sale or Pay Down of Investments	2,385,748	2,745,408
Net Cash Provided by Operating Activities	980,258	1,104,302
<b>Investing Activities</b>		
Purchase of Furniture, Equipment and Leasehold Improvements	(6,123)	(7,344)
Changes in Restricted Cash	5,841	5,852
Net Cash Used in Investing Activities	(282)	(1,492)

continued



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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)

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Financing Activities</b>		
Distributions to Non-Controlling Interest Holders in Consolidated Entities	\$ (258,361)	\$ (197,563)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	419,332	186,147
Purchase of Interests from Certain Non-Controlling Interest Holders	(6)	(11)
Payments Under Tax Receivable Agreement	(80,565)	
Net Settlement of Vested Common Units and Repurchase of Common and Blackstone Holdings Partnership Units	(19,129)	(9,741)
Excess Tax Benefits Related to Equity-Based Compensation	16,513	
Proceeds from Loans Payable	2,206	479
Repayment and Repurchase of Loans Payable	(6,488)	(435)
Distributions to Unitholders	(708,862)	(561,515)
Blackstone Funds Related		
Proceeds from Loans Payable		1,844
Repayment of Loans Payable	(389,097)	(416,241)
Net Cash Used in Financing Activities	(1,024,457)	(997,036)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	4	(10)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(44,477)	105,764
Cash and Cash Equivalents, Beginning of Period	831,998	709,502
Cash and Cash Equivalents, End of Period	\$ 787,521	\$ 815,266
<b>Supplemental Disclosure of Cash Flows Information</b>		
Payments for Interest	\$ 49,282	\$ 53,785
Payments for Income Taxes	\$ 47,547	\$ 17,212
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities</b>		
Non-Cash Contributions from Non-Controlling Interest Holders	\$ 10,933	\$
Non-Cash Distributions to Non-Controlling Interest Holders	\$ (11,069)	\$
Net Activities Related to Capital Transactions of Consolidated Blackstone Funds	\$ 808	\$ 109
Net Assets Related to the Consolidation of CLO Vehicles	\$ 8,398	\$
Net Assets Related to the Consolidation of Certain Fund Entities	\$ 35,433	\$
In-kind Contribution of Capital	\$	\$ 2,323
Transfer of Interests to Non-Controlling Interest Holders	\$ (212)	\$ (207)

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Change in The Blackstone Group L.P.'s Ownership Interest	\$ (10,354)	\$ (9,748)
Net Settlement of Vested Common Units	\$ 22,325	\$ 9,981
Conversion of Blackstone Holdings Partnership Units to Common Units	\$ 45,050	\$ 1,902
Acquisition of Ownership Interests from Non-Controlling Interest Holders		
Deferred Tax Asset	\$ (46,023)	\$ (78,972)
Due to Affiliates	\$ 33,378	\$ 1,272
Partners' Capital	\$ 12,645	\$ 77,700

See notes to condensed consolidated financial statements.

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**Table of Contents**

**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements**

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

**1. ORGANIZATION**

The Blackstone Group L.P., together with its subsidiaries ( Blackstone or the Partnership ), is a leading global manager of private capital and provider of financial advisory services. The alternative asset management business includes the management of private equity funds, real estate funds, real estate investment trusts ( REITs ), funds of hedge funds, 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, 2013 filed with the Securities and Exchange Commission.

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

All intercompany balances and transactions have been eliminated in consolidation.

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



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**Table of Contents**

**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

**Consolidation**

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

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

- (a) The entity has all of the attributes of an investment company as defined in the American Institute of Certified Public Accountants Accounting and Auditing Guide, *Investment Companies* ( Investment Company Guide ), or does not have all the attributes of an investment company but it is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with the Investment Company Guide,
- (b) The reporting entity does not have explicit or implicit obligations to fund any losses of the entity that could potentially be significant to the entity, and
- (c) The entity is not a securitization or asset-backed financing entity or an entity that was formerly considered a qualifying special purpose entity.

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

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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)**

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

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

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

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

its entirety requires judgment and considers factors specific to the financial instrument.



**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)**

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

***Level II Valuation Techniques***

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

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

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

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

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

***Level III Valuation Techniques***

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

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



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

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

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

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

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

*Credit-Focused Liabilities* Credit-focused liabilities comprise senior and subordinate loans issued by Blackstone s consolidated CLO vehicles. Such liabilities are valued using a discounted cash flow method.

***Level III Valuation Process***

Investments classified within Level III of the fair value hierarchy are valued on a quarterly basis, taking into consideration any changes in Blackstone s weighted-average cost of capital assumptions, discounted cash flow projections and exit multiple assumptions, as well as any changes in economic and other relevant conditions, and valuation models are updated accordingly. The valuation process also includes a review by an independent valuation party, at least annually for all investments, and quarterly for certain investments, to corroborate the values determined by management. The valuations of Blackstone s investments are reviewed quarterly by a valuation

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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)**

committee which is chaired by Blackstone's Vice Chairman and includes senior heads of each of Blackstone's businesses, as well as representatives of legal and finance. Each quarter, the valuations of Blackstone's investments are also reviewed by the Audit Committee in a meeting attended by the chairman of the valuation committee. The valuations are further tested by comparison to actual sales prices obtained on disposition of the investments.

**Investments, at Fair Value**

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

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

For certain instruments, the Partnership has elected the fair value option. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. The Partnership has applied the fair value option for certain loans and receivables 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 on which the fair value option has been elected is based on stated coupon rates adjusted for the accretion of purchase discounts and the amortization of purchase premiums. This interest income is recorded within Interest and Dividend Revenue.

In addition, the Partnership has elected the fair value option for the assets and liabilities of CLO vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of variable interest entity consolidation guidance. The Partnership has also elected the fair value option for CLO vehicles consolidated as a result of the acquisitions of CLO management contracts or the acquisition of the share capital of CLO managers. The adjustment resulting from the difference between the fair value of assets and liabilities for each of these events is presented as a transition and acquisition adjustment to Appropriated Partners' Capital. The recognition of the initial difference between the fair value of assets and liabilities of CLO vehicles consolidated as a result of the acquisition of management contracts or CLO managers subsequent to the initial adoption of revised accounting guidance effective January 1, 2010, as an adjustment to Appropriated Partners' Capital, is currently under review by the Emerging Issues Task Force (EITF). Assets of the consolidated CLOs are presented within Investments within the Condensed Consolidated Statements of Financial Condition and Liabilities within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by non-consolidated affiliates. The methodology for measuring the fair value of such assets and liabilities is consistent with the methodology applied to

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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)**

private equity, real estate and credit-focused investments. Changes in the fair value of consolidated CLO assets and liabilities and related interest, dividend and other income subsequent to adoption and acquisition are presented within Net Gains (Losses) from Fund Investment Activities. Expenses of consolidated CLO vehicles are presented in Fund Expenses. Amounts attributable to Non-Controlling Interests in Consolidated Entities have a corresponding adjustment to Appropriated Partners' Capital.

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

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

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

**Equity Method Investments**

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

**Repurchase and Reverse 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 repurchase agreements and reverse repurchase agreements by, in appropriate circumstances, entering into master netting agreements and collateral arrangements with counterparties that provide the Partnership, in the event of a counterparty default, the right to liquidate collateral and the right to offset a counterparty's rights and obligations.

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

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

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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)**

**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.

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

For freestanding derivative contracts, the Partnership presents changes in fair value in current period earnings. Changes in the fair value of derivative instruments held by consolidated Blackstone Funds are reflected in Net Gains (Losses) from 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 and securities, 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.

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**Table of Contents**

**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

Blackstone'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 February 2013, the Financial Accounting Standards Board ( FASB ) issued guidance on the reporting of amounts reclassified out of accumulated other comprehensive income. The guidance did not change the requirement for reporting net income or other comprehensive income in financial statements. However, the amendments required an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes to the financial statements, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts.

The guidance was effective prospectively for periods beginning after December 15, 2012. Adoption had no impact on the Partnership's financial statements.

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

In January 2013, the FASB issued guidance to clarify the scope of disclosures about offsetting assets and liabilities. The amendments clarified that the scope of guidance issued in December 2011 to enhance disclosures around financial instruments and derivative instruments that are either (a) offset, or (b) subject to a master netting

**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)**

agreement or similar agreement, irrespective of whether they are offset, applies to derivatives, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. The amendments were effective for interim and annual periods beginning on or after January 1, 2013. Adoption did not have a material impact on the Partnership's financial statements.

In February 2013, the FASB issued guidance on the measurement of joint and several liability arrangements in which the total amount of the obligation is fixed at the reporting date. The guidance requires entities to measure obligations from joint and several liability arrangements for which the total amount of the obligation within the scope of the guidance is fixed at the reporting date as the sum of (a) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and (b) any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Adoption did not have a material impact on the Partnership's financial statements.

In March 2013, the FASB issued guidance on a parent entity's accounting for cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. When a parent entity ceases to have a controlling financial interest in a subsidiary or a group of assets that is a business within a foreign entity, any related portion of the total cumulative translation adjustment should be released into net income if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. For an equity method investment that is a foreign entity, partial sale guidance applies. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. For an equity method investment that is not a foreign entity, the cumulative translation adjustment is released into net income only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the equity method investment. Additionally, the guidance clarifies that the sale of an investment in a foreign entity includes both (a) events that result in the loss of a controlling financial interest in a foreign entity (that is, irrespective of any retained investment) and (b) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events. The guidance shall be applied on a prospective basis for fiscal years, and interim periods within those years, beginning after December 15, 2013. The guidance should be applied to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. Adoption did not have a material impact on the Partnership's financial statements.

In April 2013, the FASB issued guidance on when and how an entity should prepare its financial statements using the liquidation basis of accounting. The guidance requires an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. Financial statements prepared using the liquidation basis of accounting shall measure and present assets at the amount of the expected cash proceeds from liquidation. The presentation of assets shall include any items that had not previously been recognized under GAAP but that it expects to either sell in liquidation or use in settling liabilities. Liabilities shall be recognized and measured in accordance with GAAP that otherwise applies to those liabilities. The guidance requires an entity to accrue and separately present the costs that it expects to incur and the income that it expects to earn during the expected duration of the liquidation, including any costs associated with sale or settlement of those assets and liabilities. The guidance requires disclosures about an entity's plan for liquidation, the methods and significant assumptions used to measure assets and liabilities, the type and amount of costs and income accrued, and the expected duration of the



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

liquidation process. The guidance is effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013 and interim periods therein. The guidance should be applied prospectively. Adoption did not have a material impact on the Partnership's financial statements.

In June 2013, the FASB issued guidance to clarify the characteristics of an investment company and to provide guidance for assessing whether an entity is an investment company. Consistent with existing guidance for investment companies, all investments are to be measured at fair value including non-controlling ownership interests in other investment companies. There are no changes to the current requirements relating to the retention of specialized accounting in the consolidated financial statements of a non-investment company parent. The guidance is effective for interim and annual periods beginning after December 15, 2013 and early application is prohibited. Adoption did not have a material impact on the Partnership's financial statements.

**3. INTANGIBLE ASSETS**

Intangible Assets, Net consists of the following:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
Finite-Lived Intangible Assets/Contractual Rights	\$ 1,464,017	\$ 1,594,128
Accumulated Amortization	(929,527)	(1,033,380)
<b>Intangible Assets, Net</b>	<b>\$ 534,490</b>	<b>\$ 560,748</b>

Amortization expense associated with Blackstone's intangible assets was \$26.3 million for the three months ended March 31, 2014 and \$22.9 million for the three months ended March 31, 2013.

Amortization of Intangible Assets held at March 31, 2014 is expected to be \$102.3 million, \$95.8 million, \$85.6 million, \$46.5 million, and \$46.5 million for each of the years ending December 31, 2014, 2015, 2016, 2017 and 2018, respectively. Blackstone's intangible assets as of March 31, 2014 are expected to amortize over a weighted-average period of 7.3 years.

**4. INVESTMENTS**

Investments consists of the following:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
Investments of Consolidated Blackstone Funds	\$ 12,521,552	\$ 12,521,248
Equity Method Investments	3,291,797	3,309,879
Blackstone's Treasury Cash Management Strategies	996,806	1,104,800
Performance Fees	4,979,453	4,674,792
Other Investments	116,242	118,804

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\$ 21,905,850      \$ 21,729,523

Blackstone's share of Investments of Consolidated Blackstone Funds totaled \$758.8 million and \$487.8 million at March 31, 2014 and December 31, 2013, respectively.

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

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

**Investments of Consolidated Blackstone Funds**

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

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Realized Gains	\$ 13,713	\$ 67,788
Net Change in Unrealized Gains (Losses)	(27,214)	(42,495)
Realized and Net Change in Unrealized Gains (Losses) from Consolidated Blackstone Funds	(13,501)	25,293
Interest and Dividend Revenue Attributable to Consolidated Blackstone Funds	83,656	41,917
Other Income Net Gains from Fund Investment Activities	\$ 70,155	\$ 67,210

**Equity Method Investments**

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

Blackstone evaluates each of its equity method investments to determine if any were significant as defined by guidance from the United States Securities and Exchange Commission. As of and for the three months ended March 31, 2014 and 2013, 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.

The Partnership recognized net gains related to its equity method investments of \$97.2 million and \$107.9 million for the three months ended March 31, 2014 and 2013, respectively.

**Blackstone's Treasury Cash Management Strategies**

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

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Realized Gains	\$ 3,094	\$ 3,911
Net Change in Unrealized Gains (Losses)	8,970	(971)
	\$ 12,064	\$ 2,940



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

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

**Performance Fees**

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

	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
Performance Fees, December 31, 2013	\$ 971,860	\$ 3,268,606	\$ 9,468	\$ 424,858	\$ 4,674,792
Performance Fees Allocated as a Result of Changes in Fund Fair Values	286,726	335,470	23,259	74,214	719,669
Foreign Exchange Gain		454			454
Fund Distributions	(118,775)	(209,887)	(15,681)	(71,119)	(415,462)
Performance Fees, March 31, 2014	\$ 1,139,811	\$ 3,394,643	\$ 17,046	\$ 427,953	\$ 4,979,453

**Other Investments**

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

	Three Months Ended March 31,	
	2014	2013
Realized Gains (Losses)	\$ 6,307	\$ (648)
Net Change in Unrealized Gains (Losses)	(6,504)	5,204
	\$ (197)	\$ 4,556

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

A summary of fair value by strategy type alongside the remaining unfunded commitments and ability to redeem such investments as of March 31, 2014 is presented below:

Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Diversified Instruments	\$ 132,135	\$ 3,590	(a)	(a)
Credit Driven	201,711		(b)	(b)

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Event Driven	122,941	(c)	(c)
Equity	428,613	(d)	(d)
Commodities	58,260	(e)	(e)
Private Equity	72,337	(f)	(f)
	\$ 1,015,997	\$	3,590

- (a) Diversified Instruments include investments in funds that invest across multiple strategies. Investments representing 64% 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 28% of the fair value of the investments in this category represent investments in hedge funds that are in the process of liquidating. Distributions from these funds will be received as underlying investments are liquidated. The time at which this redemption restriction may lapse cannot be estimated. The remaining 8% of investments in this category are redeemable as of the reporting date. As of the reporting date, the investee fund manager had elected to side pocket 19% of Blackstone's investments in this category.

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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)**

- (b) The Credit Driven category includes investments in hedge funds that invest primarily in domestic and international bonds. Investments representing 83% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date. Investments representing 13% of the fair value of the investments in this category 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 at the discretion of the investee fund manager who may choose (but may not have exercised such ability) to side pocket such investments. As of the reporting date, the investee fund manager had not elected to side pocket any of Blackstone's investments in this category.
- (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 investments in this category. Distributions will be received as the underlying investments are liquidated.
- (e) The Commodities category includes investments in commodities-focused funds that primarily invest in futures and physical-based commodity driven strategies. Withdrawals are not permitted for investments representing 95% of the fair value of investments in this category. Distributions will be received as the underlying investments are liquidated. The remaining 5% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date.
- (f) The Private Equity category includes investments in private equity funds that primarily invest in private equity, revenue interests and other private investments. Withdrawals are not permitted for investments in this category.

**6. DERIVATIVE FINANCIAL INSTRUMENTS**

Blackstone and the Blackstone Funds enter into derivative contracts in the normal course of business to achieve certain risk management objectives and for general investment purposes. Additionally, Blackstone may enter into derivative contracts in order to hedge its interest rate risk exposure against the effects of interest rate changes. 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.

**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.

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

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

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

	March 31, 2014				December 31, 2013			
	Assets		Liabilities		Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
<b>Freestanding Derivatives</b>								
Blackstone Other Interest Rate Contracts	\$ 1,825,971	\$ 4,834	\$ 1,509,350	\$ 1,545	\$ 1,994,276	\$ 8,521	\$ 1,083,140	\$ 2,676
Foreign Currency Contracts	93,600	846	111,512	737	166,066	1,480	163,787	1,015
Total Return Swaps					326,929	342		
Credit Default Swaps			34,000	2,763			10,000	591
Investments of Consolidated Blackstone Funds								
Foreign Currency Contracts	324,312	24,919	163,567	12,197	396,569	30,830	239,037	10,018
Interest Rate Contracts	25,684	2,857			62,193	3,726		
Credit Default Swaps			113,119	7,912				
Total	\$ 2,269,567	\$ 33,456	\$ 1,931,548	\$ 25,154	\$ 2,946,033	\$ 44,899	\$ 1,495,964	\$ 14,300

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

	Three Months Ended March 31,	
	2014	2013
<b>Freestanding Derivatives</b>		
Realized Gains (Losses)		
Interest Rate Contracts	\$ (833)	\$ (526)
Foreign Currency Contracts	1,439	(1,236)
Credit Default Swaps	286	8
Total	\$ 892	\$ (1,754)
Net Change in Unrealized Gains (Losses)		
Interest Rate Contracts	\$ (2,542)	\$ (6,686)
Foreign Currency Contracts	(8,117)	7,379
Credit Default Swaps	1,813	(23)
Total	\$ (8,846)	\$ 670

As of March 31, 2014 and December 31, 2013, the Partnership had not designated any derivatives as cash flow hedges or hedges of net investments in foreign operations.





**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)

**7. FAIR VALUE OPTION**

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

	March 31, 2014	December 31, 2013
<b>Assets</b>		
Loans and Receivables	\$ 61,573	\$ 137,788
Equity and Preferred Securities	92,463	88,568
Assets of Consolidated CLO Vehicles		
Corporate Loans	7,914,869	8,466,889
Corporate Bonds	143,333	161,382
Other	29,820	41,061
	\$ 8,242,058	\$ 8,895,688
<b>Liabilities</b>		
Liabilities of Consolidated CLO Vehicles		
Senior Secured Notes	\$ 7,795,523	\$ 8,302,572
Subordinated Notes	619,188	610,435
	\$ 8,414,711	\$ 8,913,007

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

	Three Months Ended March 31,			
	2014		2013	
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
<b>Assets</b>				
Loans and Receivables	\$	\$	\$ 43	\$ (50)
Equity and Preferred Securities	(584)	5,118	(793)	3,150
Assets of Consolidated CLO Vehicles				
Corporate Loans	(38,242)	15,059	39,575	79,146
Corporate Bonds	1,098	252	2,882	(3,788)
Other	14,997	(3,118)	889	1,609
	\$ (22,731)	\$ 17,311	\$ 42,596	\$ 80,067
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles				
Senior Secured Notes	\$ (2,538)	\$ (55,874)	\$	\$ (227,911)

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Subordinated Notes

36,955

36,742

\$ (2,538)      \$ (18,919)      \$      \$ (191,169)

**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 information for those financial instruments for which the fair value option was elected:

	March 31, 2014		For Financial Assets Past Due (a)		For Financial Assets with Non-Accrual Status	
	Excess (Deficiency) of Fair Value Over Principal	Fair Value	Excess (Deficiency) of Fair Value Over Principal	Fair Value	Excess (Deficiency) of Fair Value Over Principal	Fair Value
Loans and Receivables	\$ (1,322)	\$	\$		\$	\$ (1,703)
Assets of Consolidated CLO Vehicles						
Corporate Loans	(198,893)	25,269	(69,176)			
Corporate Bonds	(325)					
	\$ (200,540)	\$ 25,269	\$ (69,176)	\$	\$	\$ (1,703)

	December 31, 2013		For Financial Assets Past Due (a)		For Financial Assets with Non-Accrual Status	
	Excess (Deficiency) of Fair Value Over Principal	Fair Value	Excess (Deficiency) of Fair Value Over Principal	Fair Value	Excess (Deficiency) of Fair Value Over Principal	Fair Value
Loans and Receivables	\$ (533)	\$	\$		\$	\$
Assets of Consolidated CLO Vehicles						
Corporate Loans	(281,254)	57,837	(176,379)			
Corporate Bonds	(1,789)					
	\$ (283,576)	\$ 57,837	\$ (176,379)	\$	\$	\$

(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, 2013, no Loans and Receivables for which the fair value option was elected were past due or in non-accrual status. As of March 31, 2014 and December 31, 2013, no Corporate Bonds included within the Assets of Consolidated CLO Vehicles for which the fair value option was elected were past due or in non-accrual status.

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

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

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

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

	March 31, 2014			
	Level I	Level II	Level III	Total
<b>Assets</b>				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	\$	\$	\$ 970,477	\$ 970,477
Equity Securities	74,543	106,643	207,217	388,403
Partnership and LLC Interests		163,401	1,283,903	1,447,304
Debt Instruments	2,708	1,442,482	154,380	1,599,570
Assets of Consolidated CLO Vehicles				
Corporate Loans		7,147,823	767,046	7,914,869
Corporate Bonds		143,333		143,333
Freestanding Derivatives - Foreign Currency Contracts		24,919		24,919
Freestanding Derivatives - Interest Rate Contracts		2,857		2,857
Other	21		29,799	29,820
<b>Total Investments of Consolidated Blackstone Funds</b>	<b>77,272</b>	<b>9,031,458</b>	<b>3,412,822</b>	<b>12,521,552</b>
Blackstone's Treasury Cash Management Strategies	90,586	857,359	48,861	996,806
Money Market Funds	196,428			196,428
Freestanding Derivatives				
Interest Rate Contracts	4,049	785		4,834
Foreign Currency Contracts		846		846
Loans and Receivables			61,573	61,573
Other Investments	20,873	7,319	88,050	116,242
	\$ 389,208	\$ 9,897,767	\$ 3,611,306	\$ 13,898,281
<b>Liabilities</b>				
Liabilities of Consolidated Blackstone Funds (a)				
Freestanding Derivatives - Credit Default Swaps	\$	\$ 7,912	\$	\$ 7,912
Liabilities of Consolidated CLO Vehicles				
Senior Secured Notes			7,795,523	7,795,523
Subordinated Notes			619,188	619,188
Freestanding Derivatives - Foreign Currency Contracts		12,197		12,197
<b>Total Liabilities of Consolidated Blackstone Funds</b>		<b>20,109</b>	<b>8,414,711</b>	<b>8,434,820</b>
Freestanding Derivatives				
Interest Rate Contracts	1,502	43		1,545
Foreign Currency Contracts		737		737
Credit Default Swaps		2,763		2,763
Securities Sold, Not Yet Purchased		296,434		296,434
	\$ 1,502	\$ 320,086	\$ 8,414,711	\$ 8,736,299



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

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

	December 31, 2013			
	Level I	Level II	Level III	Total
<b>Assets</b>				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	\$	\$	\$ 897,843	\$ 897,843
Equity Securities	51,147	130,816	193,699	375,662
Partnership and LLC Interests		88,555	1,254,903	1,343,458
Debt Instruments		1,154,902	45,495	1,200,397
Assets of Consolidated CLO Vehicles				
Corporate Loans		7,537,661	929,228	8,466,889
Corporate Bonds		161,382		161,382
Freestanding Derivatives Foreign Currency Contracts		30,830		30,830
Freestanding Derivatives Interest Rate Contracts		3,726		3,726
Other	3,477		37,584	41,061
<b>Total Investments of Consolidated Blackstone Funds</b>	<b>54,624</b>	<b>9,107,872</b>	<b>3,358,752</b>	<b>12,521,248</b>
Blackstone's Treasury Cash Management Strategies	19,629	1,041,039	44,132	1,104,800
Money Market Funds	173,781			173,781
Freestanding Derivatives				
Interest Rate Contracts	7,423	1,098		8,521
Foreign Currency Contracts		1,480		1,480
Total Return Swaps		342		342
Loans and Receivables			137,788	137,788
Other Investments	87,068	17,270	14,466	118,804
	\$ 342,525	\$ 10,169,101	\$ 3,555,138	\$ 14,066,764
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes	\$	\$	\$ 8,302,572	\$ 8,302,572
Subordinated Notes			610,435	610,435
Freestanding Derivatives Foreign Currency Contracts			10,018	10,018
Freestanding Derivatives				
Interest Rate Contracts	2,484	192		2,676
Foreign Currency Contracts		1,015		1,015
Credit Default Swaps		591		591
Securities Sold, Not Yet Purchased		76,195		76,195
	\$ 2,484	\$ 88,011	\$ 8,913,007	\$ 9,003,502

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





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

The following table summarizes the fair value transfers between Level I and Level II for positions that existed as of March 31, 2014 and 2013, respectively:

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Transfers from Level I into Level II (a)	\$	\$ 75,134
Transfers from Level II into Level I (b)	\$ 18,029	\$

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

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

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

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

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted-Average (a)
<b>Financial Assets</b>					
Investments of Consolidated Blackstone Funds					
Investment Funds	\$ 970,477	NAV as Fair Value	N/A	N/A	N/A
Equity Securities	119,884	Discounted Cash Flows	Discount Rate	8.4% - 26.1%	12.4%
			Revenue CAGR	-0.2% - 33.9%	6.5%
			Exit Multiple - EBITDA	5.0x - 14.0x	9.0x
			Exit Multiple - P/E	8.5x - 17.0x	9.8x
	80,370	Transaction Price	N/A	N/A	N/A
	248	Market Comparable Companies	EBITDA Multiple	6.5x - 7.8x	7.1x
	572	Third Party Pricing	N/A	N/A	N/A
	6,143	Other	N/A	N/A	N/A
Partnership and LLC Interests	591,893	Discounted Cash Flows	Discount Rate	4.0% - 20.0%	9.0%
			Revenue CAGR	-0.8% - 34.3%	6.3%
			Exit Multiple - EBITDA	0.1x - 23.3x	9.4x
			Exit Capitalization Rate	4.3% - 10.5%	7.0%
	677,538	Transaction Price	N/A	N/A	N/A
	9,335	Third Party Pricing	N/A	N/A	N/A
	5,137	Other	N/A	N/A	N/A
Debt Instruments	12,220	Discounted Cash Flows	Discount Rate	9.8% - 21.0%	19.2%
			Revenue CAGR	0.1% - 8.0%	4.5%
			Exit Multiple - EBITDA	4.0x - 11.1x	10.4x
			Exit Capitalization Rate	6.4% - 8.4%	6.5%
			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
	141,425	Third Party Pricing	N/A	N/A	N/A
	537	Transaction Price	N/A	N/A	N/A
	198	Market Comparable Companies	EBITDA Multiple	5.9x - 8.0x	5.9x
Assets of Consolidated CLO Vehicles	491,051	Third Party Pricing	N/A	N/A	N/A
	252,990	Market Comparable Companies	EBITDA Multiple	3.5x - 15.0x	7.1x
	46,724	Discounted Cash Flows	Discount Rate	7.0% - 8.5%	7.6%
	6,080	Transaction Price	N/A	N/A	N/A
Total Investments of Consolidated Blackstone Funds	3,412,822				

**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)

	<b>Fair Value</b>	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Ranges</b>	<b>Weighted- Average (a)</b>
Blackstone's Treasury Cash Management Strategies	\$ 17,070	Discounted Cash Flows	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
			Discount Rate	5.7% - 7.7%	6.2%
	21,124	Third Party Pricing	N/A	N/A	N/A
	623	Transaction Price	N/A	N/A	N/A
	10,044	NAV as Fair Value	N/A	N/A	N/A
Loans and Receivables	61,573	Discounted Cash Flows	Discount Rate	11.6% - 14.0%	12.7%
Other Investments	11,932	Transaction Price	N/A	N/A	N/A
	72,776	Discounted Cash Flows	Discount Rate	1.5% - 12.5%	3.3%
			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
	3,342	NAV as Fair Value	N/A	N/A	N/A
Total	\$ 3,611,306				
<b>Financial Liabilities</b>					
Liabilities of Consolidated CLO Vehicles	\$ 8,414,711	Discounted Cash Flows	Default Rate	2.0% - 3.0%	2.2%
			Recovery Rate	70.0%	N/A
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Discount Rate	0.4% - 24.2%	2.5%
			Reinvestment Rate	LIBOR + 400 bps	N/A

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

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

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of December 31, 2013:

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted-Average (a)
<b>Financial Assets</b>					
Investments of Consolidated Blackstone Funds					
Investment Funds	\$ 897,843	NAV as Fair Value	N/A	N/A	N/A
Equity Securities	112,117	Discounted Cash Flows	Discount Rate	9.2% - 26.3%	12.4%
			Revenue	0.9% - 46.2%	6.8%
			CAGR		
			Exit Multiple - EBITDA	5.0x - 14.0x	8.9x
			Exit Multiple - P/E	8.5x - 17.0x	9.8x
	78,154	Transaction Price	N/A	N/A	N/A
	275	Market Comparable Companies	EBITDA Multiple	6.3x - 7.5x	6.9x
	50	Third Party Pricing	N/A	N/A	N/A
	3,103	Other	N/A	N/A	N/A
Partnership and LLC Interests	557,534	Discounted Cash Flows	Discount Rate	5.0% - 22.5%	9.0%
			Revenue	-0.7% - 17.7%	5.5%
			CAGR		
			Exit Multiple - EBITDA	3.0x - 23.3x	9.4x
			Exit Capitalization Rate	4.3% - 10.5%	7.0%
	687,246	Transaction Price	N/A	N/A	N/A
	9,181	Third Party Pricing	N/A	N/A	N/A
	942	Other	N/A	N/A	N/A
Debt Instruments	11,814	Discounted Cash Flows	Discount Rate	10.7% - 21.0%	19.2%
			Revenue	4.8% - 5.5%	4.8%
			CAGR		
			Exit Multiple - EBITDA	5.8x - 11.1x	10.8x
			Exit Capitalization Rate	6.4% - 7.5%	6.7%
			Default Rate	2.0%	N/A
			Recovery Rate	67.0%	N/A
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
	31,675	Third Party Pricing	N/A	N/A	N/A
	1,772	Transaction Price	N/A	N/A	N/A
	234	Market Comparable Companies	EBITDA Multiple	6.2x - 8.0x	6.2x

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Assets of Consolidated CLO Vehicles	615,414	Third Party Pricing	N/A	N/A	N/A
	293,382	Market Comparable Companies	EBITDA Multiple	3.5x - 11.3x	7.3x
	57,936	Discounted Cash Flows	Discount Rate	7.0% - 14.0%	7.8%
			Revenue	4.2%	N/A
			CAGR		
			Exit Multiple - EBITDA	8.0x	N/A
	80	Transaction Price	N/A	N/A	N/A
 Total Investments of Consolidated Blackstone Funds	 3,358,752				

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

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

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted-Average (a)
Blackstone's Treasury Cash Management Strategies	\$ 17,040	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
			Reinvestment Rate	LIBOR + 400 bps	N/A
			Discount Rate	6.0% - 8.6%	6.6%
	16,993	Third Party Pricing	N/A	N/A	N/A
	10,099	NAV as Fair Value	N/A	N/A	N/A
Loans and Receivables	137,788	Discounted Cash Flows	Discount Rate	11.0% - 14.8%	12.6%
Other Investments	7,927	Transaction Price	N/A	N/A	N/A
	3,725	NAV as Fair Value	N/A	N/A	N/A
	2,814	Discounted Cash Flows	Discount Rate	12.5%	N/A
Total	\$ 3,555,138				
<b>Financial Liabilities</b>					
Liabilities of Consolidated CLO Vehicles	\$ 8,913,007	Discounted Cash Flows	Default Rate	2.0% - 3.0%	2.1%
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	5.0% - 20.0%	18.0%
			Discount Rate	0.4% - 24.2%	2.6%
			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 assets, Blackstone's Treasury Cash Management Strategies, debt instruments and obligations of consolidated CLO vehicles are discount rates, default rates, recovery rates, recovery lag, pre-payment rates and reinvestment rates. Increases (decreases) in any of the discount rates, default rates, recovery lag and pre-payment rates in isolation would result in a lower (higher) fair value measurement. Increases (decreases) in any of the recovery rates and reinvestment rates in isolation would result in a higher (lower) fair value measurement. Generally, a change in the assumption used for default rates may be accompanied by a directionally similar change in the assumption used for recovery lag and a directionally opposite change in the assumption used for recovery rates and pre-payment rates.

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

Since December 31, 2013, 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.



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

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

The following tables summarize the changes in financial assets and liabilities measured at fair value for which the Partnership has used Level III inputs to determine fair value and does not include gains or losses that were reported in Level III in prior years or for instruments that were transferred out of Level III prior to the end of the 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							
	2014				2013			
	Investments of Consolidated Funds	Loans and Receivables	Other Investments (c)	Total	Investments of Consolidated Funds	Loans and Receivables	Other Investments (c)	Total
Balance, Beginning of Period	\$ 3,358,752	\$ 137,788	\$ 58,598	\$ 3,555,138	\$ 3,017,699	\$ 30,663	\$ 28,104	\$ 3,076,466
Transfer In Due to Consolidation and Acquisition (a)	276,806			276,806				
Transfer In (Out) Due to Deconsolidation	(83,867)			(83,867)	(98,559)		11,960	(86,599)
Transfer In to Level III (b)	195,607		3,679	199,286	207,476			207,476
Transfer Out of Level III (b)	(244,308)		(1,009)	(245,317)	(322,764)			(322,764)
Purchases	159,613	81,241	77,637	318,491	172,968	2,873	62,774	238,615
Sales	(290,782)	(156,719)	(4,067)	(451,568)	(129,725)	(29,462)	(39,462)	(198,649)
Settlements		(1,170)	(155)	(1,325)		(332)	(1,559)	(1,891)
Realized Gains, Net	17,015		102	17,117	8,042	43	849	8,934
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	23,986	433	2,126	26,545	82,160	82	383	82,625
Balance, End of Period	\$ 3,412,822	\$ 61,573	\$ 136,911	\$ 3,611,306	\$ 2,937,297	\$ 3,867	\$ 63,049	\$ 3,004,213

	Level III Financial Liabilities at Fair Value						
	2014			2013			
	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total	Total
Balance, Beginning of Period	\$ 8,302,572	\$ 610,435	\$ 8,913,007	\$ 10,695,136	\$ 846,471	\$ 11,541,607	
Transfer In Due to Consolidation and Acquisition (a)	472,019	86,182	558,201				
Transfer Out Due to Deconsolidation	(639,091)	(39,798)	(678,889)	(757,450)	(83,296)	(840,746)	
Issuances				1,063	781	1,844	



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Settlements	(388,987)	(110)	(389,097)	(404,392)	(349)	(404,741)
Realized Losses, Net	2,538		2,538			
Changes in Unrealized (Gains) Losses Included in Earnings Related to Liabilities Still Held at the Reporting Date	46,472	(37,521)	8,951	100,390	(43,055)	57,335
Balance, End of Period	\$ 7,795,523	\$ 619,188	\$ 8,414,711	\$ 9,634,747	\$ 720,552	\$ 10,355,299

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

**9. VARIABLE INTEREST ENTITIES**

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

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

The Partnership holds variable interests in certain VIEs which are not consolidated as it is determined that the Partnership is not the primary beneficiary. The Partnership's involvement with such entities is in the form of direct equity interests and fee arrangements. The maximum exposure to loss represents the loss of assets recognized by Blackstone relating to non-consolidated entities, any amounts due to 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>March 31, 2014</b>	<b>December 31, 2013</b>
Investments	\$ 901,243	\$ 758,304
Accounts Receivable	78,013	166,908
Due from Affiliates	35,483	86,246
Total VIE Assets	1,014,739	1,011,458
Due to Affiliates	172	397
Accounts Payable, Accrued Expenses and Other Liabilities		2
Potential Clawback Obligation	63,392	63,290
Maximum Exposure to Loss	\$ 1,078,303	\$ 1,075,147

**10. REVERSE REPURCHASE AND REPURCHASE AGREEMENTS**

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At March 31, 2014, 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 \$162.5 million and cash as collateral for reverse repurchase agreements that could be repledged, delivered or otherwise used. Securities with a fair value of

**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)**

\$162.5 million were used to cover Securities Sold, Not Yet Purchased. The Partnership also pledged securities with a carrying value of \$239.2 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

At December 31, 2013, 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 \$148.4 million and cash as collateral for reverse repurchase agreements that could be repledged, delivered or otherwise used. Securities with a fair value of \$148.4 million were used to cover Securities Sold, Not Yet Purchased and Repurchase Agreements. The Partnership also pledged securities with a carrying value of \$316.6 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

**11. OFFSETTING OF ASSETS AND LIABILITIES**

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

	Gross and Net Amounts of Assets Presented in the Statement of		Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
	Financial Condition	Financial Instruments	Cash Collateral Received		
<b>Assets</b>					
Freestanding Derivatives	\$ 5,680	\$ 1,983	\$ 478		\$ 3,219
Reverse Repurchase Agreements	162,708	162,513			195
Total	\$ 168,388	\$ 164,496	\$ 478		\$ 3,414

	Gross and Net Amounts of Liabilities Presented in the Statement of		Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
	Financial Condition	Financial Instruments	Cash Collateral Pledged		
<b>Liabilities</b>					
Freestanding Derivatives	\$ 12,957	\$ 1,983	\$ 10,739		\$ 235
Repurchase Agreements	216,861	216,252	609		
Total	\$ 229,818	\$ 218,235	\$ 11,348		\$ 235

The following tables present the offsetting of assets and liabilities as of December 31, 2013:

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	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>				
Freestanding Derivatives	\$ 10,343	\$ 3,025	\$ 582	\$ 6,736
Reverse Repurchase Agreements	148,984	148,394		590
Total	\$ 159,327	\$ 151,419	\$ 582	\$ 7,326

**Table of Contents**

**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

	Gross and Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		
		Financial Instruments	Cash Collateral Pledged	Net Amount
<b>Liabilities</b>				
Freestanding Derivatives	\$ 4,282	\$ 3,025	\$ 1,257	\$
Repurchase Agreements	316,352	316,352		
Total	\$ 320,634	\$ 319,377	\$ 1,257	\$

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:

	March 31, 2014	December 31, 2013
Furniture, Equipment and Leasehold Improvements, Net	\$ 131,715	\$ 137,088
Prepaid Expenses	145,098	61,226
Other Assets	65,882	75,815
Freestanding Derivatives	5,680	10,343
	\$ 348,375	\$ 284,472

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.

**12. BORROWINGS**

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

	March 31, 2014		December 31, 2013	
	Carrying Value	Fair Value (a)	Carrying Value	Fair Value (a)
Blackstone Issued 6.625%, \$600 Million Par, Notes Due 8/15/2019 (b)	\$ 630,914	\$ 686,673	\$ 632,823	\$ 684,860
Blackstone Issued 5.875%, \$400 Million Par, Notes Due 3/15/2021	\$ 398,584	\$ 457,240	\$ 398,543	\$ 447,120
Blackstone Issued 4.750%, \$400 Million Par, Notes Due 2/15/2023	\$ 393,350	\$ 425,760	\$ 393,202	\$ 415,760
Blackstone Issued 6.250%, \$250 Million Par, Notes Due 8/15/2042	\$ 239,768	\$ 300,475	\$ 239,738	\$ 278,550

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- (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.

**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)

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

	March 31, 2014			December 31, 2013		
	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	\$ 8,104,418	1.05%	3.9	\$ 8,605,553	1.09%	4.1
Subordinated Notes	1,159,366	(a)	N/A	1,221,068	(a)	N/A
	\$ 9,263,784			\$ 9,826,621		

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

Senior Secured Notes and Subordinated Notes comprise the following amounts:

	March 31, 2014				December 31, 2013	
	Amounts Due to Non-Consolidated Affiliates					
	Fair Value	Borrowing Outstanding	Fair Value	Fair Value	Borrowing Outstanding	Fair Value
Senior Secured Notes	\$ 7,795,523	\$ 14,500	\$ 13,730	\$ 8,302,572	\$ 14,500	\$ 13,732
Subordinated Notes	\$ 619,188	\$ 183,742	\$ 85,086	\$ 610,435	\$ 224,444	\$ 110,197

The Loans Payable of the consolidated CLO vehicles are collateralized by assets held by each respective CLO vehicle and assets of one vehicle may not be used to satisfy the liabilities of another. As of March 31, 2014 and December 31, 2013, the fair value of the consolidated CLO assets was \$9.3 billion and \$9.5 billion, respectively. This collateral consisted of Cash, Corporate Loans, Corporate Bonds and other securities.

Scheduled principal payments for borrowings as of March 31, 2014 were as follows:

	Operating Borrowings	Blackstone Fund Facilities/CLO Vehicles	Total Borrowings
2014	\$	\$ 3,762	\$ 3,762
2015		5,030	5,030
2016		350,000	350,000
2017		240,000	240,000



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After 2018	1,635,000	8,673,784	10,308,784
Total	\$ 1,635,000	\$ 9,272,576	\$ 10,907,576

### 13. INCOME TAXES

Blackstone's effective tax rate was 7.6% and 10.7% for the three months ended March 31, 2014 and 2013, respectively. Blackstone's income tax provision was \$54.1 million and \$51.0 million for the three months ended March 31, 2014 and 2013, respectively.

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

Blackstone's effective tax rate for the three months ended March 31, 2014 and 2013 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.

**14. NET INCOME PER COMMON UNIT**

Basic and diluted net income per common unit for the three months ended March 31, 2014 and March 31, 2013 was calculated as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Net Income Attributable to The Blackstone Group L.P.	\$ 265,617	\$ 167,635
<b>Basic Net Income Per Common Unit</b>		
Weighted-Average Common Units Outstanding	601,527,299	582,322,183
Basic Net Income Per Common Unit	\$ 0.44	\$ 0.29
<b>Diluted Net Income Per Common Unit</b>		
Weighted-Average Common Units Outstanding	601,527,299	582,322,183
Weighted-Average Unvested Deferred Restricted Common Units	4,141,865	3,377,716
Weighted-Average Diluted Common Units Outstanding	605,669,164	585,699,899
Diluted Net Income Per Common Unit	\$ 0.44	\$ 0.29

The following table summarizes the anti-dilutive securities for the three months ended March 31, 2014 and 2013:

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Weighted-Average Blackstone Holdings Partnership Units	549,327,240	557,463,170
<b>Unit Repurchase Program</b>		

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

During the three months ended March 31, 2014, no units were repurchased. As of March 31, 2014, the amount remaining available for repurchases under this program was \$335.8 million.

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During the three months ended March 31, 2013, no units were repurchased.

**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)

**15. EQUITY-BASED COMPENSATION**

The Partnership has granted equity-based compensation awards to Blackstone's senior managing directors, non-partner professionals, non-professionals and selected external advisers under the Partnership's 2007 Equity Incentive Plan (the Equity Plan), the majority of which to 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, 2014, the Partnership had the ability to grant 164,224,426 units under the Equity Plan.

For the three months ended March 31, 2014 and March 31, 2013, the Partnership recorded compensation expense of \$194.6 million and \$195.3 million, respectively, in relation to its equity-based awards with corresponding tax benefits of \$7.2 million and \$5.5 million, respectively. As of March 31, 2014, 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 1.7 years.

Total vested and unvested outstanding units, including Blackstone common units, Blackstone Holdings Partnership Units and deferred restricted common units, were 1,154,116,384 as of March 31, 2014. Total outstanding unvested phantom units were 146,294 as of March 31, 2014.

A summary of the status of the Partnership's unvested equity-based awards as of March 31, 2014 and of changes during the period January 1, 2014 through March 31, 2014 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, 2013	48,057,816	\$ 26.64	20,004,139	\$ 15.57	147,169	\$ 12.00
Granted	555,917	31.48	760,880	26.72	461	28.05
Vested	(1,644,757)	19.23	(1,539,627)	14.50	(766)	33.46
Forfeited	(65,425)	23.63	(198,821)	13.18	(570)	33.41
Balance, March 31, 2014	46,903,551	\$ 26.96	19,026,571	\$ 16.13	146,294	\$ 11.95

**Units Expected to Vest**

The following unvested units, after expected forfeitures, as of March 31, 2014, are expected to vest:

	Units	Weighted-Average Service Period in Years
Blackstone Holdings Partnership Units	43,437,445	1.7
Deferred Restricted Blackstone Common Units	16,159,235	2.3

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Total Equity-Based Awards	59,596,680	1.8
Phantom Units	147,319	0.03

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

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

**Equity-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 \$68.4 million.

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

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

	March 31, 2014	December 31, 2013
<b>Due from Affiliates</b>		
Accrual for Potential Clawback of Previously Distributed Carried Interest	\$ 1,417	\$ 1,561
Primarily Interest Bearing Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees for Investments in Blackstone Funds	198,044	151,493
Amounts Due from Portfolio Companies and Funds	236,638	307,926
Investments Redeemed in Non-Consolidated Funds of Hedge Funds	44,479	259,787
Management and Performance Fees Due from Non-Consolidated Funds	308,508	325,389
Payments Made on Behalf of Non-Consolidated Entities	151,853	133,790
Advances Made to Certain Non-Controlling Interest Holders and Blackstone Employees	15,510	12,098
	\$ 956,449	\$ 1,192,044

	March 31, 2014	December 31, 2013
<b>Due to Affiliates</b>		
Due to Certain Non-Controlling Interest Holders in Connection with the Tax Receivable Agreements	\$ 1,188,917	\$ 1,235,168
Accrual for Potential Repayment of Previously Received Performance Fees	4,130	4,270
Due to Note Holders of Consolidated CLO Vehicles	98,815	123,929
Distributions Received on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees	16,603	11,293
Payable to Affiliates for Consolidated Funds	24,905	29,803
Distributions Received on Behalf of Blackstone Entities	20,942	22,815
Payments Made by Non-Consolidated Entities	11,740	9,581
	\$ 1,366,052	\$ 1,436,859

**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 March 31, 2014 and December 31, 2013, such investments aggregated \$1.0 billion and \$1.0 billion, respectively. Their share of the Net

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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)**

Income Attributable to Redeemable Non-Controlling and Non-Controlling Interests in Consolidated Entities aggregated \$44.9 million and \$50.5 million for the three months ended March 31, 2014 and 2013, respectively.

**Revenues Earned from Affiliates**

Management and Advisory Fees, Net earned from affiliates totaled \$74.0 million and \$39.4 million for the three months ended March 31, 2014 and 2013, 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 \$0.1 million and \$1.0 million for the three months ended March 31, 2014 and 2013, respectively.

**Contingent Repayment Guarantee**

Blackstone and its personnel who have received Carried Interest distributions have guaranteed payment on a several basis (subject to a cap) to the Carry Funds of any clawback obligation with respect to the excess Carried Interest allocated to the general partners of such funds and indirectly received thereby to the extent that either Blackstone or its personnel fails to fulfill its clawback obligation, if any. The Accrual for Potential Repayment of Previously Received Performance Fees represents amounts previously paid to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Carry Funds were to be liquidated based on the fair value of their underlying investments as of March 31, 2014. 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, Mr. Schwarzman and his family have made use of an aircraft in which Blackstone owns a fractional interest, as well as other assets of Blackstone. Mr. Schwarzman is charged for his and his family's personal use of Blackstone assets based on market rates and usage. Personal use of Blackstone resources is also reimbursed to Blackstone at market rates.

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

**Tax Receivable Agreements**

Blackstone used a portion of the proceeds from the IPO and the sale of non-voting common units to Beijing Wonderful Investments to purchase interests in the predecessor businesses from the predecessor owners. In addition,





**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)**

holders of Blackstone Holdings Partnership Units may exchange their Blackstone Holdings Partnership Units for Blackstone common units on a one-for-one basis. The purchase and subsequent exchanges are expected to result in increases in the tax basis of the tangible and intangible assets of Blackstone Holdings and therefore reduce the amount of tax that Blackstone's wholly owned subsidiaries would otherwise be required to pay in the future.

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

Assuming no material changes in the relevant tax law and that the corporate taxpayers earn sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, the expected future payments under the tax receivable agreements (which are taxable to the recipients) will aggregate \$1.2 billion over the next 15 years. The after-tax net present value of these estimated payments totals \$365.6 million assuming a 15% discount rate and using Blackstone's most recent projections relating to the estimated timing of the benefit to be received. Future payments under the tax receivable agreements in respect of subsequent exchanges would be in addition to these amounts. The payments under the tax receivable agreements are not conditioned upon continued ownership of Blackstone equity interests by the pre-IPO owners and the others mentioned above.

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

**Other**

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

**17. COMMITMENTS AND CONTINGENCIES**

**Commitments**

*Investment Commitments*

Blackstone had \$1.4 billion of investment commitments as of March 31, 2014 representing general partner capital funding commitments to the Blackstone Funds, limited partner capital funding to other funds and Blackstone principal investment commitments. The consolidated Blackstone Funds had signed investment commitments of \$36.1 million as of March 31, 2014 which includes \$20.9 million of signed investment commitments for portfolio company acquisitions in the process of closing.



**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)****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 \$5.4 million as of March 31, 2014.

On March 28, 2012, the Blackstone Holdings Partnerships entered into a guaranty agreement with a lending institution in which the Holdings Partnerships guarantee certain loans held by employees for investment in Blackstone Funds. The amount guaranteed as of March 31, 2014 was \$57.9 million.

*Litigation*

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

*Contingent Obligations (Clawback)*

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

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

The following table presents the clawback obligations by segment:

Segment	March 31, 2014			December 31, 2013		
	Blackstone Holdings	Current and Former Personnel	Total	Blackstone Holdings	Current and Former Personnel	Total
Private Equity	\$	\$	\$	\$ (5)	\$ 151	\$ 146
Real Estate	1,502	523	2,025	1,501	518	2,019
Credit	1,211	894	2,105	1,213	892	2,105
Total	\$ 2,713	\$ 1,417	\$ 4,130	\$ 2,709	\$ 1,561	\$ 4,270

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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

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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)**

Financial Statements of the Partnership, except to the extent a portion of the assets held in the segregated accounts may be allocated to a consolidated Blackstone fund of hedge funds. At March 31, 2014, \$434.7 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 debt and public market strategies. GSO's products include senior credit-focused funds, distressed debt funds, mezzanine funds, general credit-focused funds, registered investment companies, separately managed accounts and CLO vehicles.

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

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

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

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

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

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

The following table presents the financial data for Blackstone's five segments as of and for the three months ended March 31, 2014 and 2013:

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



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Total Compensation and Benefits	131,930	190,417	60,603	99,167	61,682	543,799
Other Operating Expenses	33,006	33,107	19,480	32,839	21,342	139,774
<b>Total Expenses</b>	<b>164,936</b>	<b>223,524</b>	<b>80,083</b>	<b>132,006</b>	<b>83,024</b>	<b>683,573</b>
Economic Income (Loss)	\$ 319,246	\$ 320,921	\$ 113,903	\$ 81,020	\$ (9,844)	\$ 825,246
<b>Segment Assets</b>	<b>\$ 4,707,694</b>	<b>\$ 7,449,271</b>	<b>\$ 1,280,344</b>	<b>\$ 2,337,262</b>	<b>\$ 683,770</b>	<b>\$ 16,458,341</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)

	Three Months Ended March 31, 2013					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$ 86,246	\$ 138,346	\$ 92,791	\$ 91,364	\$	\$ 408,747
Advisory Fees					67,020	67,020
Transaction and Other Fees, Net	24,453	9,140	4	4,374	3	37,974
Management Fee Offsets	(480)	(7,286)	(324)	(1,572)		(9,662)
<b>Total Management and Advisory Fees, Net</b>	<b>110,219</b>	<b>140,200</b>	<b>92,471</b>	<b>94,166</b>	<b>67,023</b>	<b>504,079</b>
<b>Performance Fees</b>						
<b>Realized</b>						
Carried Interest	139,892	68,773		85,505		294,170
Incentive Fees		3,092	13,709	7,926		24,727
<b>Unrealized</b>						
Carried Interest	(83,954)	280,076		(18,775)		177,347
Incentive Fees		2,400	55,501	49,854		107,755
<b>Total Performance Fees</b>	<b>55,938</b>	<b>354,341</b>	<b>69,210</b>	<b>124,510</b>		<b>603,999</b>
<b>Investment Income (Loss)</b>						
<b>Realized</b>						
Realized	24,162	9,534	852	3,328	234	38,110
<b>Unrealized</b>						
Unrealized	31,711	60,303	3,913	1,093	(359)	96,661
<b>Total Investment Income (Loss)</b>	<b>55,873</b>	<b>69,837</b>	<b>4,765</b>	<b>4,421</b>	<b>(125)</b>	<b>134,771</b>
Interest and Dividend Revenue	2,984	4,298	1,216	4,547	1,616	14,661
Other	424	(133)	85	1,828	(61)	2,143
<b>Total Revenues</b>	<b>225,438</b>	<b>568,543</b>	<b>167,747</b>	<b>229,472</b>	<b>68,453</b>	<b>1,259,653</b>
<b>Expenses</b>						
<b>Compensation and Benefits</b>						
Compensation	60,203	69,459	33,868	45,521	57,926	266,977
<b>Performance Fee Compensation</b>						
<b>Realized</b>						
Carried Interest	16,246	25,863		47,328		89,437
Incentive Fees		1,724	5,022	3,762		10,508
<b>Unrealized</b>						
Carried Interest	16,619	89,057		(10,204)		95,472
Incentive Fees		1,034	19,836	23,608		44,478
<b>Total Compensation and Benefits</b>	<b>93,068</b>	<b>187,137</b>	<b>58,726</b>	<b>110,015</b>	<b>57,926</b>	<b>506,872</b>
Other Operating Expenses	29,168	28,462	15,159	20,962	20,693	114,444
<b>Total Expenses</b>	<b>122,236</b>	<b>215,599</b>	<b>73,885</b>	<b>130,977</b>	<b>78,619</b>	<b>621,316</b>

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Economic Income (Loss)	\$ 103,202	\$ 352,944	\$ 93,862	\$ 98,495	\$ (10,166)	\$ 638,337
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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 and Total Assets as of and for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31, 2014			Three Months Ended March 31, 2013		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	\$ 1,508,819	\$ 17,849(a)	\$ 1,526,668	\$ 1,259,653	\$ (13,180)(a)	\$ 1,246,473
Expenses	\$ 683,573	\$ 204,278(b)	\$ 887,851	\$ 621,316	\$ 213,785(b)	\$ 835,101
Other Income	\$	\$ 70,155(c)	\$ 70,155	\$	\$ 67,210(c)	\$ 67,210
Economic Income	\$ 825,246	\$ (116,274)(d)	\$ 708,972	\$ 638,337	\$ (159,755)(d)	\$ 478,582
Total Assets	\$ 16,458,341	\$ 13,570,204(e)	\$ 30,028,545			

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

	Three Months Ended March 31,	
	2014	2013
Fund Management Fees and Performance Fees Eliminated in Consolidation and Transactional Investment Loss	\$ (17,878)	\$ 13,020
Fund Expenses Added in Consolidation	(746)	8,401
Non-Controlling Interests in Income of Consolidated Entities	89,753	52,864
Transaction-Related Other Loss	(974)	(7,075)
<b>Total Consolidation Adjustments and Reconciling Items</b>	<b>\$ 70,155</b>	<b>\$ 67,210</b>

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

	Three Months Ended March 31,	
	2014	2013
Economic Income	\$ 825,246	\$ 638,337

Adjustments

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Amortization of Intangibles	(29,003)	(25,657)
IPO and Acquisition-Related Charges	(177,024)	(186,962)
Non-Controlling Interests in Income of Consolidated Entities	89,753	52,864
Total Consolidation Adjustments and Reconciling Items	(116,274)	(159,755)
Income Before Provision for Taxes	\$ 708,972	\$ 478,582

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

**Table of Contents**

**THE BLACKSTONE GROUP L.P.**

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

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

**19. SUBSEQUENT EVENTS**

On April 7, 2014, Blackstone Holdings Finance Co. L.L.C., an indirect subsidiary of the Partnership, issued \$500 million in aggregate principal amount of 5.000% senior notes which will mature on June 15, 2044.

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

(Dollars in Thousands)

	March 31, 2014			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
<b>Assets</b>				
Cash and Cash Equivalents	\$ 787,521	\$	\$	\$ 787,521
Cash Held by Blackstone Funds and Other	264,980	945,606		1,210,586
Investments	10,052,436	12,489,059	(635,645)	21,905,850
Accounts Receivable	390,615	718,233		1,108,848
Reverse Repurchase Agreements	162,708			162,708
Due from Affiliates	969,351	44,965	(57,867)	956,449
Intangible Assets, Net	534,490			534,490
Goodwill	1,787,392			1,787,392
Other Assets	282,522	65,853		348,375
Deferred Tax Assets	1,226,326			1,226,326
<b>Total Assets</b>	<b>\$ 16,458,341</b>	<b>\$ 14,263,716</b>	<b>\$ (693,512)</b>	<b>\$ 30,028,545</b>
<b>Liabilities and Partners Capital</b>				
Loans Payable	\$ 1,662,615	\$ 8,324,689	\$	\$ 9,987,304
Due to Affiliates	1,220,054	238,293	(92,295)	1,366,052
Accrued Compensation and Benefits	1,971,434			1,971,434
Securities Sold, Not Yet Purchased	148,227	148,207		296,434
Repurchase Agreements	177,621	39,240		216,861
Accounts Payable, Accrued Expenses and Other Liabilities	342,518	1,076,181		1,418,699
<b>Total Liabilities</b>	<b>5,522,469</b>	<b>9,826,610</b>	<b>(92,295)</b>	<b>15,256,784</b>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>		<b>2,176,354</b>		<b>2,176,354</b>
<b>Partners Capital</b>				
Partners Capital	6,108,525	601,217	(601,217)	6,108,525
Appropriated Partners Capital		234,509		234,509
Accumulated Other Comprehensive Income	1,558	860		2,418
Non-Controlling Interests in Consolidated Entities	1,138,980	1,424,166		2,563,146
Non-Controlling Interests in Blackstone Holdings	3,686,809			3,686,809
<b>Total Partners Capital</b>	<b>10,935,872</b>	<b>2,260,752</b>	<b>(601,217)</b>	<b>12,595,407</b>
<b>Total Liabilities and Partners Capital</b>	<b>\$ 16,458,341</b>	<b>\$ 14,263,716</b>	<b>\$ (693,512)</b>	<b>\$ 30,028,545</b>

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

(Dollars in Thousands)

	December 31, 2013			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
<b>Assets</b>				
Cash and Cash Equivalents	\$ 831,998	\$	\$	\$ 831,998
Cash Held by Blackstone Funds and Other	251,554	794,328		1,045,882
Investments	9,739,140	12,493,961	(503,578)	21,729,523
Accounts Receivable	507,612	380,744		888,356
Reverse Repurchase Agreements	148,984			148,984
Due from Affiliates	1,138,002	108,131	(54,089)	1,192,044
Intangible Assets, Net	560,748			560,748
Goodwill	1,787,392			1,787,392
Other Assets	254,884	29,588		284,472
Deferred Tax Assets	1,209,207			1,209,207
<b>Total Assets</b>	<b>\$ 16,429,521</b>	<b>\$ 13,806,752</b>	<b>\$ (557,667)</b>	<b>\$ 29,678,606</b>
<b>Liabilities and Partners Capital</b>				
Loans Payable	\$ 1,664,305	\$ 8,802,199	\$	\$ 10,466,504
Due to Affiliates	1,261,562	249,702	(74,405)	1,436,859
Accrued Compensation and Benefits	2,132,939			2,132,939
Securities Sold, Not Yet Purchased	76,195			76,195
Repurchase Agreements	316,352			316,352
Accounts Payable, Accrued Expenses and Other Liabilities	299,813	572,273		872,086
<b>Total Liabilities</b>	<b>5,751,166</b>	<b>9,624,174</b>	<b>(74,405)</b>	<b>15,300,935</b>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>		<b>1,950,442</b>		<b>1,950,442</b>
<b>Partners Capital</b>				
Partners Capital	6,002,592	495,229	(495,229)	6,002,592
Appropriated Partners Capital		300,708		300,708
Accumulated Other Comprehensive Income	1,230	2,236		3,466
Non-Controlling Interests in Consolidated Entities	1,018,117	1,433,963	11,967	2,464,047
Non-Controlling Interests in Blackstone Holdings	3,656,416			3,656,416
<b>Total Partners Capital</b>	<b>10,678,355</b>	<b>2,232,136</b>	<b>(483,262)</b>	<b>12,427,229</b>
<b>Total Liabilities and Partners Capital</b>	<b>\$ 16,429,521</b>	<b>\$ 13,806,752</b>	<b>\$ (557,667)</b>	<b>\$ 29,678,606</b>

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

Blackstone Market Opportunities Fund L.P.



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

Blackstone Real Estate Special Situations Fund L.P.\*

Blackstone Real Estate Special Situations Offshore Fund Ltd.\*

Blackstone Strategic Alliance Fund II L.P.

Blackstone Strategic Alliance Fund L.P.

Blackstone Strategic Capital Holdings B L.P.\*

**Table of Contents**

Blackstone Strategic Capital Holdings L.P.\*

Blackstone Strategic Equity Fund L.P.

Blackstone Value Recovery Fund L.P.

Blackstone/GSO 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 March 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. We also manage the Blackstone Tactical Opportunities Accounts ( Tactical Opportunities ), which are multi-asset class investment accounts, and Strategic Partners Fund Solutions ( Strategic Partners ), a secondary private fund of funds business acquired on August 5, 2013. 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.

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**Real Estate.** We are a world leader in real estate investing since launching our first real estate fund in 1994. We have managed or continue to manage a number of global, European and Asian focused opportunistic real estate funds, several real estate debt investment funds, core plus real estate investments and a publicly traded real estate investment trust ( REIT ) ( BXMT ). Our real estate opportunity funds are diversified geographically and have made significant investments in lodging, major urban office buildings, shopping centers, residential and a variety of real estate operating companies. Our debt investment funds target high yield real estate debt related investment opportunities in the public and private markets, primarily in the United States and Europe. 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.

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## **Table of Contents**

**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 debt and public market strategies. GSO's products include senior credit-focused funds, distressed debt funds, mezzanine funds, general credit-focused funds, registered investment companies, separately managed accounts and collateralized loan obligation ( CLO ) vehicles.

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

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

## **Business Environment**

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

World equity and debt markets were mixed in the first quarter following sharp increases in 2013. In equities, volatility rose due primarily to rising geopolitical tensions and softening economic data in certain regions of the world. The MSCI All Country Index rose 1.2% for the quarter, with sharp declines in January offset by gains later in the quarter. Performance was varied across regions. Emerging markets and Asia generally underperformed, while Europe was mixed.

In the U.S., the S&P 500 Index rose 1.3% during the quarter, despite a weak January performance, reaching then-record high levels late in the quarter. Unemployment and other economic metrics continued to generally improve, although markets were briefly impacted by concerns of an earlier-than-expected increase in interest rates by the Federal Reserve, which quickly abated. Equity capital markets remained open in the quarter, supportive of initial public offerings and secondary offerings, despite heightened volatility.

Credit indices rose in the quarter with the high yield index up 3.1% and the leveraged loan index up 1.3%. Benchmark rates declined in the quarter, with the U.S. 10-year Treasury down 30 basis points to 2.7%, and high yield spreads moderately tightened.

Real estate operating fundamentals continue to improve, driven by a lack of new supply and growth in demand. In the U.S., overall vacancy levels have declined 60 basis points to 14.8% and 20 basis points to 10.4% within the office and retail sectors, respectively compared to the first quarter of 2013. In the U.S. hospitality sector, new construction remains significantly below historical levels and supply/demand fundamentals continue to support RevPAR ( Revenue per Available Room ) growth of 6.8% for the quarter. On a national level, home prices have increased 12.9% over the past twelve months through February 2014.

## **Table of Contents**

### **Significant Transaction**

On April 7, 2014, Blackstone issued \$500 million in aggregate principal amount of 5.000% senior notes, which will mature on June 15, 2044.

### **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 and Part I. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Revenue Recognition in our 2013 Annual Report on Form 10-K for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

*Management and Advisory Fees, 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

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**Table of Contents**

in some cases, a fixed fee. Base management fees are recognized based on contractual terms specified in the underlying investment advisory agreements.

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

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

Advisory fees consist of advisory retainer and transaction-based fee arrangements related to 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.

**Table of Contents**

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

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

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

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

***Expenses***

*Compensation and Benefits Compensation* Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, 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 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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**Table of Contents**

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 Condensed Consolidated Financial Statements.

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



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**Table of Contents**

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

Blackstone analyzes its tax filing positions in all of the U.S. federal, state, local and foreign tax jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. Blackstone records uncertain tax positions on the basis of a two-step process: (a) determination is made whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (b) those tax positions that meet the more-likely-than-not threshold are recognized as the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority. Blackstone recognizes accrued interest and penalties related to uncertain tax positions in General, Administrative and Other expenses within the Condensed Consolidated Statements of Operations.

There remains some uncertainty regarding Blackstone's future taxation levels. Over the past several years, a number of legislative and administrative proposals to change the taxation of Carried Interest have been introduced and, in certain cases, have been passed by the U.S. House of Representatives 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 has proposed to Congress similar changes 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 proposals 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. In its published revenue proposals for 2015, as well as for prior years, the Obama administration proposed similar changes.

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

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

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**Table of Contents**

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

It is not possible at this time to meaningfully quantify the potential impact on Blackstone of this potential future legislation or any similar legislation. Multiple versions of legislation in this area have been proposed over the last few years that have included significantly different provisions regarding effective dates and the treatment of invested capital, tiered entities and cross-border operations, among other matters. Depending upon what version of the legislation, if any, were enacted, the potential impact on a public company such as Blackstone in a given year could differ dramatically and could be material. In addition, many of 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.

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

***Economic Income***

Blackstone uses Economic Income ( EI ) as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its five segments. EI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges arise from Blackstone's initial public offering ( IPO ) and long-term retention programs outside of annual deferred compensation and other

**Table of Contents**

corporate actions, including acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration associated with acquisitions. EI presents revenues and expenses on a basis that deconsolidates the investment funds we manage. Economic Net Income ( ENI ) represents EI adjusted to include current period taxes. Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes. EI, our principal segment measure, is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. (See Note 18. Segment Reporting in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements.)

***Fee Related Earnings***

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

***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 accounting principles generally accepted in the United States of America (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.

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

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

**Table of Contents**

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

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

***Operating Metrics***

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

**Table of Contents**

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

- (a) the fair value of the investments held by our carry funds and our side-by-side and co-investment entities managed by us, plus the capital that we are entitled to call from investors in those funds and entities pursuant to the terms of their respective capital commitments, including capital commitments to funds that have yet to commence their investment periods,
- (b) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (c) the fair value of assets we manage pursuant to separately managed accounts,
- (d) the amount of debt and equity outstanding for our CLOs and collateralized debt obligations ( 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 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

**Table of Contents**

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

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

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

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

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

Following is a discussion of our consolidated results of operations for the three months ended March 31, 2014 and 2013. For a more detailed discussion of the factors that affected the results of our five business segments (which are presented on a basis that deconsolidates the investment funds we manage) in these periods, see Segment Analysis below.

	Three Months Ended March 31,		2014 vs. 2013	
	2014	2013	\$	%
<b>Revenues</b>				
Management and Advisory Fees, Net	\$ 573,160	\$ 482,133	\$ 91,027	19%
<b>Performance Fees</b>				
Realized				
Carried Interest	333,623	294,170	39,453	13%
Incentive Fees	43,794	23,741	20,053	84%
Unrealized				
Carried Interest	330,394	177,347	153,047	86%
Incentive Fees	64,233	105,798	(41,565)	-39%
Total Performance Fees	772,044	601,056	170,988	28%
<b>Investment Income</b>				
Realized				
	153,026	42,353	110,673	261%
Unrealized				
	13,500	106,230	(92,730)	-87%
Total Investment Income	166,526	148,583	17,943	12%
<b>Interest and Dividend Revenue</b>				
	14,069	12,557	1,512	12%
Other	869	2,144	(1,275)	-59%
<b>Total Revenues</b>	<b>1,526,668</b>	<b>1,246,473</b>	<b>280,195</b>	<b>22%</b>
<b>Expenses</b>				
<b>Compensation and Benefits</b>				
Compensation				
	485,351	451,430	33,921	8%
Performance Fee Compensation				
Realized				
Carried Interest	149,398	89,437	59,961	67%
Incentive Fees	23,635	10,508	13,127	125%
Unrealized				
Carried Interest	40,730	95,472	(54,742)	-57%
Incentive Fees	23,531	44,478	(20,947)	-47%
Total Compensation and Benefits	722,645	691,325	31,320	5%
General, Administrative and Other	135,554	109,306	26,248	24%
Interest Expense	24,667	27,062	(2,395)	-9%
Fund Expenses	4,985	7,408	(2,423)	-33%
<b>Total Expenses</b>	<b>887,851</b>	<b>835,101</b>	<b>52,750</b>	<b>6%</b>
<b>Other Income</b>				
Net Gains from Fund Investment Activities	70,155	67,210	2,945	4%



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<b>Income Before Provision for Taxes</b>	708,972	478,582	230,390	48%
<b>Provision for Taxes</b>	54,097	50,993	3,104	6%
<b>Net Income</b>	654,875	427,589	227,286	53%
<b>Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	45,792	62,316	(16,524)	-27%
<b>Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities</b>	43,961	(9,452)	53,413	N/M
<b>Net Income Attributable to Non-Controlling Interests in Blackstone Holdings</b>	299,505	207,090	92,415	45%
<b>Net Income Attributable to The Blackstone Group L.P.</b>	\$ 265,617	\$ 167,635	\$ 97,982	58%

N/M Not meaningful.

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## **Table of Contents**

### *Revenues*

Total Revenues were \$1.5 billion for the three months ended March 31, 2014, an increase of \$280.2 million compared to Total Revenues for the three months ended March 31, 2013 of \$1.2 billion. The increase in revenues was primarily attributable to increases in Performance Fees and Management and Advisory Fees, Net of \$171.0 million and \$91.0 million, respectively.

The increase in Performance Fees was primarily attributable to an increase of \$230.9 million in our Private Equity segment. This increase was principally due to the strong performance of our private holdings in the services and energy sectors as well as our public portfolio. Also contributing to the increase were realizations in several investments across our energy portfolio including GeoSouthern, Cheniere, PBF Energy and Royal Resources, and other strategic and public exits across the remaining private equity portfolio.

The increase in Management and Advisory Fees, Net was due to increases in our Private Equity, Real Estate, Hedge Fund Solutions and Credit segments of \$29.5 million, \$23.5 million, \$19.6 million and \$10.5 million, respectively. The increase in our Private Equity segment was driven primarily by increases in Transaction and Other Fees and Base Management Fees. The increase in Transaction and Other Fees was principally as a result of several new portfolio investments that closed during the quarter and a monitoring agreement termination fee associated with an investment disposition. The increase in Base Management Fees was primarily due to the addition of the Strategic Partners secondary private fund of funds business as well as the increase in funds raised for our Tactical Opportunities investment vehicles. The increase in our Real Estate segment was primarily due to fees generated from fundraising within BREP Europe IV and our first Asian funds. The increase in our Hedge Fund Solutions segment was primarily due to an increase in Fee-Earning Assets Under Management. The increase in our Credit segment was primarily due to an increase in Fee-Earning Assets Under Management.

### *Expenses*

Expenses were \$887.9 million for the three months ended March 31, 2014, an increase of \$52.8 million compared to \$835.1 million for the three months ended March 31, 2013. The increase in expenses was primarily attributable to increases in Compensation and General, Administrative and Other of \$33.9 million and \$26.2 million, respectively. The increase in Compensation was primarily attributable to an increase in headcount to support the growth of the business and overall increase in revenue, on which a portion of compensation is based. General, Administrative and Other expenses were \$135.6 million for the three months ended March 31, 2014, an increase of \$26.2 million, driven primarily by a non-recurring placement fee expense in our Credit segment and overall increases in depreciation, amortization and professional expenses.

### *Other Income*

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

**Other Income** Net Gains from Fund Investment Activities was \$70.2 million for the three months ended March 31, 2014, an increase of \$2.9 million compared to \$67.2 million for the three months ended March 31, 2013. The increase was comprised of a \$32.4 million increase in our Credit segment mostly offset by decreases in our Real Estate, Private Equity and Hedge Fund Solutions segments of \$16.7 million, \$7.3 million and \$5.4 million, respectively. The increase in our Credit segment was principally driven by lower valuations on the liabilities of the consolidated CLO vehicles, which led to increases in unrealized gains. The decreases in our Real Estate, Private Equity and Hedge Fund Solutions segments were primarily driven by the year over year net decrease in the appreciation of investments across our funds.

**Table of Contents**

*Provision for Taxes*

Blackstone's Provision for Taxes for the three months ended March 31, 2014 and 2013 was \$54.1 million and \$51.0 million, respectively. This resulted in an effective tax rate of 7.6% and 10.7%, respectively, based on our Income Before Provision for Taxes of \$709.0 million and \$478.6 million, respectively.

One principal factor contributed to the 3.1% decrease in the effective tax rate for the three months ended March 31, 2014 compared to the three months ended March 31, 2013. Pre-tax income of \$567.8 million and \$343.9 million for the three month periods ended March 31, 2014 and the three months ended March 31, 2013, respectively, that was passed through to common unitholders was not taxable to the Partnership and its subsidiaries. The change in these amounts resulted in a 2.9% decrease in the effective tax rate between the respective three month periods.

*Non-Controlling Interests in Consolidated Entities*

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

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

For the three months ended March 31, 2014 and 2013, the net income before taxes allocated to Blackstone Holdings was 48.5% and 49.7%, respectively. The decrease of 1.2% was primarily due to conversions of Blackstone Holdings Partnership Units to Blackstone common units and the vesting of common units.

**Table of Contents**

*Operating Metrics*

The following graph summarizes the Fee-Earning Assets Under Management by Segment and Total Assets Under Management by Segment, followed by a rollforward of activity for the three months ended March 31, 2014 and 2013. 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](#) :

## **Assets Under Management by Segment**

(Dollars in Billions)

**Fee-Earning**

**Total**

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**Table of Contents**

	March 31, 2014					Three Months Ended				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total (Dollars in Thousands)	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
Earnings Under Management										
Balance, Beginning of Period	\$ 42,600,515	\$ 50,792,803	\$ 52,865,837	\$ 51,722,584	\$ 197,981,739	\$ 37,050,167	\$ 41,931,339	\$ 43,478,791	\$ 45,420,143	\$ 167,880,440
Changes, including commitments (a)	382,705	3,306,774	2,367,630	3,830,198	9,887,307	470,135	752,334	1,208,915	3,902,831	6,334,215
Outflows, including distributions (b)	(342,462)	(91,340)	(607,622)	(870,802)	(1,912,226)		(8,058)	(276,408)	(486,465)	(770,933)
Realizations (c)	(1,579,072)	(572,763)	(187,564)	(1,648,271)	(3,987,670)	(719,955)	(408,232)	(47,933)	(2,515,456)	(3,691,577)
Net Inflows (Outflows)	(1,538,829)	2,642,671	1,572,444	1,311,125	3,987,411	(249,820)	336,044	884,574	900,910	1,871,704
Market Appreciation (Depreciation) (d)	89,042	55,360	1,133,076	352,976	1,630,454	(14,577)	(126,876)	1,222,089	116,563	1,197,192
Balance, End of Period (e)	\$ 41,150,728	\$ 53,490,834	\$ 55,571,357	\$ 53,386,685	\$ 203,599,604	\$ 36,785,770	\$ 42,140,507	\$ 45,585,454	\$ 46,437,616	\$ 170,949,340
Change (Decrease) Increase	\$ (1,449,787)	\$ 2,698,031	\$ 2,705,520	\$ 1,664,101	\$ 5,617,865	\$ (264,397)	\$ 209,168	\$ 2,106,663	\$ 1,017,473	\$ 3,068,900
Change (Decrease) Increase	-3%	5%	5%	3%	3%	-1%	0%	5%	2%	

	March 31, 2014					Three Months Ended				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total (Dollars in Thousands)	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
Total Assets Under Management										
Balance, Beginning of Period	\$ 65,675,031	\$ 79,410,788	\$ 55,657,463	\$ 65,014,348	\$ 265,757,630	\$ 51,002,973	\$ 56,695,645	\$ 46,092,505	\$ 56,428,837	\$ 210,219,960
Changes, including commitments (a)	2,105,664	2,406,802	2,287,010	3,395,901	10,195,377	982,634	1,517,226	1,215,331	4,757,044	8,472,235
Outflows, including distributions (b)	(167,798)	(579,900)	(612,259)	(901,672)	(2,261,629)	(385,338)	(55,728)	(359,070)	(610,823)	(1,410,959)
Realizations (c)	(4,682,235)	(2,046,265)	(275,888)	(2,271,798)	(9,276,186)	(1,961,239)	(1,022,105)	(62,569)	(3,049,060)	(6,094,973)
Net Inflows (Outflows)	(2,744,369)	(219,363)	1,398,863	222,431	(1,342,438)	(1,363,943)	439,393	793,692	1,097,161	966,303
Market Appreciation (Depreciation) (d)	3,212,283	2,142,137	1,206,333	769,638	7,330,391	2,852,781	2,340,177	1,301,668	529,783	7,024,409
Balance, End of Period (e)	\$ 66,142,945	\$ 81,333,562	\$ 58,262,659	\$ 66,006,417	\$ 271,745,583	\$ 52,491,811	\$ 59,475,215	\$ 48,187,865	\$ 58,055,781	\$ 218,210,672

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crease	\$	467,914	\$	1,922,774	\$	2,605,196	\$	992,069	\$	5,987,953	\$	1,488,838	\$	2,779,570	\$	2,095,360	\$	1,626,944	\$	7,990,712
crease		1%		2%		5%		2%		2%		3%		5%		5%		3%		4%

- (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.

**Table of Contents**

- (e) Fee-Earning Assets Under Management and Total Assets Under Management as of March 31, 2014 included \$277.9 million and \$329.4 million, respectively, from a joint venture in which we are the minority interest holder.

*Fee-Earning Assets Under Management*

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

Inflows of \$9.9 billion related to:

\$3.8 billion in our Credit segment principally related to \$1.1 billion raised in our Hedge Fund Strategies funds, \$859.5 million of capital raised for our business development companies ( BDCs ) and \$812.0 million raised due to the closing of a new European CLO,

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

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

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

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

Realizations of \$4.0 billion driven by:

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

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

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

Outflows of \$1.9 billion primarily attributable to:

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

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\$607.6 million in our Hedge Fund Solutions segment as a result of, in general, the liquidity needs of limited partners. BAAM had net inflows of \$1.3 billion from April 1 through May 1, 2014.

Fee-Earning Assets Under Management were \$170.9 billion at March 31, 2013, an increase of \$3.1 billion, compared to \$167.9 billion at December 31, 2012. The net increase was due to:

Inflows of \$6.3 billion related to:

\$3.9 billion in our Credit segment principally from inflows across our long-only platform and the pricing of two new CLOs,

\$1.2 billion in our Hedge Fund Solutions segment mainly related to growth in its customized products and co-investment platform,

\$752.3 million in our Real Estate segment primarily related to co-investment capital raised, and



**Table of Contents**

\$470.1 million in our Private Equity segment primarily due to additional capital raised for our Tactical Opportunities accounts.

Market appreciation of \$1.2 billion principally due to solid returns from core funds in our Hedge Fund Solutions segment. Offsetting these increases were:

Realizations of \$3.7 billion driven by:

\$2.5 billion in our Credit segment primarily due to capital returned to CLO investors from CLOs that are post their re-investment periods and realizations in our carry funds,

\$720.0 million in our Private Equity segment that were primarily attributable to dispositions of investments in funds which earn fees based on remaining invested capital, and

\$408.2 million in our Real Estate segment primarily due to realizations from various investments across the segment.

Outflows of \$770.9 million primarily attributable to:

\$486.5 million in our Credit segment primarily from our long-only platform and funds.

\$276.4 million in our Hedge Fund Solutions segment as a result of, in general, the liquidity needs of limited partners.

*Total Assets Under Management*

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

Inflows of \$10.2 billion primarily related to:

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

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

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

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

Market appreciation of \$7.3 billion primarily due to:

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

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

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

\$769.6 million in our Credit segment due to \$433.3 million of appreciation in Hedge Fund Strategies and BDCs and \$333.2 million of appreciation in carry funds.

**Table of Contents**

Offsetting these increases were:

Realizations of \$9.3 billion driven by:

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

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

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

Outflows of \$2.3 billion primarily attributable to:

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

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

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

Total Assets Under Management were \$218.2 billion at March 31, 2013, an increase of \$8.0 billion, compared to \$210.2 billion at December 31, 2012. The net increase was due to:

Inflows of \$8.5 billion primarily related to:

\$4.8 billion in our Credit segment primarily from inflows across our long-only platform, the pricing of two new CLOs and the first close of our second rescue lending fund,

\$1.5 billion in our Real Estate segment attributable to co-investment capital raised,

\$1.2 billion in our Hedge Fund Solutions segment, which was primarily from BAAM's customized products and co-investment platform, and

\$982.6 million in our Private Equity segment primarily related to fundraising for Tactical Opportunities.

Market appreciation of \$7.0 billion primarily due to:

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\$2.9 billion in our Private Equity segment primarily due to appreciation of our publicly traded holdings,

\$2.3 billion in our Real Estate segment due to the appreciation of the underlying investments resulting from increasingly favorable real estate operating fundamentals,

\$1.3 billion in our Hedge Fund Solutions segment due to solid returns from core funds, and

\$529.8 million in our Credit segment due to appreciation of the underlying assets in our carry funds and hedge funds.

Outflows of \$1.4 billion and realizations of \$6.1 billion across the segments due to the same reasons noted in Fee-Earning Assets Under Management above.

**Table of Contents***Limited Partner Capital Invested*

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

**Limited Partner Capital Invested**

(Dollars in Billions, Except Title)

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

	Three Months Ended		2014 vs. 2013	
	2013	March 31, 2014	\$	%
	(Dollars in Thousands)			
Limited Partner Capital Invested				
Private Equity	\$ 276,987	\$ 2,029,019	\$ 1,752,032	633%
Real Estate	1,175,775	1,692,232	516,457	44%
Hedge Fund Solutions	55,849	167,170	111,321	199%
Credit	275,852	580,106	304,254	110%
Total	\$ 1,784,463	\$ 4,468,527	\$ 2,684,064	150%

Limited Partner Capital Invested was \$4.5 billion for the three months ended March 31, 2014, an increase of \$2.7 billion, or 150%, from \$1.8 billion for the three months ended March 31, 2013. The amount of Limited Partner Capital Invested is a function of finding opportunistic investments that fit our investment philosophy and strategy in each of our segments as well as the relative size and timing of investment closings within those segments. Our Private Equity segment deployed capital at a faster rate during the three months ended March 31, 2014 than in the three months ended March 31, 2013 as market conditions were more conducive to finding opportunities that fit within our investment philosophy. Our Real Estate segment deployed capital at a faster rate during the three months ended March 31, 2014 than during the three months ended March 31, 2013. Our Hedge Fund Solutions segment is investing capital based on the relative investment opportunities from the hedge fund manager seeding platform and general partner interests vehicle. In our Credit segment, capital deployed for the three months ended March 31, 2014 was higher than for the three months ended March 31, 2013 due to greater opportunities to deploy capital.

**Table of Contents**

The following presents the committed undrawn capital available for investment ( dry powder ) as of March 31, 2013 and 2014:

**Dry Powder<sup>(a)</sup>**

(Dollars in Billions, Except Title)

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

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

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

The following table presents the accrued performance fees, net of performance fee compensation, of the Blackstone Funds as of March 31, 2014 and 2013. Net accrued performance fees presented do not include clawback amounts, if any, which are disclosed in Note 17. Commitments and Contingencies Contingencies Contingent Obligations (Clawback) in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements of this filing.

	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in Millions)</b>	
<b>Private Equity</b>		
BCP IV Carried Interest	\$ 437	\$ 448
BCP V Carried Interest	141	
BCP VI Carried Interest	173	40
BEP Carried Interest	58	55
Tactical Opportunities Carried Interest	10	2
Strategic Partners V Carried Interest	1	
<b>Total Private Equity (a)</b>	<b>820</b>	<b>545</b>
<b>Real Estate</b>		
BREP IV Carried Interest	2	
BREP V Carried Interest	623	490
BREP VI Carried Interest	1,284	681
BREP VII Carried Interest	358	133
BREP International I Carried Interest	2	2
BREP Europe III Carried Interest	117	93
BREP Europe IV Carried Interest	3	
BREP Asia Carried Interest	8	
BREDS Carried Interest	15	20
BREDS Incentive Fees	3	7
Asia Platform Incentive Fees	9	20
<b>Total Real Estate (a)</b>	<b>2,424</b>	<b>1,446</b>
<b>Hedge Fund Solutions</b>		
Incentive Fees	56	60
<b>Total Hedge Fund Solutions</b>	<b>56</b>	<b>60</b>
<b>Credit</b>		
Carried Interest	185	143
Incentive Fees	61	67
<b>Total Credit</b>	<b>246</b>	<b>210</b>
<b>Total Blackstone</b>		
Carried Interest	3,417	2,107
Incentive Fees	129	154
<b>Net Accrued Performance Fees</b>	<b>\$ 3,546</b>	<b>\$ 2,261</b>

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



**Table of Contents**

*Performance Fee Eligible Assets Under Management*

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

Note: Totals may not add due to rounding. Amounts are as of March 31, 2014.

- (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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**Table of Contents**

The following table presents the investment record of our significant drawdown funds from inception through March 31, 2014:

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	247,105	1.2x		2,619,040	1.4x	2,866,145	1.3x	7%	6%
BCP IV (Nov 2002 / Dec 2005)	6,773,138	230,235	4,223,212	2.1x	66%	17,166,888	3.1x	21,390,100	2.8x	46%	37%
BCP V (Dec 2005 / Jan 2011)	21,030,451	1,717,290	20,040,553	1.6x	48%	10,836,203	1.5x	30,876,756	1.5x	8%	7%
BCP VI (Jan 2011 / Jan 2017)	15,181,593	9,462,410	6,976,180	1.4x	19%	1,003,118	1.6x	7,979,298	1.4x	24%	17%
BEP (Aug 2011 / Aug 2017)	2,438,077	1,342,695	1,469,729	1.7x	39%	631,832	1.5x	2,101,561	1.6x	46%	49%
Total Corporate Private Equity	53,748,192	12,951,928	32,956,779	1.6x	44%	46,440,326	2.1x	79,397,105	1.9x	20%	16%
Tactical Opportunities	5,415,867	3,852,911	1,740,034	1.1x	7%	155,722	1.0x	1,895,756	1.1x	12%	13%
Strategic Partners	13,933,728	4,106,594	6,138,402	1.7x	N/A	10,029,354	1.3x	16,167,756	1.5x	N/A	14%
Other Funds and Co-Invest (d)	1,201,226	37,082	651,966	0.8x	60%	20,890	1.0x	672,856	0.8x	N/M	N/M
Total Private Equity	\$ 74,299,013	\$ 20,948,515	\$ 41,487,181	1.5x	42%	\$ 56,646,292	1.9x	\$ 98,133,473	1.7x	20%	15%
<b>Real Estate</b>											
<b>Dollar</b>											
Pre-BREP	\$ 140,714	\$	\$		N/A	\$ 345,190	2.5x	\$ 345,190	2.5x	33%	33%
BREP I (Sep 1994 / Oct 1996)	380,708				N/A	1,327,708	2.8x	1,327,708	2.8x	40%	40%
BREP II (Oct 1996 / Mar 1999)	1,198,339				N/A	2,531,613	2.1x	2,531,613	2.1x	19%	19%
BREP III (Apr 1999 / Apr 2003)	1,522,708		2,161	0.1x		3,325,133	2.4x	3,327,294	2.4x	22%	21%
BREP IV (Apr 2003 / Dec 2005)	2,198,694		1,445,458	1.0x		3,092,653	2.4x	4,538,111	1.7x	66%	14%
BREP V (Dec 2005 / Feb 2007)	5,538,579		7,002,575	1.8x		3,928,514	2.0x	10,931,089	1.9x	25%	10%
BREP VI (Feb 2007 / Aug 2011)	11,057,280	656,849	18,762,958	2.1x	62%	3,859,420	2.1x	22,622,378	2.1x	24%	13%
BREP VII (Aug 2011 / Feb 2017)	13,432,352	5,263,381	11,822,984	1.4x	4%	1,682,063	1.6x	13,505,047	1.4x	39%	28%
Total Global Real Estate Funds	\$ 35,469,374	\$ 5,920,230	\$ 39,036,136	1.7x	31%	\$ 20,092,294	2.2x	\$ 59,128,430	1.9x	27%	17%
<b>Euro</b>											
BREP Int 1 (Jan 2001 / Sep 2005)	824,172		120,660	1.5x		1,238,480	2.2x	1,359,140	2.1x	25%	23%
BREP Int 1 II (Sep 2005 / Jun 2008)	1,627,954	80,124	1,503,865	1.3x	45%	203,180	1.2x	1,707,045	1.2x	3%	2%

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BREP Europe III (Jun 2008 / Dec 2013)	3,203,890	622,720	3,350,843	1.4x	13%	898,961	2.4x	4,249,804	1.5x	33%	17%
BREP Europe IV (Sep 2013 / Mar 2019)	5,124,904	4,453,354	776,510	1.1x		26,640	1.1x	803,150	1.1x	47%	14%
<b>Total Euro Real Estate Funds</b>	<b>10,780,920</b>	<b>5,156,198</b>	<b>5,751,878</b>	<b>1.3x</b>	<b>19%</b>	<b>2,367,261</b>	<b>2.1x</b>	<b>8,119,139</b>	<b>1.5x</b>	<b>25%</b>	<b>11%</b>
BREP Co-Investment (e)	\$ 5,160,385	\$	\$ 8,794,315	1.9x	81%	\$ 711,502	1.5x	\$ 9,505,817	1.8x	13%	17%
BREP Asia (Jun 2013 / Dec 2017)	3,493,216	2,919,108	732,390	1.2x		4,400	1.0x	736,790	1.2x	N/A	31%
<b>Total Real Estate</b>	<b>\$ 58,198,272</b>	<b>\$ 15,944,065</b>	<b>\$ 56,264,684</b>	<b>1.7x</b>	<b>37%</b>	<b>\$ 23,915,191</b>	<b>2.1x</b>	<b>\$ 80,179,875</b>	<b>1.8x</b>	<b>26%</b>	<b>16%</b>
<b>Core Plus</b>	<b>\$ 1,194,180</b>	<b>\$ 233,500</b>	<b>\$ 960,680</b>	<b>N/A</b>		<b>\$</b>	<b>N/A</b>	<b>\$ 960,680</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>BREDS (f)</b>	<b>\$ 6,477,635</b>	<b>\$ 2,677,962</b>	<b>\$ 3,085,249</b>	<b>N/A</b>		<b>\$ 2,575,404</b>	<b>N/A</b>	<b>\$ 5,660,653</b>	<b>N/A</b>	<b>15%</b>	<b>12%</b>
<b>Credit (g)</b>											
Mezzanine I	\$ 2,000,000	\$ 139,685	\$ 1,341,214	1.5x		\$ 3,397,867	1.6x	\$ 4,739,081	1.6x	N/A	18%
Mezzanine II	4,120,000	2,893,249	1,557,619	1.3x		823,420	1.4x	2,381,039	1.3x	N/A	24%
Rescue Lending I	3,253,143	474,384	3,540,076	1.5x		2,250,056	1.4x	5,790,132	1.4x	N/A	17%
Rescue Lending II	5,125,000	4,341,551	831,740	1.1x		3,795	1.0x	835,535	1.1x	N/A	N/M
<b>Total Credit</b>	<b>\$ 14,498,143</b>	<b>\$ 7,848,869</b>	<b>\$ 7,270,649</b>	<b>1.4x</b>		<b>\$ 6,475,138</b>	<b>1.5x</b>	<b>\$ 13,745,787</b>	<b>1.4x</b>		

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

**Table of Contents**

N/M Not meaningful.

N/A Not applicable.

- (a) Available Capital represents total investable capital commitments, including side-by-side, adjusted for certain expenses and expired or callable capital, less invested capital. This amount is not reduced by outstanding commitments to investments.
- (b) Multiple of Invested Capital ( MOIC ) represents carrying value, before management fees, expenses and Carried Interest, divided by invested capital.
- (c) Net Internal Rate of Return ( IRR ) represents the annualized inception to March 31, 2014 IRR on total invested capital based on realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest. Net IRRs for BREP Europe IV, BREP Asia and BREDS II are calculated from commencement of their respective investment periods which, being less than one year, are not annualized.
- (d) Returns for Other Funds and Co-Invest are not meaningful as these funds have no or little realizations.
- (e) BREP Co-Investment represents co-investment capital raised for various BREP investments. The Net IRR reflected is calculated by aggregating each co-investment's realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest.
- (f) Excludes Capital Trust drawdown funds.
- (g) The Total Investments MOIC for Mezzanine I, Mezzanine II, Rescue Lending I and Rescue Lending II Funds, excluding recycled capital during the investment period, was 2.0x, 1.7x, 1.6x and 1.1x, respectively. Funds presented represent the flagship credit drawdown funds only.

**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		2014 vs. 2013	
	2014	March 31, 2013	\$	%
(Dollars in Thousands)				
<b>Segment Revenues</b>				
Management Fees, Net				
Base Management Fees	\$ 98,584	\$ 86,246	\$ 12,338	14%
Transaction and Other Fees, Net	42,847	24,453	18,394	75%
Management Fee Offsets	(1,713)	(480)	(1,233)	-257%
Total Management Fees, Net	139,718	110,219	29,499	27%
<b>Performance Fees</b>				
Realized				
Carried Interest	119,805	139,892	(20,087)	-14%
Unrealized				
Carried Interest	167,065	(83,954)	251,019	N/M
Total Performance Fees	286,870	55,938	230,932	413%
<b>Investment Income (Loss)</b>				
Realized	60,535	24,162	36,373	151%
Unrealized	(9,033)	31,711	(40,744)	N/M
Total Investment Income	51,502	55,873	(4,371)	-8%
Interest and Dividend Revenue	5,228	2,984	2,244	75%
Other	864	424	440	104%
Total Revenues	484,182	225,438	258,744	115%
<b>Expenses</b>				
<b>Compensation and Benefits</b>				
Compensation	73,307	60,203	13,104	22%
<b>Performance Fee Compensation</b>				
Realized				
Carried Interest	85,771	16,246	69,525	428%
Unrealized				
Carried Interest	(27,148)	16,619	(43,767)	N/M
Total Compensation and Benefits	131,930	93,068	38,862	42%
Other Operating Expenses	33,006	29,168	3,838	13%
Total Expenses	164,936	122,236	42,700	35%
Economic Income	\$ 319,246	\$ 103,202	\$ 216,044	209%

N/M Not meaningful.

*Revenues*

Revenues were \$484.2 million for the three months ended March 31, 2014, an increase of \$258.7 million compared to \$225.4 million for the three months ended March 31, 2013. The increase in revenues was primarily attributable to increases in Performance Fees and Total Management Fees of \$230.9 million and \$29.5 million, respectively.

Performance Fees, which are determined on a fund by fund basis, were \$286.9 million for the three months ended March 31, 2014, an increase of \$230.9 million, compared to \$55.9 million for the three months ended

**Table of Contents**

March 31, 2013, as all corporate private equity funds appreciated during the quarter, mainly BCP VI and BCP V, which generated respective net returns of 11% and 5% for the quarter. The performance of the funds was a result of the strong performance of our private holdings in the services and energy sectors as well as our public portfolio. Realized Performance Fees of \$119.8 million during the quarter were driven by realizations in several investments in our energy portfolio including GeoSouthern, Cheniere, PBF Energy and Royal Resources, as well as other strategic and public exits across the remaining private equity portfolio.

Total Management Fees were \$139.7 million for the three months ended March 31, 2014, an increase of \$29.5 million compared to \$110.2 million for the three months ended March 31, 2013, driven primarily by increases in Transaction and Other Fees and Base Management Fees. Transaction and Other Fees were \$42.8 million for the three months ended March 31, 2014, an increase of \$18.4 million compared to \$24.5 million for the three months ended March 31, 2013, principally as a result of several new portfolio investments that closed during the quarter and a monitoring agreement termination fee associated with an investment disposition. Base Management Fees were \$98.6 million for the three months ended March 31, 2014, an increase of \$12.3 million, compared to \$86.2 million for the three months ended March 31, 2013, primarily due to the addition of the Strategic Partners secondary private fund of funds business that closed during 2013 as well as the increase in funds raised for our Tactical Opportunities investment vehicles.

*Expenses*

Expenses were \$164.9 million for the three months ended March 31, 2014, an increase of \$42.7 million, compared to \$122.2 million for the three months ended March 31, 2013. The increase was attributable to a \$25.8 million increase in Performance Fee Compensation and a \$13.1 million increase in Compensation. The increase in Performance Fee Compensation was driven by the increase in Performance Fees Revenue. Compensation increased primarily due to the acquisition of Strategic Partners as well as an increase in Total Management Fees, on which a portion of compensation is based.

*Fund Returns*

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

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

Fund (b)	Three Months Ended				March 31, 2014			
	March 31,		March 31,		Inception to Date		Total	
	2014	2013 (a)	2014	2013 (a)	Realized	Net	Gross	Net
BCP IV	3%	3%	-2%	-2%	60%	46%	50%	37%
BCP V	6%	5%	11%	11%	10%	8%	8%	7%
BCP VI	13%	11%	4%	1%	52%	24%	24%	17%
BEP	5%	5%	18%	18%	48%	46%	39%	49%
Tactical Opportunities	3%	3%	4%	1%	12%	12%	18%	13%
Strategic Partners	7%	6%	N/A	N/A	N/A	N/A	17%	14%

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

N/A Not applicable.

**Table of Contents**

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

The corporate private equity funds within the Private Equity segment have three contributed funds with closed investment periods: BCP IV, BCP V and BCOM. As of March 31, 2014, 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. 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.

The following table presents the Carried Interest status of our private equity funds out of their investment period which are currently not generating performance fees as of March 31, 2014:

Funds out of the Investment Period	Amount (Dollars in Millions)	Gain to Cross Carried Interest Threshold (a)	
		% Change in Total Enterprise Value (b)	% Change in Equity Value
BCP V (Dec 2005 / Jan 2011)	\$ 916	3%	6%
BCP V-AC (c)	(441)	-12%	-24%

- (a) The general partner of each fund is allocated Carried Interest when the annualized returns, net of management fees and expenses, exceed the preferred return as dictated by the fund agreements. The preferred return is calculated for each limited partner individually. The Gain to Cross Carried Interest Threshold represents the increase in equity at the fund level (excluding our side-by-side investments) that is required for the general partner to begin accruing Carried Interest, assuming the gain is earned pro rata across the fund's investments and is achieved at the reporting date.
- (b) Total Enterprise Value is the respective fund's pro rata ownership of the portfolio companies' Enterprise Value at the reporting date.
- (c) The BCP V main fund is currently below its Carried Interest threshold while the BCP V-AC fund is above its Carried Interest threshold. BCP V's two fund classes, in total, are accruing Carried Interest.



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

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

	Three Months Ended		2014 vs. 2013	
	2014	March 31, 2013	\$	%
(Dollars in Thousands)				
<b>Segment Revenues</b>				
Management Fees, Net				
Base Management Fees	\$ 159,336	\$ 138,346	\$ 20,990	15%
Transaction and Other Fees, Net	13,564	9,140	4,424	48%
Management Fee Offsets	(9,224)	(7,286)	(1,938)	-27%
Total Management Fees, Net	163,676	140,200	23,476	17%
<b>Performance Fees</b>				
<b>Realized</b>				
Carried Interest	194,658	68,773	125,885	183%
Incentive Fees	(26)	3,092	(3,118)	N/M
<b>Unrealized</b>				
Carried Interest	140,237	280,076	(139,839)	-50%
Incentive Fees	2,737	2,400	337	14%
Total Performance Fees	337,606	354,341	(16,735)	-5%
<b>Investment Income</b>				
<b>Realized</b>				
Carried Interest	31,357	9,534	21,823	229%
<b>Unrealized</b>				
Carried Interest	5,379	60,303	(54,924)	-91%
Total Investment Income	36,736	69,837	(33,101)	-47%
Interest and Dividend Revenue	6,110	4,298	1,812	42%
Other	317	(133)	450	N/M
Total Revenues	544,445	568,543	(24,098)	-4%
<b>Expenses</b>				
<b>Compensation and Benefits</b>				
Compensation	80,233	69,459	10,774	16%
<b>Performance Fee Compensation</b>				
<b>Realized</b>				
Carried Interest	51,833	25,863	25,970	100%
Incentive Fees	(16)	1,724	(1,740)	N/M
<b>Unrealized</b>				
Carried Interest	56,985	89,057	(32,072)	-36%
Incentive Fees	1,382	1,034	348	34%
Total Compensation and Benefits	190,417	187,137	3,280	2%
Other Operating Expenses	33,107	28,462	4,645	16%
Total Expenses	223,524	215,599	7,925	4%
Economic Income	\$ 320,921	\$ 352,944	\$ (32,023)	-9%

N/M Not meaningful.

*Revenues*

Revenues were \$544.4 million for the three months ended March 31, 2014, a decrease of \$24.1 million compared to \$568.5 million for the three months ended March 31, 2013. The decrease in revenues was primarily attributable to decreases of \$33.1 million in Investment Income and \$16.7 million in Performance Fees, partially offset by an increase of \$23.5 million in Total Management Fees.

**Table of Contents**

Investment Income was \$36.7 million for the three months ended March 31, 2014, a decrease of \$33.1 million compared to \$69.8 million for the three months ended March 31, 2013. The decrease in Investment Income was primarily driven by the year over year net decrease in the appreciation of investments across our global Real Estate funds.

Performance Fees, which are determined on a fund by fund basis, were \$337.6 million for the three months ended March 31, 2014, a decrease of \$16.7 million compared to \$354.3 million for the three months ended March 31, 2013. Performance Fees decreased due to the decrease in the net appreciation of investments from our BREP carry funds. For the three months ended March 31, 2014, the carrying value of assets for Blackstone's contributed Real Estate funds, including fee-paying co-investments, increased 3.8% driven by improving fundamentals in the private portfolio (4.4%, \$1.5 billion) and public portfolio appreciation (2.9%, \$579.8 million). Our BREDS drawdown and real estate hedge funds appreciated 1.7% and 2.8%, respectively.

Total Management Fees were \$163.7 million for the three months ended March 31, 2014, an increase of \$23.5 million compared to \$140.2 million for the three months ended March 31, 2013, primarily attributable to an increase in Base Management Fees. Base Management Fees were \$159.3 million for the three months ended March 31, 2014, an increase of \$21.0 million compared to \$138.3 million for the three months ended March 31, 2013. The increase was primarily due to fees generated from fundraising within BREP Europe IV and our first Asia funds.

*Expenses*

Expenses were \$223.5 million for the three months ended March 31, 2014, an increase of \$7.9 million, compared to \$215.6 million for the three months ended March 31, 2013. The increase was primarily attributable to a \$10.8 million increase in Compensation due to an increase in headcount to support the growth of the business as well as an increase in Total Management Fees, on which a portion of compensation is based. The increase in expenses was partially offset by a \$7.5 million decrease in Performance Fee Compensation due to the decrease in Performance Fees Revenue.

*Fund Returns*

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

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

Fund (a)	Three Months Ended				March 31, 2014			
	March 31,		March 31,		Inception to Date		Total	
	2014	2013	2013	2014	Realized	Total	Gross	Net
BREP International (b)	46%	36%	0%	0%	35%	25%	33%	23%
BREP IV	4%	3%	2%	2%	98%	66%	24%	14%
BREP V	4%	4%	4%	3%	33%	25%	14%	10%
BREP International II (b)	3%	3%	10%	10%	8%	3%	4%	2%
BREP VI	2%	1%	6%	5%	29%	24%	18%	13%
BREP Europe III (b)	5%	4%	6%	4%	44%	33%	30%	17%
BREP VII	6%	5%	11%	7%	57%	39%	41%	28%
BREP Asia	7%	4%	N/A	N/A	N/A	N/A	54%	31%
BREP Europe IV (b)	8%	4%	N/A	N/A	71%	47%	36%	14%
BREDS	2%	1%	3%	2%	19%	15%	17%	12%
BSSF I	3%	2%	5%	4%	N/A	N/A	15%	11%
CMBS	3%	2%	4%	3%	N/A	N/A	17%	12%
BREP Co-Investment	5%	4%	8%	7%	14%	13%	19%	17%



**Table of Contents**

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

N/A Not applicable.

N/M Not meaningful.

(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 March 31, 2014:

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)	893	21%	66%

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

(b) Total Enterprise Value is the respective fund's pro rata ownership of the privately held portfolio companies' Enterprise Value.

The Real Estate segment has six funds in their investment period, which were above their respective Carried Interest thresholds as of March 31, 2014: BREP VII, BREP Asia, BREP Europe IV, one fund within BREDS I and two funds within BREDS II.

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

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

	Three Months Ended March 31,		2014 vs. 2013	
	2014	2013	\$	%
(Dollars in Thousands)				
<b>Segment Revenues</b>				
Management Fees, Net				
Base Management Fees	\$ 113,384	\$ 92,791	\$ 20,593	22%
Transaction and Other Fees, Net	93	4	89	N/M
Management Fee Offsets	(1,455)	(324)	(1,131)	-349%
Total Management Fees, Net	112,022	92,471	19,551	21%
<b>Performance Fees</b>				
Realized				
Incentive Fees	39,845	13,709	26,136	191%
Unrealized				
Incentive Fees	18,085	55,501	(37,416)	-67%
Total Performance Fees	57,930	69,210	(11,280)	-16%
<b>Investment Income</b>				
Realized	16,820	852	15,968	N/M
Unrealized	4,431	3,913	518	13%
Total Investment Income	21,251	4,765	16,486	346%
Interest and Dividend Revenue	2,661	1,216	1,445	119%
Other	122	85	37	44%
Total Revenues	193,986	167,747	26,239	16%
<b>Expenses</b>				
<b>Compensation and Benefits</b>				
Compensation	40,571	33,868	6,703	20%
<b>Performance Fee Compensation</b>				
Realized				
Incentive Fees	13,271	5,022	8,249	164%
Unrealized				
Incentive Fees	6,761	19,836	(13,075)	-66%
Total Compensation and Benefits	60,603	58,726	1,877	3%
Other Operating Expenses	19,480	15,159	4,321	29%
Total Expenses	80,083	73,885	6,198	8%
Economic Income	\$ 113,903	\$ 93,862	\$ 20,041	21%

N/M Not meaningful.

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### *Revenues*

Revenues were \$194.0 million for the three months ended March 31, 2014, an increase of \$26.2 million compared to \$167.7 million for the three months ended March 31, 2013. The increase in revenues was primarily attributable to increases of \$19.6 million in Total Management Fees and \$16.5 million in Investment Income, partially offset by a decrease of \$11.3 million in Performance Fees.

Total Management Fees were \$112.0 million for the three months ended March 31, 2014, an increase of \$19.6 million compared to \$92.5 million for the three months ended March 31, 2013, primarily due to an increase in

## **Table of Contents**

**Base Management Fees.** Base Management Fees were \$113.4 million for the three months ended March 31, 2014, an increase of \$20.6 million compared to the three months ended March 31, 2013, driven by an increase in Fee-Earning Assets Under Management of 22% from the prior year, which was from net inflows and market appreciation.

Investment Income was \$21.3 million for the three months ended March 31, 2014, an increase of \$16.5 million compared to \$4.8 million for the three months ended March 31, 2013. The increase was primarily driven by the year over year increase in the net appreciation of investments of which Blackstone owns a share.

Performance Fees were \$57.9 million for the three months ended March 31, 2014, a decrease of \$11.3 million compared to \$69.2 million for the three months ended March 31, 2013, primarily due to lower returns. The net returns of the underlying assets within BAAM's Principal Solutions Composite funds were 1.6% during the three months ended March 31, 2014 compared to 4.0% during the three months ended March 31, 2013.

### *Expenses*

Expenses were \$80.1 million for the three months ended March 31, 2014, an increase of \$6.2 million compared to the three months ended March 31, 2013. The increase in expenses was primarily attributable to a \$6.7 million increase in Compensation and a \$4.3 million increase in Other Operating Expenses offset by a decrease of \$4.8 million in Performance Fee Compensation. Compensation was \$40.6 million for the three months ended March 31, 2014, an increase of \$6.7 million, compared to \$33.9 million for the three months ended March 31, 2013, primarily due to an increase in headcount to support the growth of the business and an increase in Total Management Fees, on which a portion of compensation is based. Other Operating Expenses increased \$4.3 million to \$19.5 million for the three months ended March 31, 2014, compared to \$15.2 million for the three months ended March 31, 2013, primarily resulting from increases in professional fees and interest expense. Performance Fee Compensation was \$20.0 million for the three months ended March 31, 2014, a decrease of \$4.8 million, compared to \$24.9 million for the three months ended March 31, 2013, primarily due to the decrease in Performance Fees Revenue.

### *Operating Metrics*

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

## **Incentive Fee-Earning Assets Under Management**

(Dollars in Billions)



**Table of Contents**

	Fee-Earning Assets Under Management Eligible for Incentive Fees As of March 31,		Estimated % Above High Water Mark and/or Hurdle (a) As of March 31,	
	2013	2014	2013	2014
	(Dollars in Thousands)			
BAAM Managed Funds (b)	\$ 25,028,428	\$ 29,279,855	94%	92%

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

- (a) Estimated % Above High Water Mark and/or Hurdle represents the percentage of Fee-Earning Assets Under Management Eligible for Incentive Fees that as of the dates presented would earn incentive fees when the applicable BAAM managed fund has positive investment performance (relative to a hurdle, where applicable). Incremental positive performance in the applicable Blackstone Funds may cause additional assets to reach their respective High Water Mark and/or Hurdle, thereby resulting in an increase in Estimated % Above High Water Mark and/or Hurdle.
- (b) For the BAAM managed funds, at March 31, 2014 the incremental appreciation needed for the 8% of Fee-Earning Assets Under Management below their respective High Water Marks and/or Hurdle to reach their respective High Water Marks and/or Hurdle was \$56.3 million, a decrease of \$19.7 million, or 25.9%, compared to \$76.0 million at March 31, 2013. Of the Fee-Earning Assets Under Management below their respective High Water Marks and/or Hurdle as of March 31, 2014, 88% were within 5% of reaching their respective High Water Mark and/or Hurdle.

*Composite Returns*

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

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

Composite	Three Months Ended March 31,				Average Annual Returns (a)							
	2014		2013		One Year		Three Year		Five Year		Historical	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BAAM Managed Funds, BAAM Principal Solutions Composite (b)	2%	2%	4%	4%	10%	9%	7%	6%	10%	8%	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 Composite, formerly known as BAAM s Core Funds Composite, covers the period from January 2000 to present, although BAAM s inception date is September 1990. BAAM s Principal Solutions Composite does not include BAAM s long-only equity, long-biased commodities, seed, strategic opportunities (external investments) and advisory platforms.

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

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

	Three Months Ended		2014 vs. 2013	
	2014	March 31, 2013	\$	%
(Dollars in Thousands)				
<b>Segment Revenues</b>				
Management Fees, Net				
Base Management Fees	\$ 105,574	\$ 91,364	\$ 14,210	16%
Transaction and Other Fees, Net	3,344	4,374	(1,030)	-24%
Management Fee Offsets	(4,252)	(1,572)	(2,680)	-170%
<b>Total Management Fees, Net</b>	<b>104,666</b>	<b>94,166</b>	<b>10,500</b>	<b>11%</b>
<b>Performance Fees</b>				
<b>Realized</b>				
Carried Interest	19,160	85,505	(66,345)	-78%
Incentive Fees	14,018	7,926	6,092	77%
<b>Unrealized</b>				
Carried Interest	22,986	(18,775)	41,761	N/M
Incentive Fees	40,444	49,854	(9,410)	-19%
<b>Total Performance Fees</b>	<b>96,608</b>	<b>124,510</b>	<b>(27,902)</b>	<b>-22%</b>
<b>Investment Income</b>				
<b>Realized</b>				
Realized	3,071	3,328	(257)	-8%
<b>Unrealized</b>				
Unrealized	3,079	1,093	1,986	182%
<b>Total Investment Income</b>	<b>6,150</b>	<b>4,421</b>	<b>1,729</b>	<b>39%</b>
Interest and Dividend Revenue	5,861	4,547	1,314	29%
Other	(259)	1,828	(2,087)	N/M
<b>Total Revenues</b>	<b>213,026</b>	<b>229,472</b>	<b>(16,446)</b>	<b>-7%</b>
<b>Expenses</b>				
<b>Compensation and Benefits Compensation</b>				
Compensation and Benefits Compensation	50,752	45,521	5,231	11%
<b>Performance Fee Compensation</b>				
<b>Realized</b>				
Carried Interest	11,794	47,328	(35,534)	-75%
Incentive Fees	10,380	3,762	6,618	176%
<b>Unrealized</b>				
Carried Interest	10,853	(10,204)	21,057	N/M
Incentive Fees	15,388	23,608	(8,220)	-35%
<b>Total Compensation and Benefits</b>	<b>99,167</b>	<b>110,015</b>	<b>(10,848)</b>	<b>-10%</b>
Other Operating Expenses	32,839	20,962	11,877	57%
<b>Total Expenses</b>	<b>132,006</b>	<b>130,977</b>	<b>1,029</b>	<b>1%</b>
<b>Economic Income</b>	<b>\$ 81,020</b>	<b>\$ 98,495</b>	<b>\$ (17,475)</b>	<b>-18%</b>