Blackstone Group L.P.
Form 10-K
February 26, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009**

OR

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

Commission File Number: 001-33551

The Blackstone Group L.P.

(Exact name of Registrant as specified in its charter)

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

345 Park Avenue

New York, New York 10154

(Address of principal executive offices)(Zip Code)

(212) 583-5000

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common units representing limited partner interests	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein and will not be contained, to the best of the Registrant s knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

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

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

The aggregate market value of the common units of the Registrant held by non-affiliates as of June 30, 2009 was approximately $2,852.3 million, which includes non-voting common units with a value of approximately $1,149.8 million.

The number of the Registrant s voting common units representing limited partner interests outstanding as of February 19, 2010 was 205,632,807. The number of the Registrant s non-voting common units representing limited partner interests outstanding as of February 19, 2010 was 109,083,468.

DOCUMENTS INCORPORATED BY REFERENCE

None

Table of Contents

TABLE OF CONTENTS

		Page
PART I		
ITEM 1.	BUSINESS	5
ITEM 1A.	RISK FACTORS	18
ITEM 1B.	UNRESOLVED STAFF COMMENTS	55
ITEM 2.	PROPERTIES	55
ITEM 3.	LEGAL PROCEEDINGS	56
ITEM 4.	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	56
PART II		
ITEM 5.	MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	57
ITEM 6.	SELECTED FINANCIAL DATA	60
ITEM 7.	MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	62
ITEM 7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	113
ITEM 8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	116
ITEM 8A.	UNAUDITED SUPPLEMENTAL PRESENTATION OF STATEMENTS OF FINANCIAL CONDITION	178
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	181
ITEM 9A.	CONTROLS AND PROCEDURES	181
ITEM 9B.	OTHER INFORMATION	182
PART III		
ITEM 10.	DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	183
ITEM 11.	EXECUTIVE COMPENSATION	189
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	204
ITEM 13.	CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE	208
ITEM 14.	PRINCIPAL ACCOUNTING FEES AND SERVICES	214
PART IV		
ITEM 15.	EXHIBITS, FINANCIAL STATEMENT SCHEDULES	216
SIGNATURES		223

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, wil should, seeks, approximately, predicts, intends, plans, estimates, anticipates or the negative version of these words or other compara Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled Risk Factors in this report, as such factors may be updated from time to time in our periodic filings with the SEC, which are accessible on the SEC s website at www.sec.gov. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

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

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

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

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

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

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

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

Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election. Interests related to our funds of hedge funds and certain of our credit-oriented funds are generally subject to annual, semi-annual or quarterly withdrawal or redemption by investors upon

3

Table of Contents

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 incentive fees. Our fee-earning assets under management equal the sum of:

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

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

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

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

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

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

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

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

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

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

Table of Contents

PART I

ITEM 1. BUSINESS

Overview

Blackstone is a leading manager of private capital and provider of financial advisory services. We are one of the largest independent managers of private capital in the world, with assets under management of $98.2 billion as of December 31, 2009. Our alternative asset management businesses include the management of private equity funds, real estate funds, funds of hedge funds, credit-oriented funds, collateralized loan obligation (CLO) vehicles, separately managed accounts and publicly-traded closed-end mutual funds. We also provide a wide range of financial advisory services, including corporate and mergers and acquisitions, restructuring and reorganization and fund placement services.

We seek to deliver superior returns to investors in our funds through a disciplined, value-oriented investment approach. Since we were founded in 1985, we have cultivated strong relationships with clients in our financial advisory business, where we endeavor to provide objective and insightful solutions and advice that our clients can trust. We believe our scaled, diversified businesses, coupled with our long track record of investment performance, proven investment approach and strong client relationships, position us to continue to perform well in a variety of market conditions, expand our assets under management and add complementary businesses. Our businesses have yielded a significant positive impact on society through, for example, increases in employment, additional capital investment and research and development expense by our portfolio companies, increased tax revenue to federal and local governments and returns to our limited partners. Two of our primary limited partner constituencies are corporate and public pension funds. As a result, to the extent our funds perform well it supports a better retirement for thousands of pensioners.

During 2009 many of the strategies and initiatives we have formulated to enhance our asset management and financial advisory businesses proved successful.

- We believe our attention to building a stable, diversified business was substantiated with the receipt of an A+/F1 rating with stable outlook from Fitch Ratings and an A rating with stable outlook from Standard & Poor s.

- In an uncertain year for financing, we issued $600 million 10-year 6.625% notes in the third quarter of 2009, the proceeds of which we expect to utilize to further our growth strategy.

- In a very difficult fund-raising environment for many asset managers, we were able to grow fee-earning assets in our investment funds by over 5% during 2009 by continuing to generate attractive risk-adjusted returns in our investment funds and by entering complementary businesses. For example, we have raised over $1.0 billion for our real-estate debt investment funds, an investment business we first entered in 2008.

- The continued focus of our funds of hedge funds business on the key tenets of its investment approach such as diversification, risk management, due diligence and a focus on downside protection, contributed to that business becoming the leading global institutional funds of hedge funds investment manager with $27.1 billion in assets under management.

- Our integration of GSO Capital Partners LP (GSO), which we purchased in 2008, has produced what we believe is one of the dominant credit investment platforms in the industry today with $24.2 billion in assets under management.

- Our continued focus on growing our international financial advisory practice resulted in an advisory team with global capabilities and international recognition, evidenced by major advisory assignments in Europe and Asia.

The efforts of the operations management group in our Private Equity business, which seeks to create operational improvements to our investments in a multitude of ways, enabled our portfolio companies to successfully weather the tumultuous economic downturn and even grow and create value which, we believe, not only benefits the investors in our investment funds but contributes to economic growth and productivity.

Table of Contents

Moreover, we continue to devise and implement strategies to strengthen and grow our asset management and financial advisory businesses. For instance, we recently enhanced our presence in Asia with the opening of an office in Shanghai (to complement our existing offices in Beijing, Hong Kong, Mumbai and Tokyo). In addition, in 2009 we formalized a partnership with the Pudong government of Shanghai to raise and manage a Renminbi-denominated fund focused on investments in China.

As of December 31, 2009, we had 98 senior managing directors and employed approximately 490 other investment and advisory professionals at our headquarters in New York and our offices in Atlanta, Beijing, Boston, Chicago, Dallas, Hong Kong, Houston, London, Los Angeles, Menlo Park, Mumbai, Paris, San Francisco, Shanghai and Tokyo. We believe that the depth and breadth of the intellectual capital and experience of our professionals are key reasons why we have generated excellent returns while managing downside risk over many years for the investors in our funds. This track record in turn has allowed us to successfully and repeatedly raise additional assets from an increasingly wide variety of sophisticated investors.

Business Segments

Our four business segments are: (1) Private Equity, (2) Real Estate, (3) Credit and Marketable Alternatives, which comprises our management of funds of hedge funds, credit-oriented funds and separately managed accounts, CLOs and publicly-traded closed-end mutual funds, and (4) Financial Advisory, which comprises our corporate and mergers and acquisitions advisory services, restructuring and reorganization advisory services and Park Hill Group, which provides fund placement services for alternative investment funds. The Credit and Marketable Alternatives segment was formerly known as Marketable Alternative Asset Management and has been renamed to better reflect the product mix in this segment. This does not reflect a change to the underlying businesses or how they are reflected in Blackstone s results of operation.

Information about our business segments should be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations and the historical financial statements and related notes included elsewhere in this Form 10-K.

Private Equity Segment

Our Private Equity segment, established in 1987, is a global business with 107 investment professionals and offices in New York, London, Menlo Park, Mumbai, Hong Kong, Beijing and Shanghai. We are a world leader in private equity investing, having managed five general private equity funds as well as one specialized fund focusing on communications-related investments. In addition, we are in the process of raising our seventh private equity fund and are seeking to launch complementary investment funds to separately target investments in each of the infrastructure and clean technology asset classes. From an operation focused in our early years on consummating leveraged buyout acquisitions of U.S.-based companies, we have grown into a business pursuing transactions throughout the world and executing not only typical leveraged buyout acquisitions of seasoned companies but also 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. Our Private Equity segment s multi-dimensional investment approach is guided by several core investment principles: corporate partnerships, sector expertise, a contrarian bias (e.g., investing in out-of-favor / under-appreciated industries), global scope, distressed securities investing, significant number of exclusive opportunities, superior financing expertise, operations oversight and a strong focus on value creation. Our existing Private Equity funds, which we refer to as the Blackstone Capital Partners (BCP) funds, invest primarily in control-oriented, privately negotiated investments and generally utilize leverage in consummating the investments they make. As of December 31, 2009, our Private Equity segment had $24.8 billion of assets under management, or 25.2% of our total assets under management. For more information concerning the revenues and fees we derive from our Private Equity segment, see Incentive Arrangements / Fee Structure in this Item 1.

Table of Contents

Real Estate Segment

We are a world leader in real estate investing with an assortment of real estate funds that are diversified geographically and across a variety of sectors. We launched our first real estate fund in 1994 and have managed six opportunistic real estate funds, two internationally focused real estate funds, a European focused real estate fund and a number of real estate debt-investment funds. Our real estate funds, which we refer to as the Blackstone Real Estate Partners (BREP) funds, have made significant investments in lodging, major urban office buildings and a variety of real estate operating companies. The BREP funds invest primarily in control-oriented, privately negotiated real estate investments and generally utilize leverage in consummating the investments they make. In addition, our debt-investment funds target non-controlling real estate debt-related investment opportunities in the public and private markets, primarily in the United States and Europe. The Real Estate segment is comprised of 69 investment professionals with offices in New York, Chicago, London, Paris, Mumbai, Tokyo, and Hong Kong. Our Real Estate segment s investing approach is guided by several core investment principles, many of which are similar to our Private Equity segment, including global scope, significant number of exclusive opportunities, superior financing expertise, operations oversight and a strong focus on value creation. As of December 31, 2009, our Real Estate segment had $20.4 billion of assets under management, or 20.8% of our total assets under management. For more information concerning the revenues and fees we derive from our Real Estate segment, see Incentive Arrangements / Fee Structure in this Item 1.

Credit and Marketable Alternatives Segment

Our Credit and Marketable Alternatives segment comprises our funds of hedge funds, credit-oriented funds, separately managed accounts and CLO vehicles and publicly-traded closed-end mutual funds. As of December 31, 2009, our Credit and Marketable Alternatives segment had $53.0 billion of assets under management, or 54.0% of our total assets under management. For more information concerning the revenues and fees we derive from our Credit and Marketable Alternatives segment, see Incentive Arrangements / Fee Structure in this Item 1.

Funds of hedge funds. Our funds of hedge funds group, which we refer to as Blackstone Alternative Asset Management or BAAM , was organized in 1990 and manages a variety of funds of hedge funds and separately managed accounts. Working with our clients over the past 20 years, BAAM has developed into a leading manager of institutional funds of hedge funds with 80 investment professionals and offices in New York, London and Hong Kong. BAAM s overall investment philosophy is to utilize leading non-traditional investment managers to achieve attractive risk-adjusted returns with relatively low volatility and low correlation to traditional asset classes. Diversification, risk management, due diligence and a focus on downside protection are key tenets of our approach. Although certain underlying managers that BAAM invests with may utilize leverage in connection with the investments those managers make in their respective underlying hedge funds, BAAM does not utilize long-term leverage for the investments it makes in the underlying hedge funds. Our funds of hedge funds operation had $27.1 billion of assets under management as of December 31, 2009.

Credit-oriented businesses / CLOs. Our credit-oriented funds, CLO and separately managed accounts are managed by our subsidiary, GSO Capital Partners (GSO), which we acquired in March 2008. GSO is a major participant in the leveraged finance markets with $24.2 billion of assets under management as of December 31, 2009. Our credit-oriented businesses have 73 investment professionals and offices in New York, London and Houston. The credit-oriented funds we manage or advise include senior credit-oriented funds, distressed debt funds, mezzanine funds and general credit-oriented funds focused on the leveraged finance marketplace. In addition, GSO manages a number of credit-oriented separately managed accounts. Those funds or accounts have investment portfolios comprised of securities spread across the capital structure, including senior debt, subordinated debt, preferred stock and common equity. GSO may utilize leverage in connection with the investments the credit-oriented funds or separately managed accounts make. In addition, GSO manages 24 separate CLO vehicles with total assets under management of approximately $13.3 billion focused primarily on senior secured debt issued by a diverse universe of non-investment grade companies.

Table of Contents

Closed-End Mutual Funds. In 2005, we were appointed the investment manager and adviser of two publicly-traded closed-end mutual funds called The India Fund and The Asia Tigers Fund. The India Fund, with $1.6 billion in assets under management as of December 31, 2009, trades on the New York Stock Exchange under the symbol IFN. The India Fund s investment objective is long-term capital appreciation through investing primarily in the equity securities of Indian companies. The Asia Tigers Fund, with $76.9 million in assets under management as of December 31, 2009, trades on the New York Stock Exchange under the symbol GRR. The Asia Tigers Fund s investment objective is long-term capital appreciation through investing primarily in the equity securities of Asian companies.

Financial Advisory Segment

Our Financial Advisory segment comprises our corporate and mergers and acquisitions advisory services, restructuring and reorganization advisory services and Park Hill Group, which provides fund placement services for alternative investment funds. Our financial advisory businesses are global businesses with 227 professionals and offices in New York, Atlanta, Chicago, Dallas, Boston, Los Angeles, San Francisco, Menlo Park, London, Paris, Hong Kong, Beijing and Tokyo.

Financial and Strategic Advisory Services (Blackstone Advisory Partners L.P.). Our financial and strategic advisory business, Blackstone Advisory Partners L.P., has been an independent provider of creative solutions in complex and critical financial advisory assignments for over 24 years. We focus on a wide range of transaction execution capabilities with respect to acquisitions, mergers, joint ventures, minority investments, asset swaps, divestitures, takeover defenses, corporate finance advisory, private placements and distressed sales with offices in New York, London, Hong Kong, Atlanta, Boston, Menlo Park, Paris and Beijing. Recent clients include Aluminum Corporation of China, American International Group, Inc. (AIG), Flextronics International LTD., Genworth Financial, Inc., Kraft Foods, Pennsylvania Insurance Commission, The Procter & Gamble Company, Publicis Groupe S.A., Reuters Group PLC, Suez S.A. and Xerox Corporation. The success of Blackstone Advisory Partners L.P. has resulted from a highly experienced team focused on our core principles, including protecting client confidentiality, prioritizing our client s interests, avoidance of conflicts and senior-level attention. The 21 senior managing directors in Blackstone Advisory Partners L.P. have an average of 20 years of experience in providing corporate finance and mergers and acquisitions advice.

Restructuring and Reorganization Advisory Services. Our restructuring and reorganization advisory operation is one of the leading advisers to companies and creditors in restructurings and bankruptcies with offices in New York and London. Our restructuring and reorganization advisory clients include companies, creditors, corporate parents, hedge funds, financial sponsors and acquirers of troubled companies. This operation is particularly active in large, complex and high-profile bankruptcies and restructurings, where we have advised clients in both out-of-court restructurings and Chapter 11 reorganizations as well as provided general advice. Some of the recent clients that we have advised include AIG, Allied Capital, American Axle & Manufacturing, BAA, Delta Air Lines, Ford Motor Company, MBIA, Nortek, SemGroup, Thule and W.R. Grace. Senior-level attention, global emphasis and the ability to facilitate prompt resolutions are critical ingredients in our restructuring and reorganization advisory approach. We have one of the most seasoned and experienced restructuring and reorganization advisory operations in the financial services industry, working on a significant share of all major restructuring assignments. Our seven senior managing directors in this area have an average of 20 years of experience in restructuring assignments and employ the skills we feel are crucial to successful restructuring assignments.

Park Hill Group. Park Hill Group provides fund placement services for private equity funds, real estate funds, venture capital funds and hedge funds. Park Hill Group primarily provides placement services to unrelated third-party sponsored funds. It also assists us in raising capital for our own investment funds from time to time and providing insights into new alternative asset products and trends. Park Hill Group and our investment funds each benefit from the others relationships with both limited partners and other fund sponsors.

Table of Contents

Financial and Other Information by Segment

Financial and other information by segment for the years ended December 31, 2009, 2008 and 2007 is set forth in Note 19. Segment Reporting in the Notes to the Consolidated and Combined Financial Statements in Part II. Item 8. Financial Statements and Supplementary Data of this filing.

Investment Process and Risk Management

We maintain a rigorous investment process across all of our funds. Each fund has investment policies and procedures that generally contain requirements and limitations for investments, such as limitations relating to the amount that will be invested in any one investment and the types of industries or geographic regions in which the fund will invest.

Private Equity Funds

Our Private Equity investment professionals are responsible for selecting, evaluating, structuring, diligencing, negotiating, executing, managing and exiting investments, as well as pursuing operational improvements and value creation. After an initial selection, evaluation and diligence process, the relevant team of investment professionals (i.e., the deal team) will present a proposed transaction at a weekly review committee meeting comprised of the senior managing directors of our Private Equity segment, a number of whom participate in each weekly meeting. Review committee meetings are co-chaired by our President and Chief Operating Officer, Hamilton E. James, and senior managing director, Garrett M. Moran. After discussing the contemplated transaction with the deal team, the review committee decides whether to give its preliminary approval to the deal team to continue the selection, evaluation, diligence and negotiation process and provides guidance on strategy, process and other pertinent considerations.

Once a proposed transaction has reached a more advanced stage, it undergoes a detailed interim review by the review committee of our private equity funds. Following assimilation of the review committee s input and its decision to proceed with a proposed transaction, the proposed investment is vetted by the investment committee. The investment committee of our private equity funds is composed of certain members of our senior management, including Stephen A. Schwarzman and Hamilton E. James, and the senior managing directors of our Private Equity segment. The investment committee is responsible for approving all investment decisions made on behalf of our private equity funds. Both the review committee and the investment committee processes involve a consensus approach to decision making among committee members.

The investment professionals of our private equity funds are responsible for monitoring an investment once it is made and for making recommendations with respect to exiting an investment. In addition to members of a deal team and our portfolio operations group, which is responsible for monitoring and assisting in enhancing portfolio companies operations and value, all professionals in the Private Equity segment meet several times each year to review the performance of the funds portfolio companies.

Real Estate Funds

Our real estate operation has an investment committee similar to that described under Private Equity Funds. The real estate investment committee, which includes Stephen A. Schwarzman, Hamilton E. James and the senior managing directors in the Real Estate segment, scrutinizes potential transactions, provides guidance and instructions at the appropriate stage of each transaction and approves the making and disposition of each BREP fund investment. In addition, the committee approves significant illiquid investments by the real estate debt funds.

The investment professionals of our real estate funds are responsible for monitoring an investment once it is made and for making recommendations with respect to exiting an investment. In addition to members of a deal team and our asset management group responsible for monitoring and assisting in enhancing portfolio companies operations and value, senior professionals in the Real Estate segment meet several times each year to review the performance of the funds portfolio companies.

Table of Contents

Credit and Marketable Alternatives

Funds of Hedge Funds

Before deciding to invest in a new hedge fund, our funds of hedge funds team conducts extensive due diligence, including an on-site front office review of the hedge fund s performance, investment terms, investment strategy and investment personnel, a back office review of the hedge fund s operations, processes, risk management and internal controls, industry reference checks and a legal review of the fund investment structures and legal documents. Once initial due diligence procedures are completed and the investment professionals are satisfied with the results of the review, the team will present the potential hedge fund investment to the investment committee of our funds of hedge funds operation. The investment committee is comprised of the senior managing directors on the investment team and other senior investment personnel. This committee meets formally at least once a month to review, and potentially approve, investment and divestment suggestions. If the investment committee approves a potential hedge fund investment, the executive committee of our funds of hedge funds operation, chaired by Blackstone Vice Chairman J. Tomilson Hill, will make the ultimate decision to approve an investment decision. Members of our funds of hedge funds team monitor and review existing hedge fund investments at least weekly. Additionally, J. Tomilson Hill and other senior members of our funds of hedge funds teams meet weekly with Stephen A. Schwarzman and Hamilton E. James to monitor and review our funds of hedge funds.

Credit-Oriented Funds and CLOs

Each of our credit-oriented funds has an investment committee similar to that described under Private Equity Funds. The investment committees for the credit-oriented funds, each of which includes Bennett J. Goodman, J. Albert Smith III and Douglas I. Ostrover and senior members of the respective investment teams associated with each fund, review potential transactions, provide input regarding the scope of due diligence and approve recommended investments and dispositions. These investment committees have delegated certain abilities to approve investments and dispositions to credit committees within each operation which consist of the senior members of the respective investment teams associated with each fund. In addition, senior members of GSO, including Bennett J. Goodman, J. Albert Smith III and Douglas I. Ostrover, meet weekly with Stephen A. Schwarzman and Hamilton E. James to discuss investment and risk management activities and market conditions.

The CLO Investment Committee, which is composed of the group s Senior Managing Directors and Managing Directors, approves all assets prior to the initial investment by any CLO in such asset. The CLO investment team is staffed by 33 professionals, organized across areas of research, portfolio management, trading, and capital formation to ensure active management of the portfolios and to afford focus on all aspects of our CLOs. Investment decisions follow a consensus based approach and require unanimous approval of the Investment Committee. Industry focused research analysts provide the committee with a formal and comprehensive review of any new investment recommendation, while our portfolio managers and trading professionals provide opinions on other technical aspects of the recommendation. Once approved, investments are subject to predetermined periodic reviews to assess their continued fit within the funds. Our research team constantly monitors the operating performance of the underlying issuers, while portfolio managers, in concert with our traders, focus on optimizing asset composition to maximize value for CLO investors.

Structure and Operation of Our Investment Funds

We conduct the sponsorship and management of our carry funds and other similar vehicles primarily through a partnership structure in which limited partnerships organized by us accept commitments and/or funds for investment from institutional investors and (to a limited extent) high net worth individuals. Such commitments are generally drawn down from investors on an as needed basis to fund investments over a specified term. All of our private equity and real estate funds are commitment structured funds, except for two of our real estate debt funds which are structured like hedge funds where all of the committed capital is funded on

Table of Contents

or promptly after the investor s subscription date and cash proceeds resulting from the disposition of investments can be reused indefinitely for further investment, subject to certain investor withdrawal rights. Our credit-oriented funds may be commitment structured funds or hedge funds where the investor s capital is fully funded into the fund upon or soon after the subscription for interests in the fund. Most of our funds of hedge funds are structured as funds where the investor s capital is fully funded into the fund upon the subscription for interests in the fund. Our investment funds are generally organized as limited partnerships with respect to U.S. domiciled vehicles and limited liability (and other similar) companies with respect to non-U.S. domiciled vehicles. In the case of our separately managed accounts, the investor, rather than us, generally controls the investment vehicle that holds or has custody of the investments we advise the vehicle to make.

Our investment funds and separately managed accounts are generally advised by a Blackstone entity serving as investment adviser which is registered under the U.S. Investment Advisers Act of 1940, or Advisers Act. Substantially all of the responsibility for the day-to-day operations of each investment fund or account is typically delegated to the investment funds respective investment advisers pursuant to an investment advisory (or similar) agreement. Generally, the material terms of our investment advisory agreements relate to the scope of services to be rendered by the investment adviser to the applicable investment funds, the calculation of management fees to be borne by investors in our investment funds, the calculation of and the manner and extent to which other fees received by the investment adviser from fund portfolio companies serve to offset or reduce the management fees payable by investors in our investment funds and certain rights of termination with respect to our investment advisory agreements. For a discussion of the management fees to which our investment advisers are entitled across our various types of investment funds, please see Incentive Arrangements / Fee Structure below. The investment funds themselves do not generally register as investment companies under the U.S. Investment Company Act of 1940, or 1940 Act, in reliance on Section 3(c)(7) or Section 7(d) thereof or, typically in the case of funds formed prior to 1997, Section 3(c)(1) thereof. Section 3(c)(7) of the 1940 Act exempts from its registration requirements investment funds privately placed in the United States whose securities are owned exclusively by persons who, at the time of acquisition of such securities, are qualified purchasers as defined under the 1940 Act. Section 3(c)(1) of the 1940 Act excepts from its registration requirements privately placed investment funds whose securities are beneficially owned by not more than 100 persons. In addition, under current interpretations of the SEC, Section 7(d) of the 1940 Act exempts from registration any non-U.S. investment fund all of whose outstanding securities are beneficially owned either by non-U.S. residents or by U.S. residents that are qualified purchasers.

In some cases, one or more of our investment advisers advises funds registered under the 1940 Act. For example, one of our investment advisers advises the two publicly-traded closed-end mutual funds, The India Fund and The Asia Tigers Fund. In addition, GSO serves as an investment sub-adviser to a registered investment advisor which manages a closed-end investment company called FS Investment Corporation, which is registered as a business development company under the 1940 Act.

In addition to having an investment adviser, each investment fund that is a limited partnership, or partnership fund, also has a general partner that makes all operational and investment decisions relating to the conduct of the investment fund s business. Furthermore, all decisions concerning the making, monitoring and disposing of investments are made by the general partner. The limited partners of the partnership funds take no part in the conduct or control of the business of the investment funds, have no right or authority to act for or bind the investment funds and have no influence over the voting or disposition of the securities or other assets held by the investment funds. These decisions are made by the investment fund s general partner in its sole discretion. With the exception of certain of our funds of hedge funds and certain credit-oriented funds, third-party investors in our funds have the right to remove the general partner of the fund or to accelerate the liquidation date of the investment fund without cause by a simple majority vote. In addition, the governing agreements of our investment funds enable investors in those funds to vote to terminate the investment period by a simple majority vote in accordance with specified procedures or accelerate the withdrawal of their capital on an investor-by-investor basis in the event certain key persons in our investment funds do not meet specified time commitments with regard to managing the fund (for example, both of Stephen A. Schwarzman and Hamilton E. James in the case of our private equity funds).

Table of Contents

Incentive Arrangements / Fee Structure

The investment adviser of each of our carry funds generally receives an annual management fee that ranges from 1.0% to 2.0% of the investment fund s capital commitments during the investment period and from 0.75% to 1.5% of invested capital after the investment period, except that the investment advisers to certain of our credit-oriented and real estate debt carry funds receive an annual management fee that ranges from 1.0% to 1.5% of invested capital throughout the term of the fund. The investment adviser of each of our credit-oriented and certain of our real estate debt funds that are structured like a hedge fund generally receives an annual management fee that ranges from 1.0% to 2.0% of the fund s net asset value and for general partners or similar entities a performance-based allocation fee (or similar incentive fee) equal to a range of 10% to 20% of the applicable fund s net capital appreciation per annum, subject to certain net loss carry-forward provisions (known as a high water mark). The investment adviser of each of our funds of hedge funds and separately managed accounts that invest in hedge funds is generally entitled to a management fee with respect to each fund it manages ranging from 0.65% to 1.5% of assets under management per annum plus, in some cases, an incentive fee generally ranging from 5% to 10% of the applicable fund s net appreciation per annum, subject to a highwater mark and in some cases a preferred return. The investment adviser of each of our CLOs receives annual management fees typically equal to 0.50% to 1.25% of each fund s total assets, subject to certain performance measures related to the underlying assets the CLO owns, and additional management fees which are incentive based (that is, subject to meeting certain return criteria). The investment adviser of our credit-oriented separately managed accounts receives annual management fees typically equal to 0.35% to 0.50% of each account s invested capital or net asset value. The investment adviser of each of our closed-end mutual funds receives an annual management fee that ranges from 0.75% to 1.1% depending on the amount of assets in the applicable fund.

The management fees we receive from our carry funds are payable on a regular basis (typically quarterly) in the contractually prescribed amounts noted above over the life of the fund and do not depend on the investment performance of the fund. The management fees we receive from our hedge funds have similar characteristics, except that such funds often afford investors increased liquidity through annual, semi-annual or quarterly withdrawal or redemption rights following the expiration of a specified period of time when capital may not be withdrawn (typically between one and three years) and the amount of management fees to which the investment adviser is entitled with respect thereto will proportionately increase as the net asset value of each investor s capital account grows and will proportionately decrease as the net asset value of each investor s capital account decreases. The management fees we receive from our separately managed accounts are generally paid on a regular basis (typically quarterly) and may alternatively be based on invested capital or proportionately increase or decrease based on the net asset value of the separately managed account. In each case the management fees we are paid for managing a separately managed account will generally be subject to contractual rights the investor has to terminate our management of an account on as short as 30 days prior notice.

The general partner or an affiliate of each of our carry funds also receives carried interest from the investment fund. Carried interest entitles the general partner (or an affiliate) to a preferred allocation of income and gains from a fund. The carried interest is typically structured as a net profits interest in the applicable fund. In the case of our carry funds, carried interest is calculated on a realized gain basis, and each general partner is generally entitled to a carried interest equal to 20% of the net realized income and gains (generally taking into account unrealized losses) generated by such fund, except that the general partners (or affiliates) of certain of our credit-oriented and real estate debt funds are entitled to a carried interest that ranges from 10% to 15% depending on the specific fund. Net realized income or loss is not netted between or among funds. For most carry funds, the carried interest is subject to an annual preferred limited partner return ranging from 7.0% to 10.0%, subject to a catch-up allocation to the general partner. If, at the end of the life of a carry fund or earlier with respect to our real estate funds, as a result of diminished performance of later investments in a carry fund s life, the carry fund has not achieved investment returns that (in most cases) exceed the preferred return threshold or (in all cases) the general partner receives in excess of 20% (10% or 15% in the case of certain of our credit-oriented and real estate debt carry funds) of the fund s net profits over the life of the fund, we will be obligated to repay an amount equal to the carried interest that was previously distributed to us that exceeds the amounts to which we are ultimately entitled. This obligation is known as a clawback obligation and is an obligation of any person who directly received such carried interest, including us and our employees who participate in our carried interest plans. Although a portion of any distributions by us to our unitholders may include any carried interest received by us, we do not intend to seek fulfillment of any clawback obligation by seeking to have our unitholders return any portion of such distributions attributable to carried interest associated with any clawback obligation. The clawback obligation operates with respect to a given carry fund s own net investment performance only and performance fees of other funds are not netted for determining this contingent obligation. Moreover, although a clawback obligation is several, the governing agreements of most of our funds provide that to the extent another recipient of carried interest (such as a current or former employee) does not fund his or her respective share, then we and our employees who participate in such carried interest plans may have to fund additional amounts (generally up to an additional 50%) beyond what we actually received in carried interest, although we will retain the right to pursue any remedies that we have under such governing agreements against those carried interest recipients who fail to fund their obligations. Despite the fact that since the inception of the funds, the general partners have not been required to make a cash clawback payment, we have recorded a contingent repayment obligation equal to the amount that would be due on December 31, 2009, if the various carry funds were liquidated at their current carrying value. Our ability to generate carried interest is an important element of our business and carried interest has historically accounted for a very significant portion of our income.

For additional information concerning the clawback obligations we could face, see Item 1A. Risk Factors, We may not have sufficient cash to pay back clawback obligations if and when they are triggered under the governing agreements with our investors.

Many of our investment advisors receive customary fees (*e.g.*, acquisition fees or origination fees) upon consummation of many of the funds transactions, receive monitoring fees from many of the funds portfolio companies for continued advice from the investment adviser, and may from time to time receive disposition and other fees in connection with their activities. The acquisition fees which they receive are generally calculated as a percentage (that generally can range up to 1%) of the total enterprise value of the acquired entity. Most of our carry funds are required to reduce the management fees charged to their limited partner investors by 50% to 100% of such transaction fees and certain other fees that they receive.

Capital Invested In and Alongside Our Investment Funds

To further align our interests with those of investors in our investment funds, we have invested the firm s capital and that of our personnel in the investment funds we sponsor and manage. Minimum general partner capital commitments to our investment funds are determined separately with respect to our investment funds and, generally, are less than 5% of the assets of any particular fund. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Our Sources of Cash and Liquidity Needs for more information regarding our minimum general partner capital commitments to our funds. We determine whether to make general partner capital commitments to our funds in excess of the minimum required commitments based on a variety of factors, including estimates regarding liquidity over the estimated time period during which commitments will be funded, estimates regarding the amounts of capital that may be appropriate for other opportunities or other funds we may be in the process of raising or are considering raising, prevailing industry standards with respect to sponsor commitments and our general working capital requirements. In some cases, we require our senior managing directors and other professionals to fund a portion of the general partner capital commitments to our funds. In other cases, we may from time to time on an annual basis offer to our senior managing directors and employees a part of the general partner commitments to our investment funds. Our general partner capital commitments are funded with cash and not with carried interest or deferral of management fees.

Investors in many of our funds also receive the opportunity to make additional co-investments with the investment funds. Our senior managing directors and employees, as well as Blackstone itself, also have the

Table of Contents

opportunity to make co-investments, which we refer to as side-by-side investments, with many of our carry funds. Co-investments and side-by-side investments are investments in portfolio companies or other assets on the same terms and conditions as those acquired by the applicable fund. Co-investments refer to investments arranged by us that are made by our limited partner investors (and other investors in some instances) in a portfolio company or other assets alongside an investment fund. In certain cases, limited partner investors may pay additional management fees or carried interest in connection with such co-investments. Side-by-side investments are similar to co-investments but are made by senior managing directors, employees and certain affiliates of Blackstone pursuant to a binding election, subject to certain limitations, submitted in January of each year for the estimated activity during the ensuing 12 months under which those persons are permitted to make investments alongside a particular carry fund in all transactions of that fund for that year. Our side-by-side investments are funded in cash and are not generally subject to management fees or carried interest.

Competition

The asset management and financial advisory industries are intensely competitive, and we expect them to remain so. We compete both globally and on a regional, industry and niche basis. We compete on the basis of a number of factors, including investment performance, transaction execution skills, access to capital, reputation, range of products and services, innovation and price.

Asset Management. We face competition both in the pursuit of outside investors for our investment funds and in acquiring investments in attractive portfolio companies and making other investments. Depending on the investment, we face competition primarily from sponsors managing other private equity funds, specialized investment funds, hedge funds and other pools of capital, other financial institutions including sovereign wealth funds, corporate buyers and other parties. Many of these competitors in some of our businesses are substantially larger and have considerably greater financial, technical and marketing resources than are available to us. Several of these competitors have recently raised, or are expected to raise, significant amounts of capital and many of them have similar investment objectives to us, which may create additional competition for investment opportunities. Some of these competitors may also have a lower cost of capital and access to funding sources or other resources that are not available to us, which may create competitive disadvantages for us with respect to investment opportunities. In addition, some of these competitors may have higher risk tolerances, different risk assessments or lower return thresholds, which could allow them to consider a wider variety of investments and to bid more aggressively than us for investments that we want to make. Corporate buyers may be able to achieve synergistic cost savings with regard to an investment that may provide them with a competitive advantage in bidding for an investment. Lastly, any increase in the allocation of amounts of capital to alternative investment strategies by institutional and individual investors could lead to a reduction in the size and duration of pricing inefficiencies that many of our investment funds seek to exploit.

Financial Advisory. Our competitors are other advisory, investment banking and financial firms. Our primary competitors in our financial advisory business are large financial institutions, many of which have far greater financial and other resources and much broader client relationships than us and (unlike us) have the ability to offer a wide range of products, from loans, deposit-taking and insurance to brokerage and a wide range of investment banking services, which may enhance their competitive position. Our competitors also have the ability to support investment banking, including financial advisory services, with commercial banking, insurance and other financial services and products in an effort to gain market share, which puts us at a competitive disadvantage and could result in pricing pressures that could materially adversely affect our revenue and profitability. In the current market environment, we are also seeing increased competition from independent boutique advisory firms focused primarily on mergers and acquisitions and other strategic advisory and/or restructuring services. In addition, Park Hill Group operates in a highly competitive environment and the barriers to entry into the fund placement business are low.

Competition is also intense, particularly from independent boutique advisory firms, for the attraction and retention of qualified employees. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract new employees and retain and motivate our existing employees.

Table of Contents

For additional information concerning the competitive risks that we face, see Item 1A. Risk Factors Risks Related to Our Asset Management Business The asset management business is intensely competitive and Risks Related to Our Financial Advisory Business We face strong competition from other financial advisory firms .

Employees

As of December 31, 2009, we employed approximately 1,295 people, including our 98 senior managing directors and approximately 490 other investment and advisory professionals. We strive to maintain a work environment that fosters professionalism, excellence, integrity and cooperation among our employees.

Regulatory and Compliance Matters

Our businesses, as well as the financial services industry generally, are subject to extensive regulation in the United States and elsewhere.

All of the investment advisers of our investment funds operating in the U.S. are registered as investment advisers with the SEC (other investment advisers are registered in non-U.S. jurisdictions). Registered investment advisers are subject to the requirements and regulations of the Advisers Act. Such requirements relate to, among other things, fiduciary duties to clients, maintaining an effective compliance program, solicitation agreements, conflicts of interest, recordkeeping and reporting requirements, disclosure requirements, limitations on agency cross and principal transactions between an adviser and advisory clients and general anti-fraud prohibitions.

Blackstone Advisory Partners L.P., a subsidiary of ours through which we conduct our financial advisory business, is registered as a broker-dealer with the SEC and is a member of The Financial Industry Regulatory Authority, or FINRA, and is registered as a broker-dealer in 50 states, the District of Columbia, the Commonwealth of Puerto Rico and the Virgin Islands. Park Hill Group LLC is registered as a broker-dealer with the SEC and is a member of FINRA and is registered as a broker-dealer in several states. Park Hill Group Real Estate Group LLC is also registered as a broker-dealer with the SEC and is a member of FINRA and is registered as a broker-dealer in several states. Our broker-dealer entities are subject to regulation and oversight by the SEC. In addition, FINRA, a self-regulatory organization that is subject to oversight by the SEC, adopts and enforces rules governing the conduct, and examines the activities, of its member firms, including our broker-dealer entities. State securities regulators also have regulatory or oversight authority over our broker-dealer entities.

Broker-dealers are subject to regulations that cover all aspects of the securities business, including sales methods, trade practices among broker-dealers, use and safekeeping of customers funds and securities, capital structure, record keeping, the financing of customers purchases and the conduct and qualifications of directors, officers and employees. In particular, as a registered broker-dealer and member of a self-regulatory organization, we are subject to the SEC s uniform net capital rule, Rule 15c3-1. Rule 15c3-1 specifies the minimum level of net capital a broker-dealer must maintain and also requires that a significant part of a broker-dealer s assets be kept in relatively liquid form. The SEC and various self-regulatory organizations impose rules that require notification when net capital falls below certain predefined criteria, limit the ratio of subordinated debt to equity in the regulatory capital composition of a broker-dealer and constrain the ability of a broker-dealer to expand its business under certain circumstances. Additionally, the SEC s uniform net capital rule imposes certain requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing capital and requiring prior notice to the SEC for certain withdrawals of capital.

Two of our subsidiaries, The Blackstone Group International Ltd (BGIL) and GSO Capital Partners International LLP (GSO International), are regulated by the U.K. Financial Services Authority (FSA) and are authorized investment managers in the United Kingdom. The U.K. Financial Services and Markets Act 2000, or FSMA, and rules promulgated thereunder govern all aspects of our investment business in the United Kingdom, including sales, research and trading practices, provision of investment advice, use and safekeeping of client funds and securities, regulatory capital, record keeping, margin practices and procedures, approval standards for individuals, anti-money laundering, periodic reporting and settlement procedures. Pursuant to the FSMA, certain of our subsidiaries are subject to regulations promulgated and administered by the U.K. Financial Services Authority.

In addition, each of the closed-end mutual funds we manage is registered under the 1940 Act as a closed-end investment company. The closed-end mutual funds and the entities that serve as the funds investment advisers are subject to the 1940 Act and the rules thereunder, which among other things regulate the relationship between a registered investment company and its investment adviser and prohibit or severely restrict principal transactions and joint transactions.

The SEC and various self-regulatory organizations have in recent years increased their regulatory activities in respect of asset management firms.

Certain of our businesses are subject to compliance with laws and regulations of U.S. federal and state governments, non-U.S. governments (including, without limitation, India, Japan and Hong Kong), their respective agencies and/or various self-regulatory organizations or exchanges relating to, among other things, marketing of investment products, the privacy of client information, and any failure to comply with these regulations could expose us to liability and/or damage our reputation. Our businesses have operated for many years within a legal framework that requires our being able to monitor and comply with a broad range of legal and regulatory developments that affect our activities. However, additional legislation, changes in rules promulgated by self-regulatory organizations or changes in the interpretation or enforcement of existing laws and rules, either in the United States or elsewhere, may directly affect our mode of operation and profitability.

Rigorous legal and compliance analysis of our businesses and investments is important to our culture and risk management. In addition, disclosure controls and procedures and internal controls over financial reporting are documented, tested and assessed for design and operating effectiveness in compliance with the U.S. Sarbanes-Oxley Act of 2002. We strive to maintain a culture of compliance through the use of policies and procedures such as oversight compliance, codes of conduct, compliance systems, communication of compliance guidance and employee education and training. Our enterprise risk management function further analyzes our business, investment, and other key risks, reinforcing their importance in our environment. We have a compliance group that monitors our compliance with all of the regulatory requirements to which we are subject and manages our compliance policies and procedures. Our Chief Legal Officer supervises our compliance group, which is responsible for addressing all regulatory and compliance matters that affect our activities. Our compliance policies and procedures address a variety of regulatory and compliance risks such as the handling of material non-public information, position reporting, personal securities trading, valuation of investments on a fund-specific basis, document retention, potential conflicts of interest and the allocation of investment opportunities.

Our compliance group also monitors the information barriers that we maintain between each of our different businesses. We believe that our various businesses access to the intellectual knowledge and contacts and relationships that reside throughout our firm benefits all of our businesses. However, in order to maximize that access without compromising our compliance with the legal and contractual obligations to which we are subject, our compliance group oversees and monitors the communications between or among our firm s different businesses to facilitate regulatory compliance.

Table of Contents

Available Information

The Blackstone Group L.P. is a Delaware limited partnership that was formed on March 12, 2007.

We file annual, quarterly and current reports and other information with the U.S. Securities and Exchange Commission (the SEC). These filings are available to the public over the Internet at the SEC s web site at http://www.sec.gov. You may also read and copy any document we file at the SEC s public reference room located at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

Our principal Internet address is www.blackstone.com. We make available free of charge on or through www.blackstone.com our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The contents of our website are not, however, a part of this report.

Table of Contents

ITEM 1A. RISK FACTORS

Risks Related to Our Business

Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments made by our investment funds, reducing the ability of our investment funds to raise or deploy capital and reducing the volume of the transactions involving our financial advisory business, each of which could materially reduce our revenue and cash flow and adversely affect our financial condition.

Our business is materially affected by conditions in the global financial markets and economic conditions or events throughout the world that are outside our control, including but not limited to changes in interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of securities prices and the liquidity and the value of investments, and we may not be able to or may choose not to manage our exposure to these market conditions and/or other events. In the event of a market downturn each of our businesses could be affected in different ways.

For example, the unprecedented turmoil in the global financial markets during 2008 which continued into 2009 and provoked significant volatility of securities prices, contraction in the availability of credit and the failure of a number of companies, including leading financial institutions, had a significant material adverse effect on our investment businesses, particularly our private equity and real estate businesses. In the face of wide-spread deteriorating market conditions, certain government bodies and central banks worldwide, including the U.S. Treasury Department and the U.S. Federal Reserve, undertook unprecedented intervention programs, the effects of which remain uncertain. Many economies around the world, including the U.S. economy, experienced and continue to experience significant declines in employment, household wealth, and lending. These events have led to a significantly diminished availability of credit and an increase in the cost of financing. The lack of credit has materially hindered the initiation of new, large-sized transactions for our private equity and real estate segments and has adversely impacted our operating results in recent periods. These events may place additional negative pressure on our operating results going forward.

Our funds may be affected by reduced opportunities to exit and realize value from their investments, by lower than expected returns on investments made prior to the deterioration of the credit markets and by the fact that we may not be able to find suitable investments for the funds to effectively deploy capital, which could adversely affect our ability to raise new funds. During periods of difficult market conditions or slowdowns (which may be across one or more industries, sectors or geographies), our funds portfolio companies may experience adverse operating performance, decreased revenues, financial losses, difficulty in obtaining access to financing and increased funding costs. Negative financial results in our investment funds portfolio companies may result in lower investment returns for our investment funds, which could materially and adversely affect our ability to raise new funds as well as our operating results and cash flow. To the extent the operating performance of those portfolio companies (as well as valuation multiples) do not improve or other portfolio companies experience adverse operating performance, our investment funds may sell those assets at values that are less than we projected or even a loss, thereby significantly affecting those investment funds performance and consequently our operating results and cash flow. During such periods of weakness, our investment funds portfolio companies may also have difficulty expanding their businesses and operations or meeting their debt service obligations or other expenses as they become due, including expenses payable to us. Furthermore, such negative market conditions could potentially result in a portfolio company entering bankruptcy proceedings, thereby potentially resulting in a complete loss of the fund s investment in such portfolio company and a significant negative impact to the investment fund s performance and consequently our operating results and cash flow, as well as to our reputation. In addition, negative market conditions would also increase the risk of default with respect to investments held by our investment funds that have significant debt investments, such as our credit-oriented funds. Although market conditions have recently shown some signs of improvement, we are unable to predict whether economic and market conditions may continue to improve. Even if such conditions do improve broadly and significantly over the long term, adverse conditions and/or other events in particular sectors may cause our performance to suffer further.

Our operating performance may also be adversely affected by our fixed costs and other expenses and the possibility that we would be unable to scale back other costs within a time frame sufficient to match any decreases in revenue relating to changes in market and economic conditions. In order to reduce expenses in the face of a difficult economic environment, we may need to cut back or eliminate the use of certain services or service providers, or terminate the employment of a significant number of our personnel that, in each case, could be important to our business and without which our operating results could be adversely affected.

In addition, our financial advisory business can be materially affected by conditions in the global economy and various financial markets. For example, revenues generated by our financial advisory business are directly related to the volume and value of the transactions in which we are involved. During periods of unfavorable market or economic conditions, the volume and value of mergers and acquisitions transactions may decrease, thereby reducing the demand for our financial advisory services and increasing price competition among financial services companies seeking such engagements.

Changes in the debt financing markets have negatively impacted the ability of our funds and their portfolio companies to obtain attractive financing or re-financing for their investments and have increased the cost of such financing if it is obtained, which could lead to lower-yielding investments and potentially decreasing our net income.

Since the latter half of 2007, the markets for debt financing have contracted significantly, particularly in the area of acquisition financings for private equity and real estate transactions. Large commercial and investment banks, which have traditionally provided such financing, have demanded higher rates, higher equity requirements as part of private equity and real estate investments, more restrictive covenants and generally more onerous terms in order to provide such financing, and in some cases are refusing to provide financing for acquisitions the type of which would have been readily financed in earlier years. In the event that our funds are unable to obtain committed debt financing for potential acquisitions or can only obtain debt at an increased interest rate or on unfavorable terms, our funds may have difficulty completing otherwise profitable acquisitions or may generate profits that are lower than would otherwise be the case, either of which could lead to a decrease in the investment income earned by us. Any failure by lenders to provide previously committed financing can also expose us to potential claims by sellers of businesses which we may have contracted to purchase. Similarly, our funds portfolio companies regularly utilize the corporate debt markets in order to obtain financing for their operations. To the extent that the current credit markets have rendered such financing difficult to obtain or more expensive, this may negatively impact the operating performance of those portfolio companies and, therefore, the investment returns on our funds. In addition, to the extent that the current markets make it difficult or impossible to refinance debt that is maturing in the near term, some of our portfolio companies may be unable to repay such debt at maturity and may be forced to sell assets, undergo a recapitalization or seek bankruptcy protection.

A decline in the pace or size of investment by our private equity and real estate funds or an increase in the amount of transaction and monitoring fees we share with our investors would result in our receiving less revenue from transaction and monitoring fees.

The transaction and monitoring fees that we earn are driven in part by the pace at which our private equity and real estate funds make investments and the size of those investments. Any decline in that pace or the size of such investments would reduce our transaction and monitoring fees. Many factors could cause such a decline in the pace of investment, including the inability of our investment professionals to identify attractive investment opportunities, competition for such opportunities among other potential acquirers, decreased availability of capital on attractive terms and our failure to consummate identified investment opportunities because of business, regulatory or legal complexities and adverse developments in the U.S. or global economy or financial markets.

Table of Contents

For example, the current limited financing options for large private equity and real estate investments resulting from the credit market dislocation, has significantly reduced the pace and size of investments by our private equity and real estate funds. In addition, we have confronted and expect to continue to confront requests from a variety of investors and groups representing investors to increase the percentage of transaction and monitoring fees we share with our investors. To the extent we accommodate such requests, it would result in a decrease in the amount of fee revenue we earn.

Our revenue, net income and cash flow are all highly variable, which may make it difficult for us to achieve steady earnings growth on a quarterly basis and may cause the price of our common units to decline.

Our revenue, net income and cash flow are all highly variable. For example, our cash flow may fluctuate significantly due to the fact that we receive carried interest from our carry funds only when investments are realized and achieve a certain preferred return. In addition, transaction fees received by our carry funds and fees received by our advisory business can vary significantly from quarter to quarter. We may also experience fluctuations in our results, including our revenue and net income, from quarter to quarter due to a number of other factors, including changes in the values of our funds investments, changes in the amount of distributions, dividends or interest paid in respect of investments, changes in our operating expenses, the degree to which we encounter competition and general economic and market conditions. Such variability may lead to volatility in the trading price of our common units and cause our results for a particular period not to be indicative of our performance in a future period. It may be difficult for us to achieve steady growth in net income and cash flow on a quarterly basis, which could in turn lead to large adverse movements in the price of our common units or increased volatility in our common unit price generally.

The timing and receipt of carried interest generated by our carry funds is uncertain and will contribute to the volatility of our results. Carried interest depends on our carry funds performance and opportunities for realizing gains, which may be limited. It takes a substantial period of time to identify attractive investment opportunities, to raise all the funds needed to make an investment and then to realize the cash value (or other proceeds) of an investment through a sale, public offering, recapitalization or other exit. Even if an investment proves to be profitable, it may be several years before any profits can be realized in cash (or other proceeds). We cannot predict when, or if, any realization of investments will occur. In addition, upon the realization of a profitable investment by any of our carry funds and prior to us receiving any carried interest in respect of that investment, 100% of the proceeds of that investment must generally be paid to the investors in that carry fund until they have recovered certain fees and expenses and achieved a certain return on all realized investments by that carry fund as well as a recovery of any unrealized losses. If we were to have a realization event in a particular quarter, it may have a significant impact on our results for that particular quarter which may not be replicated in subsequent quarters. We recognize revenue on investments in our investment funds based on our allocable share of realized and unrealized gains (or losses) reported by such investment funds, and a decline in realized or unrealized gains, or an increase in realized or unrealized losses, would adversely affect our revenue and possibly cash flow, which could further increase the volatility of our quarterly results. Because our carry funds have preferred return thresholds to investors that need to be met prior to Blackstone receiving any carried interest, substantial declines in the carrying value of the investment portfolios of a carry fund can significantly delay or eliminate any carried interest distributions paid to us in respect of that fund since the value of the assets in the fund would need to recover to their aggregate cost basis plus the preferred return over time before we would be entitled to receive any carried interest from that fund. For this reason, due to declines in the carrying values of their underlying portfolio assets, our most recent private equity fund and real estate fund are not expected to generate any carried interest in the near future.

With respect to most of our funds of hedge funds and credit-oriented and real estate debt funds structured like hedge funds, our incentive income is paid annually or semi-annually, and the varying frequency of these payments will contribute to the volatility of our cash flow. Furthermore, we earn this incentive income only if the net asset value of a fund has increased or, in the case of certain funds, increased beyond a particular return threshold. Certain of these funds also have high water marks whereby we do not earn incentive income during a particular period even though the fund had positive returns in such period as a result of losses in prior periods. If one of these funds experiences losses, we will not be able to earn incentive income from the fund until it surpasses the previous high water mark. This occurred with respect to many such funds in 2009 as a result of investment losses experienced in 2008. The incentive income we earn is therefore dependent on the net asset value of the fund, which could lead to significant volatility in our results.

We also earn a portion of our revenue from financial advisory engagements, and in many cases we are not paid until the successful consummation of the underlying transaction, restructuring or closing of the fund. As a result, our financial advisory revenue is highly dependent on market conditions and the decisions and actions of our clients, interested third parties and governmental authorities. If a transaction, restructuring or funding is not consummated, we often do not receive any financial advisory fees other than the reimbursement of certain out-of-pocket expenses, despite the fact that we may have devoted considerable resources to these transactions.

Because our revenue, net income and cash flow can be highly variable from quarter to quarter and year to year, we do not provide any guidance regarding our expected quarterly and annual operating results. The lack of guidance may affect the expectations of public market analysts and could cause increased volatility in our common unit price.

Adverse economic and market conditions may adversely affect our liquidity position, which could adversely affect our business operations in the future.

We use cash to (1) provide capital to facilitate the growth of our existing businesses, which principally includes funding our general partner and co-investment commitments to our funds; (2) provide capital for business expansion; (3) pay operating expenses and other obligations as they arise; (4) fund capital expenditures; (5) repay debt; (6) pay income taxes; and (7) make distributions to our unitholders and the holders of Blackstone Holdings Partnership Units. In addition to the cash we received in connection with our IPO and our $600 million debt offering in August 2009, our principal sources of cash are: (1) Net Fee Related Earnings from Operations, (2) Realized Performance Fees and Allocations net of related profit sharing interests that are included in Compensation and (3) Blackstone Investment Income related to its investments in liquid funds and its net realized investment income on its illiquid investments. We also maintain a $850 million revolving 364 day credit facility with a final maturity date of May 11, 2010. We had $952 million in cash and $652 million in debt at the end of 2009. During 2009, the firm had adjusted cash flow from operations of $526 million. We also paid distributions to common unitholders of $261 million ($0.90 per common unit) in respect of the first three quarters of 2009 and will make a distribution of approximately $98 million to common unitholders ($0.30 per common unit) in respect of the fourth quarter of 2009. Common unitholders were entitled to a priority distribution of up to $1.20 per unit ahead of Blackstone personnel and others regarding distributions made in respect of fiscal periods from July 1, 2007 through December 31, 2009. As a result, in contrast to the $1.20 per unit of distributions that will have been paid to common unitholders in respect of fiscal 2009, holders of Blackstone Holdings Partnership units will be receiving a distribution of $0.22 per unit in respect of fiscal 2009. Had this distribution priority not been in effect in 2009 so that cash distributions were made to all unitholders on a pro rata basis, the distributions to common unitholders in respect of fiscal 2009 would have been $0.48 per unit instead of $1.20 per unit. On December 31, 2009, this distribution priority ended and therefore all future distributions will be made on a pro rata basis among all holders of Blackstone Holdings units (held by Blackstone personnel and others) and all holders of Blackstone common units (held by public unitholders and others).

If the global economy and conditions in the financing markets fail to improve or worsen, our fund investment performance could suffer, resulting in, for example, the payment of less or no carried interest to us. The payment of less or no carried interest could cause our adjusted cash flow from operations to significantly decrease, which could materially and adversely affect our liquidity position and the amount of cash we have on hand to conduct our operations. Having less cash on hand could in turn require us to rely on other sources of cash (such as the capital markets which may not be available to us on acceptable terms) to conduct our operations, which include, for example, funding significant general partner and co-investment commitments to our carry funds.

Furthermore, during adverse economic and market conditions, we might not be able to renew all or part of our existing revolving credit facility or find alternate financing on commercially reasonable terms. As a result, our uses of cash may exceed our sources of cash, thereby potentially affecting our liquidity position.

We depend on our co-founder and other key senior managing directors and the loss of their services would have a material adverse effect on our business, results and financial condition.

We depend on the efforts, skill, reputations and business contacts of our co-founder, Stephen A. Schwarzman, our President and Chief Operating Officer, Hamilton E. James, our Vice Chairman, J. Tomilson Hill, and other key senior managing directors, the information and deal flow they and other senior managing directors generate during the normal course of their activities and the synergies among the diverse fields of expertise and knowledge held by our professionals. Accordingly, our success will depend on the continued service of these individuals, who are not obligated to remain employed with us. Several key senior managing directors have left the firm in the past and others may do so in the future, and we cannot predict the impact that the departure of any key senior managing director will have on our ability to achieve our investment objectives. The loss of the services of any of them could have a material adverse effect on our revenues, net income and cash flows and could harm our ability to maintain or grow assets under management in existing funds or raise additional funds in the future. We have historically relied in part on the interests of these professionals in the investment funds carried interest and incentive fees to discourage them from leaving the firm. However, to the extent our investment funds perform poorly, thereby reducing the potential for carried interest and incentive fees, their interests in carried interest and incentive fees become less valuable to them and become less effective as incentives for them to continue to be employed at Blackstone.

Our senior managing directors and other key personnel possess substantial experience and expertise and have strong business relationships with investors in our funds, clients and other members of the business community. As a result, the loss of these personnel could jeopardize our relationships with investors in our funds, our clients and members of the business community and result in the reduction of assets under management or fewer investment opportunities.

Our publicly traded structure may adversely affect our ability to retain and motivate our senior managing directors and other key personnel and to recruit, retain and motivate new senior managing directors and other key personnel, both of which could adversely affect our business, results and financial condition.

Our most important asset is our people, and our continued success is highly dependent upon the efforts of our senior managing directors and other professionals. Our future success and growth depends to a substantial degree on our ability to retain and motivate our senior managing directors and other key personnel and to strategically recruit, retain and motivate new talented personnel. Our current senior managing directors and other senior personnel have equity interests in our business that are primarily partnership units in Blackstone Holdings (as defined under Item 13. Certain Relationships, Related Transactions and Director Independence Blackstone Holdings Partnership Agreements) and which entitle such personnel to cash distributions. However, the value of such Blackstone Holdings partnership units and the distributions in respect of these equity interests may not be sufficient to retain and motivate our senior managing directors and other key personnel, nor may they be sufficiently attractive to strategically recruit, retain and motivate new talented personnel. Moreover, prior to our IPO, many of our senior managing directors and other senior personnel had interests in each of our underlying businesses which may have entitled to them to a larger amount of cash distributions than they receive in respect of Blackstone Holdings partnership units.

Additionally, the retention of an increasingly larger portion of the Blackstone Holdings partnership units held by senior managing directors is not dependent upon their continued employment with us as those equity interests continue to vest as time passes. Moreover, the minimum retained ownership requirements and transfer restrictions to which these interests are subject in certain instances lapse over time, may not be enforceable in all cases and can be waived. There is no guarantee that the non-competition and non-solicitation agreements to

Table of Contents

which our senior managing directors are subject, together with our other arrangements with them, will prevent them from leaving us, joining our competitors or otherwise competing with us or that these agreements will be enforceable in all cases. In addition, these agreements will expire after a certain period of time, at which point each of our senior managing directors would be free to compete against us and solicit investors in our funds, clients and employees.

We might not be able to provide future senior managing directors with equity interests in our business to the same extent or with the same tax consequences from which our existing senior managing directors previously benefited. For example, if legislation were to be enacted by the U.S. Congress or any state or local governments to treat carried interest as ordinary income rather than as capital gain for tax purposes, such legislation would materially increase the amount of taxes that we and possibly our unitholders would be required to pay, thereby adversely affecting our ability to recruit, retain and motivate our current and future professionals. See Risks Related to United States Taxation Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.

Alternatively, the value of the units we may issue senior managing directors at any given time may subsequently fall (as reflected in the market price of our common units), which could counteract the incentives we are seeking to induce in them. Therefore, in order to recruit and retain existing and future senior managing directors, we may need to increase the level of compensation that we pay to them. Accordingly, as we promote or hire new senior managing directors over time, we may increase the level of compensation we pay to our senior managing directors, which would cause our total employee compensation and benefits expense as a percentage of our total revenue to increase and adversely affect our profitability. In addition, issuance of equity interests in our business to future senior managing directors would dilute public common unitholders.

We strive to maintain a work environment that reinforces our culture of collaboration, motivation and alignment of interests with investors. If we do not continue to develop and implement the right processes and tools to manage our changing enterprise and maintain this culture, our ability to compete successfully and achieve our business objectives could be impaired, which could negatively impact our business, financial condition and results of operations.

Our organizational documents do not limit our ability to enter into new lines of businesses, and we may expand into new investment strategies, geographic markets and businesses, each of which may result in additional risks and uncertainties in our businesses.

Our plan, to the extent that market conditions permit, is to grow our investment and financial advisory businesses and expand into new investment strategies, geographic markets and businesses. Our organizational documents do not limit us to the investment management and financial advisory businesses. Accordingly, we may pursue growth through acquisitions of other investment management or advisory companies, acquisitions of critical business partners or other strategic initiatives. In addition, we expect opportunities will arise to acquire other alternative or traditional asset managers. To the extent we make strategic investments or acquisitions, undertake other strategic initiatives or enter into a new line of business, we will face numerous risks and uncertainties, including risks associated with (1) the required investment of capital and other resources, (2) the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk, (3) combining or integrating operational and management systems and controls and (4) the broadening of our geographic footprint, including the risks associated with conducting operations in non-U.S. jurisdictions. Entry into certain lines of business may subject us to new laws and regulations with which we are not familiar, or from which we are currently exempt, and may lead to increased litigation and regulatory risk. If a new business generates insufficient revenues or if we are unable to efficiently manage our expanded operations, our results of operations will be adversely affected. Our strategic initiatives may include joint ventures, in which case we will be subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to systems, controls and personnel that are not under our control.

If we are unable to consummate or successfully integrate additional development opportunities, acquisitions or joint ventures, we may not be able to implement our growth strategy successfully.

Our growth strategy is based, in part, on the selective development or acquisition of asset management businesses, advisory businesses or other businesses complementary to our business where we think we can add substantial value or generate substantial returns. The success of this strategy will depend on, among other things: (1) the availability of suitable opportunities; (2) the level of competition from other companies that may have greater financial resources; (3) our ability to value potential development or acquisition opportunities accurately and negotiate acceptable terms for those opportunities; (4) our ability to identify and enter into mutually beneficial relationships with venture partners; (5) and our ability to successfully integrate and oversee the operations of the new businesses. If we are not successful in implementing our growth strategy, our business, financial results and the market price for our common units may be adversely affected.

Legislation has been introduced in the U.S. Congress in various forms that, if enacted, (i) would preclude us from qualifying as a partnership and/or (ii) would require us to hold carried interest through taxable subsidiary corporations and tax carried interest as ordinary income for U.S. federal income tax purposes. If this or any similar legislation or regulation were to be enacted and apply to us, we would incur a material increase in our tax liability that could result in a reduction in the market price of our common units.

In 2007, Congress considered legislation that would tax as corporations publicly traded partnerships that directly or indirectly derive income from investment adviser or asset management services. If we were taxed as a corporation, our effective tax rate would increase significantly. The federal statutory rate for corporations is currently 35%, and the state and local tax rates, net of the federal benefit, aggregate approximately 10%. If a variation of this proposed 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, this would materially increase our tax liability and could well result in a reduction in the market price of our common units.

In 2008, the U.S. House of Representatives passed a bill that would generally (1) treat carried interest as non-qualifying income under the tax rules applicable to publicly traded partnerships, which would generally require us to hold interests in entities earning such income through taxable subsidiary corporations by the end of 2010, and (2) tax carried interest as ordinary income for U.S. federal income taxes, rather than in accordance with the character of income derived by the underlying fund, which is in many cases capital gain, starting with our 2008 taxable year. In December, 2009, the U.S. House of Representatives passed substantially similar legislation. Such legislation would tax carried interest as ordinary income starting with our 2010 taxable year. However, under a transition rule, the portion of such legislation treating carried interest as non-qualifying income under the tax rules applicable to publicly traded partnerships would not apply until our first taxable year beginning 10 years after the date of the enactment of the legislation. In addition, the Obama administration proposed in its published revenue proposals for both 2010 and 2011 that the current law regarding the treatment of carried interest be changed to treat such income as income received in connection with the performance of services and subject to ordinary income tax. If any such legislation or similar legislation were to be enacted and apply to us, it would materially increase our tax liability, which could well result in a reduction in the market price of our common units.

The requirements of being a public entity and sustaining our growth may strain our resources.

As a public entity, we are subject to the reporting requirements of the U.S. Securities Exchange Act of 1934, as amended, or Exchange Act, and requirements of the U.S. Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley Act. These requirements may place a strain on our systems and resources. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal controls over financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures, significant resources and management oversight are required. We have implemented and continue to

Table of Contents

implement additional procedures and processes for the purpose of addressing the standards and requirements applicable to public companies. In addition, sustaining our growth also requires us to commit additional management, operational and financial resources to identify new professionals to join our firm and to maintain appropriate operational and financial systems to adequately support expansion. These activities may divert management s attention from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. We have incurred and expect to continue to incur significant additional annual expenses related to these steps, including among other things additional directors and officers liability insurance, director fees, reporting requirements of the Securities and Exchange Commission, or SEC, transfer agent fees, hiring additional accounting, legal and administrative personnel, increased auditing and legal fees and similar expenses.

The potential requirement to convert our financial statements from being prepared in conformity with accounting principles generally accepted in the United States of America to International Financial Reporting Standards may strain our resources and increase our annual expenses.

As a public entity, the SEC may require in the future that we report our financial results under International Financial Reporting Standards (IFRS) instead of under accounting principles generally accepted in the United States of America (U.S. GAAP). IFRS is a set of accounting principles that has been gaining acceptance on a worldwide basis. These standards are published by the London-based International Accounting Standards Board (IASB) and are more focused on objectives and principles and less reliant on detailed rules than U.S. GAAP. Today, there remain significant and material differences in several key areas between U.S. GAAP and IFRS which would affect Blackstone. Additionally, U.S. GAAP provides specific guidance in classes of accounting transactions for which equivalent guidance in IFRS does not exist. The adoption of IFRS is highly complex and would have an impact on many aspects and operations of Blackstone, including but not limited to financial accounting and reporting systems, internal controls, taxes, borrowing covenants and cash management. It is expected that a significant amount of time, internal and external resources and expenses over a multi-year period would be required for this conversion.

Operational risks may disrupt our businesses, result in losses or limit our growth.

We rely heavily on our financial, accounting and other data processing systems. If any of these systems do not operate properly or are disabled, we could suffer financial loss, a disruption of our businesses, liability to our investment funds, regulatory intervention or reputational damage. In addition, we operate in businesses that are highly dependent on information systems and technology. Our information systems and technology may not continue to be able to accommodate our growth, and the cost of maintaining such systems may increase from its current level. Such a failure to accommodate growth, or an increase in costs related to such information systems, could have a material adverse effect on us.

Furthermore, we depend on our headquarters in New York City, where most of our personnel are located, for the continued operation of our business. A disaster or a disruption in the infrastructure that supports our businesses, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, or directly affecting our headquarters, could have a material adverse impact on our ability to continue to operate our business without interruption. Our disaster recovery programs may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses, if at all.

Finally, we rely on third-party service providers for certain aspects of our business, including for certain information systems and technology and administration of our hedge funds. Any interruption or deterioration in the performance of these third parties or failures of their information systems and technology could impair the quality of the funds operations and could affect our reputation and hence adversely affect our businesses.

Extensive regulation of our businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus could result in additional burdens on our business. Changes in tax law and other legislative or regulatory changes could adversely affect us.

Our asset management and financial advisory businesses are subject to extensive regulation. We are subject to regulation, including periodic examinations, by governmental and self-regulatory organizations in the jurisdictions in which we operate around the world. Many of these regulators, including U.S. and foreign government agencies and self-regulatory organizations, as well as state securities commissions in the United States, are empowered to conduct investigations and administrative proceedings that can result in fines, suspensions of personnel or other sanctions, including censure, the issuance of cease-and-desist orders or the suspension or expulsion of a broker-dealer or investment adviser from registration or memberships. Even if an investigation or proceeding did not result in a sanction or the sanction imposed against us or our personnel by a regulator were small in monetary amount, the adverse publicity relating to the investigation, proceeding or imposition of these sanctions could harm our reputation and cause us to lose existing clients or fail to gain new asset management or financial advisory clients. In addition, we regularly rely on exemptions from various requirements of the U.S. Securities Act of 1933, as amended, or Securities Act, the Exchange Act, the U.S. Investment Company Act of 1940, as amended, or 1940 Act, and the U.S. Employee Retirement Income Security Act of 1974, as amended, in conducting our asset management activities. These exemptions are sometimes highly complex and may in certain circumstances depend on compliance by third parties whom we do not control. If for any reason these exemptions were to become unavailable to us, we could become subject to regulatory action or third party claims and our business could be materially and adversely affected. See Risks Related to Our Organizational Structure If The Blackstone Group L.P. were deemed an investment company under the 1940 Act, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business . Lastly, the requirements imposed by our regulators are designed primarily to ensure the integrity of the financial markets and to protect investors in our investment funds and are not designed to protect our common unitholders. Consequently, these regulations often serve to limit our activities.

In addition, the regulatory environment in which our asset management and financial advisory clients operate may affect our business. For example, changes in antitrust laws or the enforcement of antitrust laws could affect the level of mergers and acquisitions activity and changes in state laws may limit investment activities of state pension plans. In addition, the U.K. Financial Services Authority recently published a discussion paper on the impact that the growth in the private equity market has had on the markets in the United Kingdom and the suitability of its regulatory approach in addressing risks posed by the private equity market. See Business Regulatory and Compliance Matters for a further discussion of the regulatory environment in which we conduct our businesses.

As a result of the recent economic downturn, acts of serious fraud in the alternative asset management industry and perceived lapses in regulatory oversight, the current environment in which we operate is subject to further regulation. Governmental regulators and other authorities (including those in the U.S. and Europe) have proposed a number of initiatives and additional rules and regulations that could materially and adversely affect our business. In addition, we may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other U.S. or non-U.S. governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. We also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. Compliance with any new laws or regulations could make compliance more difficult and expensive and affect the manner in which we conduct business.

Recent legislative or regulatory proposals in the U.S. include designating a federal agency as the financial system s systemic risk regulator with authority to review the activities of all financial institutions, including alternative asset managers, and to impose regulatory standards on any companies deemed to pose a threat to the financial health of the U.S. economy; authorizing federal regulatory agencies to ban compensation arrangements

Table of Contents

at financial institutions that give employees incentives to engage in conduct that could pose risks to the nation s financial system; and new ground rules for private equity investments in failed banks that make the acquisition of a failed bank less attractive for a private equity fund. In addition, a bill is pending in the U.S. Congress that would require investment managers of private equity funds, hedge funds, real estate funds and other private investment vehicles with at least $150 million in assets under management to register with the SEC under the U.S. Investment Advisers Act of 1940, maintain books and records in accordance with SEC requirements and become subject to SEC examinations and information requests in order to remain exempt from the substantive provisions of the 1940 Act. All of Blackstone s U.S. investment advisory entities that advise our various funds are already registered under the Investment Advisers Act, but the bill would also impose new reporting, record-keeping and disclosure requirements on each registered investment advisor and would expand the SEC s rule-making and enforcement authority.

Legislation has been adopted in Australia, Denmark, Germany and Italy that limits the tax deductibility of interest expense incurred by companies in those countries. These measures will most likely adversely affect portfolio companies in those countries in which our private equity funds have investments and limit the benefits of additional investments in those countries. Our private equity business is subject to the risk that similar measures might be introduced in other countries in which our private equity funds currently have investments or plan to invest in the future, or that other legislative or regulatory measures that negatively affect their respective portfolio investments might be promulgated in any of the countries in which they invest.

A directive introduced by the European Commission that would impose a new regulatory scheme on private equity funds and hedge funds operating in the European Union would, if enacted in its original proposed form, have a particularly adverse effect on our investment businesses by among other things (a) imposing costly requirements to hire an independent valuation firm based in the European Union to value all of our investment funds assets and to hire an independent depositary based in the European Union to hold all of our investments, (b) imposing capital requirements on all of our investment advisors that manage or market investment funds in the European Union, (c) imposing extensive disclosure obligations on our investment funds portfolio companies, (d) prohibiting Blackstone from marketing our investment funds to any investors based in a European Union country for three years after enactment of the directive and significantly restricting those marketing activities thereafter, and (e) potentially in effect restricting our investment funds investments in companies based in European Union countries. If enacted in that form or in a revised form, the proposed legislation or regulations noted above could negatively impact us or our funds in a number of ways, including increasing our or our funds regulatory costs, imposing additional burdens on our staff, restricting our ability to market our funds and potentially requiring the disclosure of sensitive information.

Blackstone s non-U.S. advisory entities are, to the extent required, registered with the relevant regulatory authority of the jurisdiction in which the advisory entity is domiciled. In addition, we voluntarily participate in several transparency initiatives, including those organized by the Private Equity Council (PEC), the British Private Equity and Venture Capital Association (BVCA) and others calling for the reporting of information concerning companies in which certain of our funds have investments. The reporting related to such initiatives may divert the attention of our personnel and the management teams of our portfolio companies. Moreover, sensitive business information relating to us or our portfolio companies could be publicly released.

In addition, U.S. and foreign labor unions have recently been agitating for greater legislative and regulatory oversight of private equity firms and transactions. Labor unions have also threatened to use their influence to prevent pension funds from investing in private equity funds.

In 2009 the New York State Attorney General launched an investigation into possible illegal conduct by some placement agents that assisted certain alternative investment funds who were retained to manage investments for New York State s pension funds. In respect of this investigation, the State of New York banned the use of all placement agents, lobbyists and other paid intermediaries in making investments by the state s pension funds. The Illinois and New Mexico legislatures adopted similar measures and similar actions were considered by other government officials. The U.S. Securities and Exchange Commission (SEC) released a proposed rule in 2009 regarding asset managers dealings with public pension funds. The proposed rule would ban the use of placement agents to obtain funds from public pension funds. Our fund placement business, Park Hill Group, provides extensive and needed services to its client alternative investment funds in connection with their marketing of investments in their funds to pension funds and other investors, in contrast to the placement agents that were investigated by the New York Attorney General for illegal conduct. But if other states were to impose similar bans on their pension funds dealing with all placement agents as New York State, Illinois and New Mexico have done, or more significantly, if the SEC were to adopt its proposed rule banning the use of placement agents to obtain funds from public pension funds, Park Hill s business would be materially and adversely affected. See Our organizational documents do not limit our ability to enter into new lines of businesses, and we may expand into new investment strategies, geographic markets and businesses, each of which may result in additional risks and uncertainties in our businesses.

Our use of leverage to finance our business will expose us to substantial risks, which are exacerbated by our funds use of leverage to finance investments.

We intend to use borrowings to finance our business operations as a public company. For example, in August 2009, we issued $600 million of ten-year senior notes at a rate of 6.625% per annum. Borrowing to finance our businesses exposes us to the typical risks associated with the use of leverage, including those discussed below under Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments . In order for us to utilize leverage to finance our business, we are dependent on financial institutions such as global banks extending credit to us on terms that are reasonable to us. There is no guarantee that such institutions will continue to extend credit to us or renew any existing credit agreements we may have with them. For example, we have a credit facility which provides for revolving credit borrowings that has a final maturity date of May 10, 2010. As borrowings under the facility or any other indebtedness mature, we will be required to either refinance them by entering into a new facility, which could result in higher borrowing costs, or issuing equity, which would dilute existing unitholders. We could also repay them by using cash on hand or cash from the sale of our assets. We could have difficulty entering into new facilities or issuing equity in the future on attractive terms, or at all. These risks are exacerbated by our funds use of leverage to finance investments.

We are subject to substantial litigation risks and may face significant liabilities and damage to our professional reputation as a result of litigation allegations and negative publicity.

The investment decisions we make in our asset management business and the activities of our investment professionals on behalf of portfolio companies of our carry funds may subject them and us to the risk of third-party litigation arising from investor dissatisfaction with the performance of those investment funds, the activities of our portfolio companies and a variety of other litigation claims. For example, from time to time we and our portfolio companies have been subject to class action suits by shareholders in public companies that we have agreed to acquire that challenge our acquisition transactions and attempt to enjoin them.

In addition, to the extent investors in our investment funds suffer losses resulting from fraud, gross negligence, willful misconduct or other similar misconduct, investors may have remedies against us, our investment funds, our senior managing directors or our affiliates under the federal securities law and/or state law. While the general partners and investment advisers to our investment funds, including their directors, officers, other employees and affiliates, are generally indemnified to the fullest extent permitted by law with respect to their conduct in connection with the management of the business and affairs of our investment funds, such indemnity does not extend to actions determined to have involved fraud, gross negligence, willful misconduct or other similar misconduct.

Our financial advisory activities may also subject us to the risk of liabilities to our clients and third parties, including our clients stockholders, under securities or other laws in connection with corporate transactions on which we render advice.

Table of Contents

If any lawsuits were brought against us and resulted in a finding of substantial legal liability, it could materially adversely affect our business, financial condition or results of operations or cause significant reputational harm to us, which could seriously harm our business. We depend to a large extent on our business relationships and our reputation for integrity and high-caliber professional services to attract and retain investors and advisory clients and to pursue investment opportunities for our carry funds. As a result, allegations of improper conduct by private litigants or regulators, whether the ultimate outcome is favorable or unfavorable to us, as well as negative publicity and press speculation about us, our investment activities or the private equity industry in general, whether or not valid, may harm our reputation, which may be more damaging to our business than to other types of businesses.

Employee misconduct could harm us by impairing our ability to attract and retain clients and subjecting us to significant legal liability and reputational harm.

There is a risk that our employees could engage in misconduct that adversely affects our business. We are subject to a number of obligations and standards arising from our asset management business and our authority over the assets managed by our asset management business. The violation of these obligations and standards by any of our employees would adversely affect our clients and us. Our business often requires that we deal with confidential matters of great significance to companies in which we may invest or our financial advisory clients. If our employees were improperly to use or disclose confidential information, we could suffer serious harm to our reputation, financial position and current and future business relationships. It is not always possible to detect or deter employee misconduct, and the extensive precautions we take to detect and prevent this activity may not be effective in all cases. If one of our employees were to engage in misconduct or were to be accused of such misconduct, our business and our reputation could be adversely affected.

Risks Related to Our Asset Management Business

Poor performance of our investment funds would cause a decline in our revenue, income and cash flow, may obligate us to repay carried interest previously paid to us, and could adversely affect our ability to raise capital for future investment funds.

In the event that any of our investment funds were to perform poorly, our revenue, income and cash flow would decline because the value of our assets under management would decrease, which would result in a reduction in management fees, and our investment returns would decrease, resulting in a reduction in the carried interest and incentive fees we earn. Moreover, we could experience losses on our investments of our own principal as a result of poor investment performance by our investment funds. Furthermore, if, as a result of poor performance of later investments in a carry fund s life, the fund does not achieve certain investment returns for the fund over its life, we will be obligated to repay the amount by which carried interest that was previously distributed to us exceeds amounts to which we are ultimately entitled.

Poor performance of our investment funds could make it more difficult for us to raise new capital. Investors in carry funds might decline to invest in future investment funds we raise and investors in hedge funds or other investment funds might withdraw their investments as a result of poor performance of the investment funds in which they are invested. Investors and potential investors in our funds continually assess our investment funds performance, and our ability to raise capital for existing and future investment funds and avoid excessive redemption levels will depend on our investment funds continued satisfactory performance. Accordingly, poor fund performance may deter future investment in our funds and thereby decrease the capital invested in our funds and ultimately, our management fee income. Alternatively, in the face of poor fund performance, investors could demand lower fees or fee concessions which would likewise decrease our revenue. During 2009, a significant number of fund sponsors decreased the amount of fees they charged investors for fund management as a direct result of poor fund performance.

Table of Contents

Our asset management business depends in large part on our ability to raise capital from third party investors. If we are unable to raise capital from third party investors, we would be unable to collect management fees or deploy their capital into investments and potentially collect transaction fees or carried interest, which would materially reduce our revenue and cash flow and adversely affect our financial condition.

Our ability to raise capital from third party investors depends on a number of factors, including certain factors that are outside our control. Certain factors, such as the performance of the stock market or the asset allocation rules or regulations to which such third party investors are subject, could inhibit or restrict the ability of third party investors to make investments in our investment funds or the asset classes in which our investment funds invest. For example, during the last eighteen months a large number of third party investors that invest in alternative assets and have historically invested in our investment funds have experienced significant volatility in valuations of their investment portfolios, including a significant decline in the value of their overall private equity, real estate, venture capital and hedge fund portfolios, which affected our ability to raise capital from them. Coupled with a lack of realizations from their existing private equity and real estate portfolios, many of these investors were left with disproportionately outsized remaining commitments to a number of investment funds, and have been significantly limited in making new commitments to third party managed investment funds such as those managed by us. To the extent economic conditions fail to improve, we may be unable to raise sufficient amounts of capital to support the investment activities of future funds. For instance, we are in the process of raising our sixth general private equity fund and although we have raised a significant portion of capital for that fund to invest and expect to raise significant additional capital, the final amount we do eventually raise may be less than its predecessor fund and below our desired amount for that fund. Moreover, as we seek to expand into other asset classes, such as funds that focus on the infrastructure and clean technology asset classes, we may be unable to raise a sufficient amount of capital to adequately support such businesses. If we are unable to successfully raise capital, it could materially reduce our revenue and cash flow and adversely affect our financial condition.

In addition, in connection with raising new funds or making further investments in existing funds, we negotiate terms for such funds and investments with existing and potential investors. The outcome of such negotiations could result in our agreement to terms that are materially less favorable to us than for prior funds we have managed or funds managed by our competitors. Such terms could restrict our ability to raise investment funds with investment objectives or strategies that compete with existing funds, add additional expenses and obligations for us in managing the fund or increase our potential liabilities, all of which could ultimately reduce our revenues. For example, we have confronted and expect to continue to confront requests from a variety of investors and groups representing investors to decrease fees, which could result in a reduction in the fees and carried interest and incentive fees we earn.

Valuation methodologies for certain assets in our funds can be subject to significant subjectivity and the fair value of assets established pursuant to such methodologies may never be realized, which could result in significant losses for our funds.

There are often no readily ascertainable market prices for illiquid investments in our private equity, real estate and certain of our credit-oriented funds. We determine the value of the investments of each of our private equity, real estate and credit-oriented funds at least quarterly based on the fair value of such investments. The fair value of investments of a private equity, real estate or credit-oriented fund is generally determined using several methodologies described in the investment funds valuation policies.

Investments for which market prices are not observable include private investments in the equity of operating companies or real estate properties. Fair values of such 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. In determining fair values of real estate investments, we also consider projected operating cash flows, sales of comparable assets, replacement costs and

Table of Contents

capitalization rates (cap rates) analyses. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (e.g., multiplying a key performance metric of the investee company or asset, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Additionally, where applicable, projected distributable cash flow through debt maturity will also be considered in support of the investment s carrying value. Private investments may also be valued at cost for a period of time after an acquisition as the best indicator of fair value. These valuation methodologies involve a significant degree of management judgment.

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

The determination of fair value using these methodologies takes into consideration a range of factors including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. These valuation methodologies involve a significant degree of management judgment.

Because there is significant uncertainty in the valuation of, or in the stability of the value of illiquid investments, the fair values of such investments as reflected in an investment fund s net asset value do not necessarily reflect the prices that would actually be obtained by us on behalf of the investment fund when such investments are realized. Realizations at values significantly lower than the values at which investments have been reflected in prior fund net asset values would result in losses for the applicable fund, a decline in asset management fees and the loss of potential carried interest and incentive fees. Changes in values attributed to investments from quarter to quarter may result in volatility in the net asset values and results of operations and cash flow that we report from period to period. Also, a situation where asset values turn out to be materially different than values reflected in prior fund net asset values could cause investors to lose confidence in us, which would in turn result in difficulty in raising additional funds or redemptions from our hedge funds.

The historical returns attributable to our funds should not be considered as indicative of the future results of our funds or of our future results or of any returns expected on an investment in our common units.

The historical and potential future returns of the investment funds that we manage are not directly linked to returns on our common units. Therefore, any continued positive performance of the investment funds that we manage will not necessarily result in positive returns on an investment in our common units. However, poor performance of the investment funds that we manage would cause a decline in our revenue from such investment funds, and would therefore have a negative effect on our performance and in all likelihood the returns on an investment in our common units.

Moreover, with respect to the historical returns of our investment funds:

- the rates of returns of our carry funds reflect unrealized gains as of the applicable measurement date that may never be realized, which may adversely affect the ultimate value realized from those funds investments;

- the rates of returns of our BCP and BREP funds in some years were positively influenced by a number of investments that experienced rapid and substantial increases in value following the dates on which those investments were made, which may not occur with respect to future investments;

Table of Contents

- our investment funds returns in some years benefited from investment opportunities and general market conditions that may not repeat themselves (including, for example, particularly favorable borrowing conditions in the debt markets during 2005, 2006 and early 2007), and our current or future investment funds might not be able to avail themselves of comparable investment opportunities or market conditions; and

- the rates of return reflect our historical cost structure, which may vary in the future due to various factors enumerated elsewhere in this report and other factors beyond our control, including changes in laws.

In addition, future returns will be affected by the applicable risks described elsewhere in this Form 10-K, including risks of the industries and businesses in which a particular fund invests.

Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments.

Many of our carry funds investments rely heavily on the use of leverage, and our ability to achieve attractive rates of return on investments will depend on our ability to access sufficient sources of indebtedness at attractive rates. For example, in many private equity investments, indebtedness may constitute approximately 70% or more of a portfolio company s or real estate asset s total debt and equity capitalization, including debt that may be incurred in connection with the investment. The absence of available sources of sufficient senior debt financing for extended periods of time could therefore materially and adversely affect our private equity and real estate businesses. In addition, an increase in either the general levels of interest rates or in the risk spread demanded by sources of indebtedness such as we experienced during 2009 would make it more expensive to finance those businesses investments. Increases in interest rates could also make it more difficult to locate and consummate private equity investments because other potential buyers, including operating companies acting as strategic buyers, may be able to bid for an asset at a higher price due to a lower overall cost of capital or their ability to benefit from a higher amount of cost savings following the acquisition of the asset. In addition, a portion of the indebtedness used to finance private equity investments often includes high-yield debt securities issued in the capital markets. Availability of capital from the high-yield debt markets is subject to significant volatility, and there may be times when we might not be able to access those markets at attractive rates, or at all, when completing an investment. Since the middle of 2007, the amount of attractive financing of any type available for leveraged acquisition transactions has been limited, which has significantly reduced the type and size of investments our private equity and real estate funds have been able to make.

Investments in highly leveraged entities are inherently more sensitive to declines in revenues, increases in expenses and interest rates and adverse economic, market and industry developments. The incurrence of a significant amount of indebtedness by an entity could, among other things:

- give rise to an obligation to make mandatory prepayments of debt using excess cash flow, which might limit the entity s ability to respond to changing industry conditions to the extent additional cash is needed for the response, to make unplanned but necessary capital expenditures or to take advantage of growth opportunities;

- limit the entity s ability to adjust to changing market conditions, thereby placing it at a competitive disadvantage compared to its competitors who have relatively less debt;

- limit the entity s ability to engage in strategic acquisitions that might be necessary to generate attractive returns or further growth; and

- limit the entity s ability to obtain additional financing or increase the cost of obtaining such financing, including for capital expenditures, working capital or general corporate purposes.

As a result, the risk of loss associated with a leveraged entity is generally greater than for companies with comparatively less debt. For example, many investments consummated by private equity sponsors during 2005,

Table of Contents

2006 and 2007 which utilized significant amounts of leverage are experiencing severe economic stress and have or may default on their debt obligations due to a decrease in revenues and cash flow precipitated by the subsequent economic downturn.

When our BCP and BREP funds existing portfolio investments reach the point when debt incurred to finance those investments mature in significant amounts and must be either repaid or refinanced, those investments may materially suffer if they have generated insufficient cash flow to repay maturing debt and there is insufficient capacity and availability in the financing markets to permit them to refinance maturing debt on satisfactory terms, or at all. If the current limited availability of financing for such purposes were to persist for several years, when significant amounts of the debt incurred to finance our private equity and real estate funds existing portfolio investments start to come due, these funds could be materially and adversely affected.

Many of the hedge funds in which our funds of hedge funds invest, our credit-oriented funds and CLOs may choose to use leverage as part of their respective investment programs and regularly borrow a substantial amount of their capital. The use of leverage poses a significant degree of risk and enhances the possibility of a significant loss in the value of the investment portfolio. A fund may borrow money from time to time to purchase or carry securities or may enter into derivative transactions (such as total return swaps) with counterparties that have embedded leverage. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the securities purchased or carried and will be lost and the timing and magnitude of such losses may be accelerated or exacerbated in the event of a decline in the market value of such securities. Gains realized with borrowed funds may cause the fund s net asset value to increase at a faster rate than would be the case without borrowings. However, if investment results fail to cover the cost of borrowings, the fund s net asset value could also decrease faster than if there had been no borrowings.

Increases in interest rates could also decrease the value of fixed-rate debt investments that our investment funds make.

Any of the foregoing circumstances could have a material adverse effect on our financial condition, results of operations and cash flow.

The asset management business is intensely competitive.

The asset management business is intensely competitive, with competition based on a variety of factors, including investment performance, the quality of service provided to clients, investor liquidity and willingness to invest, fund terms (including fees), brand recognition and business reputation. Our asset management business competes with a number of private equity funds, specialized investment funds, hedge funds, funds of hedge funds and other sponsors managing pools of capital, as well as corporate buyers, traditional asset managers, commercial banks, investment banks and other financial institutions (including sovereign wealth funds). A number of factors serve to increase our competitive risks:

- a number of our competitors in some of our businesses have greater financial, technical, marketing and other resources and more personnel than we do;

- a significant number of investors have materially decreased or temporarily stopped making new fund investments recently because of the global economic downturn and generally poor returns in their overall alternative asset investment portfolios in 2008 and 2009;

- some of our funds may not perform as well as competitors funds or other available investment products;

- several of our competitors have recently raised, or are expected to raise, significant amounts of capital, and many of them have similar investment objectives to ours, which may create additional competition for investment opportunities and may reduce the size and duration of pricing inefficiencies that many alternative investment strategies seek to exploit;

Table of Contents

- some of these competitors may also have a lower cost of capital and access to funding sources that are not available to us, which may create competitive disadvantages for us with respect to investment opportunities;

- some of our competitors may have more flexibility than us in raising certain types of investment funds under the investment management contracts they have negotiated with their investors;

- some of our competitors may have higher risk tolerances, different risk assessments or lower return thresholds, which could allow them to consider a wider variety of investments and to bid more aggressively than us for investments that we want to make;

- some of our competitors may have better expertise or be regarded by investors as having better expertise in a specific asset class or geographic region than we do;

- our competitors that are corporate buyers may be able to achieve synergistic cost savings in respect of an investment, which may provide them with a competitive advantage in bidding for an investment;

- some investors may prefer to invest with an investment manager that is not publicly traded or is smaller with only one or two investment products that it manages; and

- other industry participants will from time to time seek to recruit our investment professionals and other employees away from us.

We may lose investment opportunities in the future if we do not match investment prices, structures and terms offered by competitors. Alternatively, we may experience decreased rates of return and increased risks of loss if we match investment prices, structures and terms offered by competitors. Moreover, if we are forced to compete with other alternative asset managers on the basis of price, we may not be able to maintain our current fund fee and carried interest terms. We have historically competed primarily on the performance of our funds, and not on the level of our fees or carried interest relative to those of our competitors. However, there is a risk that fees and carried interest in the alternative investment management industry will decline, without regard to the historical performance of a manager. Fee or carried interest income reductions on existing or future funds, without corresponding decreases in our cost structure, would adversely affect our revenues and profitability.

In addition, the attractiveness of our investment funds relative to investments in other investment products could decrease depending on economic conditions. This competitive pressure could adversely affect our ability to make successful investments and limit our ability to raise future investment funds, either of which would adversely impact our business, revenue, results of operations and cash flow.

The due diligence process that we undertake in connection with investments by our investment funds may not reveal all facts that may be relevant in connection with an investment.

Before making investments in private equity and other investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, we may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we rely on the resources available to us, including information provided by the target of the investment and, in some circumstances, third-party investigations. The due diligence investigation that we will carry out with respect to any investment opportunity may not reveal or highlight all relevant facts (including fraud) that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful.

In connection with the due diligence that our funds of hedge funds conduct in making and monitoring investments in third party hedge funds, we rely on information supplied by third party hedge funds or by service

providers to such third party hedge funds. The information we receive from them may not be accurate or complete and therefore we may not have all the relevant facts necessary to properly assess and monitor our funds investment in a particular hedge fund.

Our asset management activities involve investments in relatively high-risk, illiquid assets, and we may fail to realize any profits from these activities for a considerable period of time or lose some or all of our principal investments.

Many of our investment funds invest in securities that are not publicly traded. In many cases, our investment funds may be prohibited by contract or by applicable securities laws from selling such securities for a period of time. Our investment funds will generally not be able to sell these securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration is available. The ability of many of our investment funds, particularly our BCP funds, to dispose of investments is heavily dependent on the public equity markets. For example, the ability to realize any value from an investment may depend upon the ability to complete an initial public offering of the portfolio company in which such investment is held. Even if the securities are publicly traded, large holdings of securities can often be disposed of only over a substantial length of time, exposing the investment returns to risks of downward movement in market prices during the intended disposition period. Accordingly, under certain conditions, our investment funds may be forced to either sell securities at lower prices than they had expected to realize or defer potentially for a considerable period of time sales that they had planned to make. We have made and expect to continue to make significant principal investments in our current and future investment funds. Contributing capital to these investment funds is risky, and we may lose some or the entire principal amount of our investments.

We have engaged in large-sized investments, which involve certain complexities and risks that are not encountered in small and medium-sized investments.

Our BCP and BREP funds have invested and plan to continue to invest in large transactions. The size of these investments involves certain complexities and risks that are not encountered in small- and medium-sized investments. For example, larger transactions may be more difficult to finance, and exiting larger deals may present challenges in many cases. In addition, larger transactions may entail greater scrutiny by regulators, labor unions and other third parties.

Larger transactions may be structured as consortium transactions due to the size of the investment and the amount of capital required to be invested. A consortium transaction involves an equity investment in which two or more private equity firms serve together or collectively as equity sponsors. We participated in a significant number of consortium transactions in prior years due to the increased size of many of the transactions in which we were involved. Consortium transactions generally entail a reduced level of control by Blackstone over the investment because governance rights must be shared with the other private equity investors. Accordingly, we may not be able to control decisions relating to the investment, including decisions relating to the management and operation of the company and the timing and nature of any exit, which could result in the risks described in Our investment funds make investments in companies that we do not control.

Any of these factors could increase the risk that our larger investments could be less successful. The consequences to our investment funds of an unsuccessful larger investment could be more severe given the size of the investment.

We often pursue investment opportunities that involve business, regulatory, legal or other complexities.

As an element of our investment style, we may pursue unusually complex investment opportunities. This can often take the form of substantial business, regulatory or legal complexity that would deter other investment managers. Our tolerance for complexity presents risks, as such transactions can be more difficult, expensive and time-consuming to finance and execute; it can be more difficult to manage or realize value from the assets

Table of Contents

acquired in such transactions; and such transactions sometimes entail a higher level of regulatory scrutiny or a greater risk of contingent liabilities. Any of these risks could harm the performance of our funds.

Our investment funds make investments in companies that we do not control.

Investments by most of our investment funds will include debt instruments and equity securities of companies that we do not control. Such instruments and securities may be acquired by our investment funds through trading activities or through purchases of securities from the issuer. In addition, our private equity and real estate funds may acquire minority equity interests (particularly in consortium transactions, as described in We have engaged in large-sized investments, which involve certain complexities and risks that are not encountered in small and medium-sized investments) and may also dispose of a portion of their majority equity investments in portfolio companies over time in a manner that results in the investment funds retaining a minority investment. Those investments will be subject to the risk that the company in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve our interests. If any of the foregoing were to occur, the values of investments by our investment funds could decrease and our financial condition, results of operations and cash flow could suffer as a result.

We expect to make investments in companies that are based outside of the United States, which may expose us to additional risks not typically associated with investing in companies that are based in the United States.

Many of our investment funds generally invest a significant portion of their assets in the equity, debt, loans or other securities of issuers located outside the United States, and we expect that international investments will increase as a proportion of certain of our funds portfolios in the future. Investments in non-U.S. securities involve certain factors not typically associated with investing in U.S. securities, including risks relating to:

- currency exchange matters, including fluctuations in currency exchange rates and costs associated with conversion of investment principal and income from one currency into another;
- less developed or efficient financial markets than in the United States, which may lead to potential price volatility and relative illiquidity;
- the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation;
- differences in the legal and regulatory environment or enhanced legal and regulatory compliance;
- political hostility to investments by foreign or private equity investors;
- less publicly available information in respect of companies in non-U.S. markets;
- certain economic and political risks, including potential exchange control regulations and restrictions on our non-U.S. investments and repatriation of profits on investments or of capital invested, the risks of political, economic or social instability, the possibility of expropriation or confiscatory taxation and adverse economic and political developments; and
- the possible imposition of non-U.S. taxes or withholding on income and gains recognized with respect to such securities.

There can be no assurance that adverse developments with respect to such risks will not adversely affect our assets that are held in certain countries or the returns from these assets.

We may not have sufficient cash to pay back clawback obligations if and when they are triggered under the governing agreements with our investors.

If, at the end of the life of a carry fund (or earlier with respect to certain of our real estate funds), as a result of diminished performance of later investments in any carry fund s life, the carry fund has not achieved

Table of Contents

investment returns that (in most cases) exceed the preferred return threshold or (in all cases) the general partner receives in excess of 20% (10% or 15% in the case of certain of our credit-oriented and real estate debt carry funds) of the fund s net profits over the life of the fund, we will be obligated to repay an amount equal to the extent to which carried interest that was previously distributed to us exceeds the amounts to which we are ultimately entitled. This obligation is known as a clawback obligation and is an obligation of any person who directly received such carried interest, including us and our employees who participate in our carried interest plans. Although a portion of any distributions by us to our unitholders may include any carried interest received by us, we do not intend to seek fulfillment of any clawback obligation by seeking to have our unitholders return any portion of such distributions attributable to carried interest associated with any clawback obligation. The clawback obligation operates with respect to a given carry fund s own net investment performance only and performance fees of other funds are not netted for determining this contingent obligation. To the extent one or more clawback obligations were to occur for any one or more carry funds, we might not have available cash at the time such clawback obligation is triggered to repay the carried interest and satisfy such obligation. If we were unable to repay such carried interest, we would be in breach of the governing agreements with our investors and could be subject to liability. Moreover, although a clawback obligation is several, the governing agreements of most of our funds provide that to the extent another recipient of carried interest (such as a current or former employee) does not fund his or her respective share, then we and our employees who participate in such carried interest plans may have to fund additional amounts (generally up to an additional 50%) beyond what we actually received in carried interest, although we will retain the right to pursue any remedies that we have under such governing agreements against those carried interest recipients who fail to fund their obligations.

Investments by our investment funds will in most cases rank junior to investments made by others.

In most cases, the companies in which our investment funds invest will have indebtedness or equity securities, or may be permitted to incur indebtedness or to issue equity securities, that rank senior to our investment. By their terms, such instruments may provide that their holders are entitled to receive payments of dividends, interest or principal on or before the dates on which payments are to be made in respect of our investment. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a company in which an investment is made, holders of securities ranking senior to our investment would typically be entitled to receive payment in full before distributions could be made in respect of our investment. After repaying senior security holders, the company may not have any remaining assets to use for repaying amounts owed in respect of our investment. To the extent that any assets remain, holders of claims that rank equally with our investment would be entitled to share on an equal and ratable basis in distributions that are made out of those assets. Also, during periods of financial distress or following an insolvency, the ability of our investment funds to influence a company s affairs and to take actions to protect their investments may be substantially less than that of the senior creditors.

Investors in our hedge funds may redeem their investments in these funds. In addition, the investment management agreements related to our separately managed accounts may permit the investor to terminate our management of such account on short notice. Lastly, investors in our other investment funds have the right to cause these investment funds to be dissolved. Any of these events would lead to a decrease in our revenues, which could be substantial.

Investors in our hedge funds may generally redeem their investments on an annual, semi-annual or quarterly basis following the expiration of a specified period of time when capital may not be withdrawn (typically between one and three years), subject to the applicable fund s specific redemption provisions. In a declining market, the pace of redemptions and consequent reduction in our assets under management could accelerate. The decrease in revenues that would result from significant redemptions in our hedge funds could have a material adverse effect on our business, revenues, net income and cash flows.

We currently manage a significant portion of investor assets through separately managed accounts whereby we earn management and incentive fees, and we intend to continue to seek additional separately managed

Table of Contents

account mandates. The investment management agreements we enter into in connection with managing separately managed accounts on behalf of certain clients may be terminated by such clients on as little as 30 days prior written notice. In the case of any such termination, the management and incentive fees we earn in connection with managing such account would immediately cease, which could result in a significant adverse impact on our revenues.

The governing agreements of all of our investment funds (with the exception of certain of our funds of hedge funds) provide that, subject to certain conditions, third-party investors in those funds will have the right to remove the general partner of the fund or to accelerate the liquidation date of the investment fund without cause by a simple majority vote, resulting in a reduction in management fees we would earn from such investment funds and a significant reduction in the amounts of total carried interest and incentive fees from those funds. Carried interest and incentive fees could be significantly reduced as a result of our inability to maximize the value of investments by an investment fund during the liquidation process or in the event of the triggering of a clawback obligation. Finally, the applicable funds would cease to exist. In addition, the governing agreements of our investment funds enable investors in those funds to vote to terminate the investment period by a simple majority vote in accordance with specified procedures or accelerate the withdrawal of their capital on an investor by investor basis in the event certain key persons in our investment funds (for example, both of Stephen A. Schwarzman and Hamilton E. James in the case of our BCP funds) do not remain active managing the fund. In addition to having a significant negative impact on our revenue, net income and cash flow, the occurrence of such an event with respect to any of our investment funds would likely result in significant reputational damage to us.

In addition, because all of our investment funds have advisers that are registered under the Advisers Act, the management agreements of all of our investment funds would be terminated upon an assignment, without investor consent, of these agreements, which may be deemed to occur in the event these advisers were to experience a change of control. We cannot be certain that consents required for assignments of our investment management agreements will be obtained if a change of control occurs. In addition, with respect to our publicly traded closed-end mutual funds, each investment fund s investment management agreement must be approved annually by the independent members of such investment fund s board of directors and, in certain cases, by its stockholders, as required by law. Termination of these agreements would cause us to lose the fees we earn from such investment funds.

Third party investors in our investment funds with commitment-based structures may not satisfy their contractual obligation to fund capital calls when requested by us, which could adversely affect a fund s operations and performance.

Investors in all of our carry funds (and certain of our hedge funds) make capital commitments to those funds that we are entitled to call from those investors at any time during prescribed periods. We depend on investors fulfilling their commitments when we call capital from them in order for those funds to consummate investments and otherwise pay their obligations (for example, management fees) when due. We have not had investors fail to honor capital calls to any meaningful extent. Any investor that did not fund a capital call would generally be subject to several possible penalties, including having a significant amount of its existing investment forfeited in that fund. However, the impact of the penalty is directly correlated to the amount of capital previously invested by the investor in the fund and if an investor has invested little or no capital, for instance early in the life of the fund, then the forfeiture penalty may not be as meaningful. Investors may also negotiate for lesser or reduced penalties at the outset of the fund, thereby inhibiting our ability to enforce the funding of a capital call. If investors were to fail to satisfy a significant amount of capital calls for any particular fund or funds, the operation and performance of those funds could be materially and adversely affected.

Certain policies and procedures implemented to mitigate potential conflicts of interest and address certain regulatory requirements may reduce the synergies across our various businesses.

Because of our various lines of asset management and advisory businesses, we will be subject to a number of actual and potential conflicts of interest and subject to greater regulatory oversight than that to which we would otherwise be subject if we had just one line of business. In addressing these conflicts and regulatory requirements across our various businesses, we have implemented certain policies and procedures (for example, information walls) that may reduce the positive synergies that we cultivate across these businesses. For example, we may come into possession of material non-public information with respect to issuers in which we may be considering making an investment or issuers that are our advisory clients. As a consequence, we may be precluded from providing such information or other ideas to our other businesses that might be of benefit to them.

Our failure to deal appropriately with conflicts of interest in our investment business could damage our reputation and adversely affect our businesses.

As we have expanded and as we continue to expand the number and scope of our businesses, we increasingly confront potential conflicts of interest relating to our funds investment activities. Certain of our funds may have overlapping investment objectives, including funds that have different fee structures, and potential conflicts may arise with respect to our decisions regarding how to allocate investment opportunities among those funds. For example, a decision to acquire material non-public information about a company while pursuing an investment opportunity for a particular fund gives rise to a potential conflict of interest when it results in our having to restrict the ability of other funds to take any action. Also, our decision to pursue a fund investment opportunity could preclude our ability to obtain a related advisory assignment, and vice versa. In addition, conflicts of interest may exist in the valuation of our investments and regarding decisions about the allocation of specific investment opportunities among us and our funds and the allocation of fees and costs among us, our funds and their portfolio companies. To the extent we failed to appropriately deal with any such conflicts, it could negatively impact our reputation and ability to raise additional funds or result in potential litigation against us.

Risk management activities may adversely affect the return on our funds investments.

When managing our exposure to market risks, we may (on our own behalf or on behalf of our funds) from time to time use forward contracts, options, swaps, caps, collars and floors or pursue other strategies or use other forms of derivative instruments to limit our exposure to changes in the relative values of investments that may result from market developments, including changes in prevailing interest rates, currency exchange rates and commodity prices. The success of any hedging or other derivative transactions generally will depend on our ability to correctly predict market changes, the degree of correlation between price movements of a derivative instrument, the position being hedged, the creditworthiness of the counterparty and other factors. As a result, while we may enter into a transaction in order to reduce our exposure to market risks, the transaction may result in poorer overall investment performance than if it had not been executed. Such transactions may also limit the opportunity for gain if the value of a hedged position increases.

Our real estate funds are subject to the risks inherent in the ownership and operation of real estate and the construction and development of real estate.

Investments in our real estate funds will be subject to the risks inherent in the ownership and operation of real estate and real estate related businesses and assets. These risks include those associated with the burdens of ownership of real property, general and local economic conditions, changes in supply of and demand for competing properties in an area (as a result for instance of overbuilding), fluctuations in the average occupancy and room rates for hotel properties, the financial resources of tenants, changes in building, environmental and other laws, energy and supply shortages, various uninsured or uninsurable risks, natural disasters, changes in government regulations (such as rent control), changes in real property tax rates, changes in interest rates, the reduced availability of mortgage funds which may render the sale or refinancing of properties difficult or impracticable, negative developments in the economy that depress travel activity, environmental liabilities, contingent liabilities on disposition of assets, terrorist attacks, war and other factors that are beyond our control. During 2008 and 2009, real estate markets in the U.S. and Europe generally experienced increases in

Table of Contents

capitalization rates and declines in value as a result of the overall economic decline and the limited availability of financing. As a result, the value of investments in our real estate funds declined significantly. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations-Business Environment for further discussion of the real estate market environment. In addition, if our real estate funds acquire direct or indirect interests in undeveloped land or underdeveloped real property, which may often be non-income producing, they will be subject to the risks normally associated with such assets and development activities, including risks relating to the availability and timely receipt of zoning and other regulatory or environmental approvals, the cost and timely completion of construction (including risks beyond the control of our fund, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms.

Certain of our investment funds may invest in securities of companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Such investments are subject to a greater risk of poor performance or loss.

Certain of our investment funds, especially our credit-oriented funds, may invest in business enterprises involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions and may purchase high risk receivables. An investment in such business enterprises entails the risk that the transaction in which such business enterprise is involved either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the fund of the security or other financial instrument in respect of which such distribution is received. In addition, if an anticipated transaction does not in fact occur, the fund may be required to sell its investment at a loss. Investments in troubled companies may also be adversely affected by U.S. federal and state laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and a bankruptcy court s discretionary power to disallow, subordinate or disenfranchise particular claims. Investments in securities and private claims of troubled companies made in connection with an attempt to influence a restructuring proposal or plan of reorganization in a bankruptcy case may also involve substantial litigation. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies, there is a potential risk of loss by a fund of its entire investment in such company. Moreover, a major economic recession could have a materially adverse impact on the value of such securities. In addition, adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the value and liquidity of securities rated below investment grade or otherwise adversely affect our reputation.

Certain of our fund investments may be concentrated in certain asset types or in a geographic region, which could exacerbate any negative performance of those funds to the extent those concentrated investments perform poorly.

The governing agreements of our investment funds contain only limited investment restrictions and only limited requirements as to diversification of fund investments, either by geographic region or asset type. For example, over 83% of the investments of our real estate funds (based on current fair values) are in office building and hotel assets. During periods of difficult market conditions or slowdowns in these sectors, the decreased revenues, difficulty in obtaining access to financing and increased funding costs experienced by our real estate funds may be exacerbated by this concentration of investments, which would result in lower investment returns for our real estate funds.

Hedge fund investments are subject to numerous additional risks.

Investments by our funds of hedge funds in other hedge funds, as well as investments by our credit-oriented and real estate debt hedge funds, are subject to numerous additional risks, including the following:

- Certain of the funds are newly established funds without any operating history or are managed by management companies or general partners who may not have as significant track records as an independent manager.

Table of Contents

Generally, there are few limitations on the execution of the hedge funds investment strategies, which are subject to the sole discretion of the management company or the general partner of such funds.

Hedge funds may engage in short selling, which is subject to the theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. A fund may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot be found or if the fund is otherwise unable to borrow securities that are necessary to hedge its positions.

Hedge funds are exposed to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the fund to suffer a loss. Counterparty risk is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the fund has concentrated its transactions with a single or small group of counterparties. Generally, hedge funds are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. Moreover, the funds internal consideration of the creditworthiness of their counterparties may prove insufficient. The absence of a regulated market to facilitate settlement may increase the potential for losses.

Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This systemic risk may adversely affect the financial intermediaries (such as clearing agencies, clearing houses, banks, securities firms and exchanges) with which the hedge funds interact on a daily basis.

The efficacy of investment and trading strategies depend largely on the ability to establish and maintain an overall market position in a combination of financial instruments. A hedge fund s trading orders may not be executed in a timely and efficient manner due to various circumstances, including systems failures or human error. In such event, the funds might only be able to acquire some but not all of the components of the position, or if the overall position were to need adjustment, the funds might not be able to make such adjustment. As a result, the funds would not be able to achieve the market position selected by the management company or general partner of such funds, and might incur a loss in liquidating their position.

Hedge funds are subject to risks due to potential illiquidity of assets. Hedge funds may make investments or hold trading positions in markets that are volatile and which may become illiquid. Timely divestiture or sale of trading positions can be impaired by decreased trading volume, increased price volatility, concentrated trading positions, limitations on the ability to transfer positions in highly specialized or structured transactions to which they may be a party, and changes in industry and government regulations. It may be impossible or costly for hedge funds to liquidate positions rapidly in order to meet margin calls, withdrawal requests or otherwise, particularly if there are other market participants seeking to dispose of similar assets at the same time or the relevant market is otherwise moving against a position or in the event of trading halts or daily price movement limits on the market or otherwise. Moreover, these risks may be exacerbated for our funds of hedge funds. For example, if one of our funds of hedge funds were to invest a significant portion of its assets in two or more hedge funds that each had illiquid positions in the same issuer, the illiquidity risk for our funds of hedge funds would be compounded. For example, in 2008 many hedge funds, including some of our hedge funds, experienced significant declines in value. In many cases, these declines in value were both provoked and exacerbated by margin calls and forced selling of assets. Moreover, certain of our funds of hedge funds were invested in third party hedge funds that halted redemptions in the face of illiquidity and other issues, which precluded those funds of hedge funds from receiving their capital back on request.

Hedge fund investments are subject to risks relating to investments in commodities, futures, options and other derivatives, the prices of which are highly volatile and may be subject to the theoretically unlimited risk of loss in certain circumstances, including if the fund writes a call option. Price

Table of Contents

movements of commodities, futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the commodities underlying them. In addition, hedge funds assets are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses or counterparties. Most U.S. commodities exchanges limit fluctuations in certain commodity interest prices during a single day by imposing daily price fluctuation limits or daily limits, the existence of which may reduce liquidity or effectively curtail trading in particular markets.

Risks Related to Our Financial Advisory Business

Financial advisory fees are not long-term contracted sources of revenue and are not predictable.

The fees earned by our financial advisory business are typically payable upon the successful completion of a particular transaction or restructuring. A decline in our financial advisory engagements or the market for advisory services would adversely affect our business.

Our financial advisory business operates in a highly competitive environment where typically there are no long-term contracted sources of revenue. Each revenue generating engagement typically is separately solicited, awarded and negotiated. In addition, many businesses do not routinely engage in transactions requiring our services. As a consequence, our fee-paying engagements with many clients are not predictable and high levels of financial advisory revenue in one quarter are not necessarily predictive of continued high levels of financial advisory revenue in future periods. In addition to the fact that most of our financial advisory engagements are single, non-recurring engagements, we lose clients each year as a result of a client s decision to retain other financial advisors, the sale, merger or restructuring of a client, a change in a client s senior management and various other causes. Moreover, in any given year our financial advisory engagements may be limited to a relatively smaller number of clients and an even smaller number of those clients may account for a disproportionate percentage of our financial advisory revenues in any such year. As a result, the adverse impact on our results of operations of one lost engagement or the failure of one transaction or restructuring on which we are advising to be completed could be significant. Revenue volumes in our financial advisory business tend to be affected by economic and capital market conditions, with greater merger activity and therefore higher revenues in our Financial and Strategic Advisory Services business generally resulting when the economy is growing, and more bankruptcies and restructurings and therefore higher revenues in our Restructuring and Reorganization Advisory Services business generally resulting in weak economic periods. Accordingly, our financial advisory revenue can fluctuate up or down considerably depending on economic conditions.

The fees earned by Park Hill Group, our fund placement business, are generally recognized by us for accounting purposes, upon the successful subscription by an investor in a client s fund and/or the closing of that fund. However, those fees are typically actually paid by a Park Hill Group client over a period of time (e.g., two to three years) following such successful subscription by an investor in a client s fund and/or the closing of that fund with interest. There is a risk that during that period of time, Park Hill Group may not be able to collect on all or a portion of the fees Park Hill is due for the placement services it has already provided to such client. For instance, a Park Hill client s fund may be liquidated prior to the time that all or a portion of the fees due to Park Hill for its placement services are due to be paid. Moreover, to the extent fewer assets are raised for funds or interest by investors in alternative asset funds declines, the fees earned by Park Hill Group would be adversely affected. During 2009, a difficult year for fund-raising for funds in the alternative asset class, Park Hill experienced a material decline in revenue due to fewer placement mandates and fewer assets being raised.

We face strong competition from other financial advisory firms.

The financial advisory industry is intensely competitive, and we expect it to remain so. We compete on the basis of a number of factors, including the quality of our employees, transaction execution, our products and services, innovation and reputation and price. We have always experienced intense competition over obtaining advisory mandates, and we may experience pricing pressures in our financial advisory business in the future as some of our competitors seek to obtain increased market share by reducing fees. Our primary competitors in our financial advisory business are large financial institutions, many of which have far greater financial and other resources and much broader client relationships than us and (unlike us) have the ability to offer a wide range of products, from loans, deposit taking and insurance to brokerage and a wide range of investment banking services, which may enhance their competitive position. They also have the ability to support investment banking, including financial advisory services, with commercial banking, insurance and other financial services and products in an effort to gain market share, which puts us at a competitive disadvantage and could result in pricing pressures that could materially adversely affect our revenue and profitability. In the current market environment, we are also seeing increased competition from independent boutique advisory firms focused primarily on mergers and acquisitions advisory and/or restructuring services. In addition, Park Hill Group operates in a highly competitive environment and the barriers to entry into the fund placement business are low.

Risks Related to Our Organizational Structure

Our common unitholders do not elect our general partner or vote on our general partner s directors and have limited ability to influence decisions regarding our business.

Our general partner, Blackstone Group Management L.L.C., which is owned by our senior managing directors, manages all of our operations and activities. Blackstone Group Management L.L.C. has a board of directors that is responsible for the oversight of our business and operations. Our general partner s board of directors is elected in accordance with its limited liability company agreement, where our senior managing directors have agreed that our founder, Stephen A. Schwarzman, will have the power to appoint and remove the directors of our general partner. The limited liability company agreement of our general partner provides that at such time as Mr. Schwarzman should cease to be a founder, Hamilton E. James will thereupon succeed Mr. Schwarzman as the sole founding member of our general partner, and thereafter such power will revert to the members of our general partner (our senior managing directors) holding a majority in interest in our general partner.

Our common unitholders do not elect our general partner or its board of directors and, unlike the holders of common stock in a corporation, have only limited voting rights on matters affecting our business and therefore limited ability to influence decisions regarding our business. Furthermore, if our common unitholders are dissatisfied with the performance of our general partner, they have little ability to remove our general partner. Our general partner may not be removed unless that removal is approved by the vote of the holders of not less than two-thirds of the voting power of our outstanding common units and special voting units (including common units and special voting units held by the general partner and its affiliates) and we receive an opinion of counsel regarding limited liability matters. As of December 31, 2009, Blackstone Partners L.L.C., an entity wholly owned by our senior managing directors, had 79% of the voting power of The Blackstone Group L.P. limited partners. Therefore, our senior managing directors have the ability to remove or block any removal of our general partner and thus control The Blackstone Group L.P.

Blackstone personnel collectively own a controlling interest in us and will be able to determine the outcome of those few matters that may be submitted for a vote of the limited partners.

Our senior managing directors generally have sufficient voting power to determine the outcome of those few matters that may be submitted for a vote of the limited partners of the Blackstone Group L.P., including any attempt to remove our general partner.

Our common unitholders voting rights are further restricted by the provision in our partnership agreement stating that any common units held by a person that beneficially owns 20% or more of any class of The Blackstone Group L.P. common units then outstanding (other than our general partner and its affiliates, or a direct or subsequently approved transferee of our general partner or its affiliates) cannot be voted on any matter.

Table of Contents

In addition, our partnership agreement contains provisions limiting the ability of our common unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the ability of our common unitholders to influence the manner or direction of our management. Our partnership agreement also does not restrict our general partner s ability to take actions that may result in our being treated as an entity taxable as a corporation for U.S. federal (and applicable state) income tax purposes. Furthermore, the common unitholders are not entitled to dissenters rights of appraisal under our partnership agreement or applicable Delaware law in the event of a merger or consolidation, a sale of substantially all of our assets or any other transaction or event. In addition, we have the right to acquire all of our then-outstanding common units if not more than 10% of our common units are held by persons other than our general partner and its affiliates.

As a result of these matters and the provisions referred to under Our common unitholders do not elect our general partner or vote on our general partner s directors and have limited ability to influence decisions regarding our business , our common unitholders may be deprived of an opportunity to receive a premium for their common units in the future through a sale of The Blackstone Group L.P., and the trading prices of our common units may be adversely affected by the absence or reduction of a takeover premium in the trading price.

We are a limited partnership and as a result fall within exceptions from certain corporate governance and other requirements under the rules of the New York Stock Exchange.

We are a limited partnership and fall within exceptions from certain corporate governance and other requirements of the rules of the New York Stock Exchange. Pursuant to these exceptions, limited partnerships may elect not to comply with certain corporate governance requirements of the New York Stock Exchange, including the requirements (1) that a majority of the board of directors of our general partner consist of independent directors, (2) that we have a nominating/corporate governance committee that is composed entirely of independent directors and (3) that we have a compensation committee that is composed entirely of independent directors. In addition, we are not required to hold annual meetings of our common unitholders. We will continue to avail ourselves of these exceptions. Accordingly, common unitholders generally do not have the same protections afforded to equityholders of entities that are subject to all of the corporate governance requirements of the New York Stock Exchange.

Potential conflicts of interest may arise among our general partner, its affiliates and us. Our general partner and its affiliates have limited fiduciary duties to us and our common unitholders, which may permit them to favor their own interests to the detriment of us and our common unitholders.

Conflicts of interest may arise among our general partner and its affiliates, on the one hand, and us and our common unitholders, on the other hand. As a result of these conflicts, our general partner may favor its own interests and the interests of its affiliates over the interests of our common unitholders. These conflicts include, among others, the following:

- our general partner determines the amount and timing of our investments and dispositions, indebtedness, issuances of additional partnership interests and amounts of reserves, each of which can affect the amount of cash that is available for distribution to our common unitholders;

- our general partner is allowed to take into account the interests of parties other than us in resolving conflicts of interest, which has the effect of limiting its duties (including fiduciary duties) to our common unitholders. For example, our subsidiaries that serve as the general partners of our investment funds have fiduciary and contractual obligations to the investors in those funds and certain of our subsidiaries engaged in our advisory business have contractual duties to their clients, as a result of which we expect to regularly take actions that might adversely affect our near-term results of operations or cash flow;

- because our senior managing directors hold their Blackstone Holdings Partnership Units directly or through entities that are not subject to corporate income taxation and The Blackstone Group L.P. holds

Table of Contents

Blackstone Holdings Partnership Units through wholly owned subsidiaries, some of which are subject to corporate income taxation, conflicts may arise between our senior managing directors and The Blackstone Group L.P. relating to the selection and structuring of investments;

other than as set forth in the non-competition and non-solicitation agreements to which our senior managing directors are subject, which may not be enforceable, affiliates of our general partner and existing and former personnel employed by our general partner are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us;

our general partner has limited its liability and reduced or eliminated its duties (including fiduciary duties) under the partnership agreement, while also restricting the remedies available to our common unitholders for actions that, without these limitations, might constitute breaches of duty (including fiduciary duty). In addition, we have agreed to indemnify our general partner and its affiliates to the fullest extent permitted by law, except with respect to conduct involving bad faith, fraud or willful misconduct. By purchasing our common units, common unitholders will have agreed and consented to the provisions set forth in our partnership agreement, including the provisions regarding conflicts of interest situations that, in the absence of such provisions, might constitute a breach of fiduciary or other duties under applicable state law;

our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered, or from entering into additional contractual arrangements with any of these entities on our behalf, so long as the terms of any such additional contractual arrangements are fair and reasonable to us as determined under the partnership agreement;

our general partner determines how much debt we incur and that decision may adversely affect our credit ratings;

our general partner determines which costs incurred by it and its affiliates are reimbursable by us;

our general partner controls the enforcement of obligations owed to us by it and its affiliates; and

our general partner decides whether to retain separate counsel, accountants or others to perform services for us.

See Part III. Item 13. Certain Relationships, Related Transactions and Director Independence and Part III. Item 10. Directors, Executive Officers and Corporate Governance Partnership Management and Governance Conflicts Committee.

Our partnership agreement contains provisions that reduce or eliminate duties (including fiduciary duties) of our general partner and limit remedies available to common unitholders for actions that might otherwise constitute a breach of duty. It will be difficult for a common unitholder to successfully challenge a resolution of a conflict of interest by our general partner or by its conflicts committee.

Our partnership agreement contains provisions that waive or consent to conduct by our general partner and its affiliates that might otherwise raise issues about compliance with fiduciary duties or applicable law. For example, our partnership agreement provides that when our general partner is acting in its individual capacity, as opposed to in its capacity as our general partner, it may act without any fiduciary obligations to us or our common unitholders whatsoever. When our general partner, in its capacity as our general partner, is permitted to or required to make a decision in its sole discretion or discretion or that it deems necessary or appropriate or necessary or advisable, then our general partner is entitle to consider only such interests and factors as it desires, including its own interests, and has no duty or obligation (fiduciary or otherwise) to give any consideration to any interest of or factors affecting us or any limited partners and will not be subject to any different standards imposed by the partnership agreement, the Delaware Limited Partnership Act or under any other law, rule or regulation or in equity. These modifications of fiduciary duties are expressly permitted by Delaware law. Hence, we and our common unitholders only have recourse and are able to seek remedies against our general partner if our general partner breaches its obligations pursuant to our partnership agreement. Unless our general partner breaches its obligations pursuant to our partnership agreement, we and our common unitholders do not have any recourse against our general partner even if our general partner were to act in a manner that was inconsistent with traditional fiduciary duties. Furthermore, even if there has been a breach of the obligations set forth in our partnership agreement, our partnership agreement provides that our general partner and its officers and directors are not liable to us or our common unitholders for errors of judgment or for any acts or omissions unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that the general partner or its officers and directors acted in bad faith or engaged in fraud or willful misconduct. These modifications are detrimental to the common unitholders because they restrict the remedies available to common unitholders for actions that without those limitations might constitute breaches of duty (including fiduciary duty).

Whenever a potential conflict of interest exists between us and our general partner, our general partner may resolve such conflict of interest. If our general partner determines that its resolution of the conflict of interest is on terms no less favorable to us than those generally being provided to or available from unrelated third parties or is fair and reasonable to us, taking into account the totality of the relationships between us and our general partner, then it will be presumed that in making this determination, our general partner acted in good faith. A common unitholder seeking to challenge this resolution of the conflict of interest would bear the burden of overcoming such presumption. This is different from the situation with Delaware corporations, where a conflict resolution by an interested party would be presumed to be unfair and the interested party would have the burden of demonstrating that the resolution was fair.

Also, if our general partner obtains the approval of the conflicts committee of our general partner, the resolution will be conclusively deemed to be fair and reasonable to us and not a breach by our general partner of any duties it may owe to us or our common unitholders. This is different from the situation with Delaware corporations, where a conflict resolution by a committee consisting solely of independent directors may, in certain circumstances, merely shift the burden of demonstrating unfairness to the plaintiff. Common unitholders, in purchasing our common units, are deemed as having consented to the provisions set forth in the partnership agreement, including provisions regarding conflicts of interest situations that, in the absence of such provisions, might be considered a breach of fiduciary or other duties under applicable state law. As a result, common unitholders will, as a practical matter, not be able to successfully challenge an informed decision by the conflicts committee. See Part III. Item 10. Directors, Executive Officers and Corporate Governance Partnership Management and Governance Conflicts Committee.

The control of our general partner may be transferred to a third party without common unitholder consent.

Our general partner may transfer its general partner interest to a third party in a merger or consolidation without the consent of our common unitholders. Furthermore, at any time, the members of our general partner may sell or transfer all or part of their limited liability company interests in our general partner without the approval of the common unitholders, subject to certain restrictions as described elsewhere in this annual report. A new general partner may not be willing or able to form new investment funds and could form funds that have investment objectives and governing terms that differ materially from those of our current investment funds. A new owner could also have a different investment philosophy, employ investment professionals who are less experienced, be unsuccessful in identifying investment opportunities or have a track record that is not as successful as Blackstone s track record. If any of the foregoing were to occur, we could experience difficulty in making new investments, and the value of our existing investments, our business, our results of operations and our financial condition could materially suffer.

We intend to pay regular distributions to our common unitholders, but our ability to do so may be limited by our holding partnership structure, applicable provisions of Delaware law and contractual restrictions.

Our current intention is to distribute to our common unitholders substantially all of The Blackstone Group L.P. s net after-tax share of our annual Distributable Earnings in excess of amounts determined by our general partner to be necessary or appropriate to provide for the conduct of our business, to make appropriate investments in our business and our funds, to comply with applicable law, any of our debt instruments or other agreements, or to provide for future distributions to our unitholders for any ensuing quarter. The declaration and payment of any distributions will be at the sole discretion of our general partner, which may change our distribution policy at any time. The Blackstone Group L.P. is a holding partnership and has no material assets other than the ownership of the partnership units in Blackstone Holdings held through wholly owned subsidiaries. The Blackstone Group L.P. has no independent means of generating revenue. Accordingly, we intend to cause Blackstone Holdings to make distributions to its partners, including The Blackstone Group L.P. s wholly-owned subsidiaries, to fund any distributions The Blackstone Group L.P. may declare on the common units. Distributable Earnings is a non-GAAP measure intended to show the amount of our net realized earnings.

Our ability to make cash distributions to our unitholders will depend on a number of factors, including among others general economic and business conditions, our strategic plans and prospects, our business and investment opportunities, our financial condition and operating results, working capital requirements and anticipated cash needs, contractual restrictions and obligations including fulfilling our current and future capital commitments, legal, tax and regulatory restrictions, restrictions and other implications on the payment of distributions by us to our common unitholders or by our subsidiaries to us and such other factors as our general partner may deem relevant.

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

Under the Delaware Limited Partnership Act, we may not make a distribution to a partner if after the distribution all our liabilities, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of our assets. If we were to make such an impermissible distribution, any limited partner who received a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Limited Partnership Act would be liable to us for the amount of the distribution for three years. In addition, the terms of our revolving credit facility or other financing arrangements may from time to time include covenants or other restrictions that could constrain our ability to make distributions.

We expect to record significant net losses for a number of years as a result of the amortization of finite-lived intangible assets and non-cash equity-based compensation.

As part of the reorganization related to our initial public offering we acquired interests in our business from our predecessor owners. This transaction has been accounted for partially as a transfer of interests under common control and partially as an acquisition of non-controlling interests. We accounted for the acquisition of the non-controlling interests using the purchase method of accounting, and reflected the excess of the purchase price over the fair value of the tangible assets acquired and liabilities assumed as goodwill and other intangible assets on our statement of financial condition. We have recorded $876.3 million of finite-lived intangible assets (in addition to $1.52 billion of goodwill). We are amortizing these finite-lived intangibles over their estimated useful lives, which range between five and fifteen years, using the straight-line method. In addition, as part of the reorganization, Blackstone personnel received an aggregate of 827,516,625 Blackstone Holdings Partnership Units, of which 439,711,537 were unvested. The grant date fair value of the unvested Blackstone Holdings Partnership Units (which was $31) is being charged to expense as the Blackstone Holdings Partnership Units vest over the assumed service periods, which range up to eight years, on a straight-line basis. The amortization of these finite-lived intangible assets and of this non-cash equity-based compensation will increase our expenses substantially during the relevant periods and, as a result, we expect to record significant net losses for a number of years.

We are required to pay our senior managing directors for most of the benefits relating to any additional tax depreciation or amortization deductions we may claim as a result of the tax basis step-up we received as part of the reorganization we implemented in connection with our IPO or receive in connection with future exchanges of our common units and related transactions.

As part of the reorganization we implemented in connection with our IPO, we purchased interests in our business from our pre-IPO owners. In addition, holders of partnership units in Blackstone Holdings (other than The Blackstone Group L.P. s wholly owned subsidiaries), subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings partnerships, may up to four times each year (subject to the terms of the exchange agreement) exchange their Blackstone Holdings Partnership Units for The Blackstone Group L.P. common units on a one-for-one basis. A Blackstone Holdings limited partner must exchange one partnership unit in each of the four Blackstone Holdings partnerships to effect an exchange for a common unit. The purchase and subsequent exchanges are expected to result in increases in the tax basis of the tangible and intangible assets of Blackstone Holdings that otherwise would not have been available. These increases in tax basis may increase (for tax purposes) depreciation and amortization and therefore reduce the amount of tax that The Blackstone Group L.P. s wholly owned subsidiaries that are taxable as corporations for U.S. federal income tax purposes, which we refer to as the corporate taxpayers, would otherwise be required to pay in the future, although the IRS may challenge all or part of that tax basis increase, and a court could sustain such a challenge.

The corporate taxpayers have entered into a tax receivable agreement with our senior managing directors and other pre-IPO owners that provides for the payment by the corporate taxpayers to the counterparties of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that the corporate taxpayers actually realize as a result of these increases in tax basis and of certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. In addition, additional tax receivable agreements have been executed, and will continue to be executed, with newly admitted Blackstone senior managing directors and certain others who receive Blackstone Holdings Partnership Units. This payment obligation is an obligation of the corporate taxpayers and not of Blackstone Holdings. As such, the cash distributions to public common unitholders may vary from holders of Blackstone Holdings units (held by Blackstone personnel and others) to the extent payments are made under the tax receivable agreements to selling holders of Blackstone Holdings units. As the payments reflect actual tax savings received by Blackstone entities, there may be a timing difference between the tax savings received by Blackstone entities and the cash payments to selling holders of Blackstone holdings units. While the actual increase in tax basis, as well as the amount and timing of any payments under this agreement, will vary depending upon a number of factors, including the timing of exchanges, the price of our common units at the time of the exchange, the extent to which such exchanges are taxable and the amount and timing of our income, we expect that as a result of the size of the increases in the tax basis of the tangible and intangible assets of Blackstone Holdings, the payments that we may make under the tax receivable agreements will be substantial. The payments under a tax receivable agreement are not conditioned upon a tax receivable agreement counterparty s continued ownership of us. We may need to incur debt to finance payments under the tax receivable agreement to the extent our cash resources are insufficient to meet our obligations under the tax receivable agreements as a result of timing discrepancies or otherwise.

Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase, the tax receivable agreement counterparties will not reimburse us for any payments previously made under the tax receivable agreement. As a result, in certain circumstances payments to the counterparties under the tax receivable agreement could be in excess of the corporate taxpayers actual cash tax savings. The corporate taxpayers ability to achieve benefits from any tax basis increase, and the payments to be made under the tax receivable agreements, will depend upon a number of factors, as discussed above, including the timing and amount of our future income.

If The Blackstone Group L.P. were deemed an investment company under the 1940 Act, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business.

An entity will generally be deemed to be an investment company for purposes of the 1940 Act if: (a) it is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities; or (b) absent an applicable exemption, it owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. We believe that we are engaged primarily in the business of providing asset management and financial advisory services and not in the business of investing, reinvesting or trading in securities. We also believe that the primary source of income from each of our businesses is properly characterized as income earned in exchange for the provision of services. We hold ourselves out as an asset management and financial advisory firm and do not propose to engage primarily in the business of investing, reinvesting or trading in securities. Accordingly, we do not believe that The Blackstone Group L.P. is an orthodox investment company as defined in section 3(a)(1)(A) of the 1940 Act and described in clause (a) in the first sentence of this paragraph. Furthermore, The Blackstone Group L.P. does not have any material assets other than its equity interests in certain wholly owned subsidiaries, which in turn will have no material assets (other than intercompany debt) other than general partner interests in the Blackstone Holdings partnerships. These wholly owned subsidiaries are the sole general partners of the Blackstone Holdings partnerships and are vested with all management and control over the Blackstone Holdings partnerships. We do not believe the equity interests of The Blackstone Group L.P. in its wholly owned subsidiaries or the general partner interests of these wholly owned subsidiaries in the Blackstone Holdings partnerships are investment securities. Moreover, because we believe that the capital interests of the general partners of our funds in their respective funds are neither securities nor investment securities, we believe that less than 40% of The Blackstone Group L.P. s total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis are comprised of assets that could be considered investment securities. Accordingly, we do not believe The Blackstone Group L.P. is an inadvertent investment company by virtue of the 40% test in section 3(a)(1)(C) of the 1940 Act as described in clause (b) in the first sentence of this paragraph. In addition, we believe The Blackstone Group L.P. is not an investment company under section 3(b)(1) of the 1940 Act because it is primarily engaged in a non-investment company business.

The 1940 Act and the rules thereunder contain detailed parameters for the organization and operation of investment companies. Among other things, the 1940 Act and the rules thereunder limit or prohibit transactions with affiliates, impose limitations on the issuance of debt and equity securities, generally prohibit the issuance of options and impose certain governance requirements. We intend to conduct our operations so that The Blackstone Group L.P. will not be deemed to be an investment company under the 1940 Act. If anything were to happen which would cause The Blackstone Group L.P. to be deemed to be an investment company under the 1940 Act, requirements imposed by the 1940 Act, including limitations on our capital structure, ability to transact business with affiliates (including us) and ability to compensate key employees, could make it impractical for us to continue our business as currently conducted, impair the agreements and arrangements between and among The Blackstone Group L.P., Blackstone Holdings and our senior managing directors, or any combination thereof, and materially adversely affect our business, financial condition and results of operations. In addition, we may be required to limit the amount of investments that we make as a principal or otherwise conduct our business in a manner that does not subject us to the registration and other requirements of the 1940 Act.

Risks Related to Our Common Units

Our common unit price may decline due to the large number of common units eligible for future sale and for exchange.

The market price of our common units could decline as a result of sales of a large number of common units in the market in the future or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell common units in the future at a time and at a

Table of Contents

price that we deem appropriate. We had a total of 205,632,807 voting common units outstanding as of February 19, 2010. Subject to the lock-up restrictions described below, we may issue and sell in the future additional common units. Limited partners of Blackstone Holdings own an aggregate of 766,398,253 Blackstone Holdings Partnership Units outstanding as of February 19, 2010. In connection with our initial public offering, we entered into an exchange agreement with holders of Blackstone Holdings Partnership Units (other than The Blackstone Group L.P. s wholly owned subsidiaries) so that these holders, subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings partnerships, may up to four times each year (subject to the terms of the exchange agreement) exchange their Blackstone Holdings Partnership Units for The Blackstone Group L.P. common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. A Blackstone Holdings limited partner must exchange one partnership unit in each of the four Blackstone Holdings partnerships to effect an exchange for a common unit. The common units we issue upon such exchanges would be restricted securities, as defined in Rule 144 under the Securities Act, unless we register such issuances. However, we have entered into a registration rights agreement with the limited partners of Blackstone Holdings that would require us to register these common units under the Securities Act. See Part III. Item 13. Certain Relationships, Related Transactions and Director Independence Transactions with Related Persons Registration Rights Agreement . While the partnership agreements of the Blackstone Holdings partnerships and related agreements contractually restrict the ability of Blackstone personnel to transfer the Blackstone Holdings Partnership Units or The Blackstone Group L.P. common units they hold and require that they maintain a minimum amount of equity ownership during their employ by us, these contractual provisions may lapse over time or be waived, modified or amended at any time.

In addition, in June 2007, we entered into an agreement with Beijing Wonderful Investments, an investment vehicle established and controlled by The People s Republic of China, pursuant to which we sold to it 101,334,234 non-voting common units for $3.00 billion at a purchase price per common unit of $29.605. Beijing Wonderful Investments will be able to sell these common units subject to certain transfer restrictions. We have agreed to provide the Beijing Wonderful Investments with registration rights to effect certain sales.

As of February 19, 2010, we had granted 33,618,490 outstanding deferred restricted common units and 4,828,847 outstanding deferred restricted Blackstone Holdings Partnership Units, which are subject to specified vesting requirements, to our non-senior managing director professionals and senior managing directors under our 2007 Equity Incentive Plan. The aggregate number of common units and Blackstone Holdings Partnership Units covered by our 2007 Equity Incentive Plan is increased on the first day of each fiscal year during its term by a number of units equal to the positive difference, if any, of (a) 15% of the aggregate number of common units and Blackstone Holdings Partnership Units outstanding on the last day of the immediately preceding fiscal year (excluding Blackstone Holdings Partnership Units held by The Blackstone Group L.P. or its wholly-owned subsidiaries) minus (b) the aggregate number of common units and Blackstone Holdings Partnership Units covered by our 2007 Equity Incentive Plan as of such date (unless the administrator of the 2007 Equity Incentive Plan should decide to increase the number of common units and Blackstone Holdings Partnership Units covered by the plan by a lesser amount). An aggregate of 161,277,157 additional common units and Blackstone Holdings Partnership Units were available for grant under our 2007 Equity Incentive Plan as of February 20, 2010. We have filed a registration statement and intend to file additional registration statements on Form S-8 under the Securities Act to register common units covered by our 2007 Equity Incentive Plan (including pursuant to automatic annual increases). Any such Form S-8 registration statement will automatically become effective upon filing. Accordingly, common units registered under such registration statement will be available for sale in the open market.

In addition, our partnership agreement authorizes us to issue an unlimited number of additional partnership securities and options, rights, warrants and appreciation rights relating to partnership securities for the consideration and on the terms and conditions established by our general partner in its sole discretion without the approval of any limited partners. In accordance with the Delaware Limited Partnership Act and the provisions of our partnership agreement, we may also issue additional partnership interests that have certain designations,

Table of Contents

preferences, rights, powers and duties that are different from, and may be senior to, those applicable to common units. Similarly, the Blackstone Holdings partnership agreements authorize the wholly owned subsidiaries of The Blackstone Group L.P. which are the general partners of those partnerships to issue an unlimited number of additional partnership securities of the Blackstone Holdings partnerships with such designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to the Blackstone Holdings partnerships units, and which may be exchangeable for our common units.

The market price of our common units may be volatile, which could cause the value of your investment to decline.

Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of common units in spite of our operating performance. In addition, our operating results could be below the expectations of public market analysts and investors, and in response the market price of our common units could decrease significantly. You may be unable to resell your common units at or above the price you paid for them.

Risks Related to United States Taxation

Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.

The U.S. federal income tax treatment of common unitholders depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. The U.S. federal income tax rules are constantly under review by persons involved in the legislative process, the U.S. Internal Revenue Service, or IRS, and the U.S. Treasury Department, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. The IRS pays close attention to the proper application of tax laws to partnerships. The present U.S. federal income tax treatment of an investment in our common units may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments and commitments previously made. Changes to the U.S. federal income tax laws and interpretations thereof could make it more difficult or impossible to meet the exception for us to be treated as a partnership for U.S. federal income tax purposes that is not taxable as a corporation (referred to as the Qualifying Income Exception), affect or cause us to change our investments and commitments, affect the tax considerations of an investment in us, change the character or treatment of portions of our income (including, for instance, the treatment of carried interest as ordinary income rather than capital gain) and adversely affect an investment in our common units. For example, as discussed above under Legislation has been introduced in the U.S. Congress that would, if enacted, preclude us from qualifying as a partnership for U.S. federal income tax purposes or otherwise increase our tax liability. If this or any similar legislation or regulation were to be enacted and apply to us, we would incur a material increase in our tax liability that could result in a reduction in the value of our common units , the U.S. Congress has recently considered various legislative proposals to treat all or part of the capital gain and dividend income that is recognized by an investment partnership and allocable to a partner affiliated with the sponsor of the partnership (i.e., a portion of the carried interest) as ordinary income to such partner for U.S. federal income tax purposes.

Our organizational documents and governing agreements permit our general partner to modify our amended and restated limited partnership agreement from time to time, without the consent of the common unitholders, to address certain changes in U.S. federal income tax regulations, legislation or interpretation. In some circumstances, such revisions could have a material adverse impact on some or all common unitholders. Moreover, we will apply certain assumptions and conventions in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to common unitholders in a manner that reflects such common unitholders beneficial ownership of partnership items, taking into account variation in unitholder ownership interests during each taxable year because of trading activity. More specifically, our allocations of items of taxable income and loss between transferors and transferees of our units will be determined annually, will be prorated on a monthly basis and will be subsequently apportioned among the unitholders in proportion to the number of units owned by each of them determined as of the opening of trading of our units on the New York Stock Exchange on the first business day of every month. As a result, a unitholder transferring units may be allocated income, gain, loss and deductions realized after the date of transfer. However, those assumptions and conventions may not be in compliance with all aspects of applicable tax requirements. It is possible that the IRS will assert successfully that the conventions and assumptions used by us do not satisfy the technical requirements of the Internal Revenue Code and/or Treasury regulations and could require that items of income, gain, deductions, loss or credit, including interest deductions, be adjusted, reallocated or disallowed in a manner that adversely affects common unitholders.

If we were treated as a corporation for U.S. federal income tax or state tax purposes, then our distributions to our common unitholders would be substantially reduced and the value of our common units would be adversely affected.

The value of our common units depends largely on our being treated as a partnership for U.S. federal income tax purposes, which requires that 90% or more of our gross income for every taxable year consist of qualifying income, as defined in Section 7704 of the Internal Revenue Code and that The Blackstone Group L.P. not be registered under the 1940 Act. Qualifying income generally includes dividends, interest, capital gains from the sale or other disposition of stocks and securities and certain other forms of investment income. We may not meet these requirements or current law may change so as to cause, in either event, us to be treated as a corporation for U.S. federal income tax purposes or otherwise subject to U.S. federal income tax. Moreover, the anticipated after-tax benefit of an investment in our common units depends largely on our being treated as a partnership for U.S. federal income tax purposes. We have not requested, and do not plan to request, a ruling from the IRS on this or any other matter affecting us.

If we were treated as a corporation for U.S. federal income tax purposes, we would pay U.S. federal income tax on our taxable income at the corporate tax rate. Distributions to our common unitholders would generally be taxed again as corporate distributions, and no income, gains, losses, deductions or credits would flow through to you. Because a tax would be imposed upon us as a corporation, our distributions to our common unitholders would be substantially reduced, likely causing a substantial reduction in the value of our common units.

Current law may change, causing us to be treated as a corporation for U.S. federal or state income tax purposes or otherwise subjecting us to entity level taxation. See Legislation has been introduced in the U.S. Congress that would, if enacted, preclude us from qualifying as a partnership for U.S. federal income tax purposes or otherwise increase our tax liability. If this or any similar legislation or regulation were to be enacted and apply to us, we would incur a material increase in our tax liability that could result in a reduction in the value of our common units . For example, because of widespread state budget deficits, several states are evaluating ways to subject partnerships to entity level taxation through the imposition of state income, franchise or other forms of taxation. If any state were to impose a tax upon us as an entity, our distributions to our common unitholders would be reduced.

Our common unitholders may be subject to U.S. federal income tax on their share of our taxable income, regardless of whether they receive any cash distributions from us.

As long as 90% of our gross income for each taxable year constitutes qualifying income as defined in Section 7704 of the Internal Revenue Code and we are not required to register as an investment company under the 1940 Act on a continuing basis, we will be treated, for U.S. federal income tax purposes, as a partnership and not as an association or a publicly traded partnership taxable as a corporation. Accordingly, each unitholder will be required to take into account its allocable share of items of income, gain, loss and deduction of the Partnership. Distributions to a unitholder will generally be taxable to the unitholder for U.S. federal income tax purposes only to the extent the amount distributed exceeds the unitholder s tax basis in the unit. That treatment

Table of Contents

contrasts with the treatment of a shareholder in a corporation. For example, a shareholder in a corporation who receives a distribution of earnings from the corporation will generally report the distribution as dividend income for U.S. federal income tax purposes. In contrast, a holder of our units who receives a distribution of earnings from us will not report the distribution as dividend income (and will treat the distribution as taxable only to the extent the amount distributed exceeds the unitholder s tax basis in the units), but will instead report the holder s allocable share of items of our income for U.S. federal income tax purposes. As a result, our common unitholders may be subject to U.S. federal, state, local and possibly, in some cases, foreign income taxation on their allocable share of our items of income, gain, loss, deduction and credit (including our allocable share of those items of any entity in which we invest that is treated as a partnership or is otherwise subject to tax on a flow through basis) for each of our taxable years ending with or within your taxable year, regardless of whether or not a common unitholder receives cash distributions from us.

Our common unitholders may not receive cash distributions equal to their allocable share of our net taxable income or even the tax liability that results from that income. In addition, certain of our holdings, including holdings, if any, in a Controlled Foreign Corporation, or CFC, and a Passive Foreign Investment Company, or PFIC, may produce taxable income prior to the receipt of cash relating to such income, and common unitholders that are U.S. taxpayers will be required to take such income into account in determining their taxable income. In the event of an inadvertent termination of our partnership status for which the IRS has granted us limited relief, each holder of our common units may be obligated to make such adjustments as the IRS may require to maintain our status as a partnership. Such adjustments may require persons holding our common units to recognize additional amounts in income during the years in which they hold such units.

The Blackstone Group L.P. s interest in certain of our businesses are held through Blackstone Holdings I/II GP Inc. or Blackstone Holdings IV GP L.P., which are treated as corporations for U.S. federal income tax purposes; such corporations may be liable for significant taxes and may create other adverse tax consequences, which could potentially adversely affect the value of your investment.

In light of the publicly traded partnership rules under U.S. federal income tax law and other requirements, The Blackstone Group L.P. holds its interest in certain of our businesses through Blackstone Holdings I/II GP Inc. or Blackstone Holdings IV GP L.P., which are treated as corporations for U.S. federal income tax purposes. Each such corporation could be liable for significant U.S. federal income taxes and applicable state, local and other taxes that would not otherwise be incurred, which could adversely affect the value of our common units.

Complying with certain tax-related requirements may cause us to invest through foreign or domestic corporations subject to corporate income tax or enter into acquisitions, borrowings, financings or arrangements we may not have otherwise entered into.

In order for us to be treated as a partnership for U.S. federal income tax purposes and not as an association or publicly traded partnership taxable as a corporation, we must meet the Qualifying Income Exception discussed above on a continuing basis and we must not be required to register as an investment company under the 1940 Act. In order to effect such treatment, we (or our subsidiaries) may be required to invest through foreign or domestic corporations subject to corporate income tax, or enter into acquisitions, borrowings, financings or other transactions we may not have otherwise entered into. This may adversely affect our ability to operate solely to maximize our cash flow.

Tax gain or loss on disposition of our common units could be more or less than expected.

If a holder of our common units sells the common units it holds, it will recognize a gain or loss equal to the difference between the amount realized and the adjusted tax basis in those common units. Prior distributions to such common unitholder in excess of the total net taxable income allocated to such common unitholder, which decreased the tax basis in its common units, will in effect become taxable income to such common unitholder if the common units are sold at a price greater than such common unitholder s tax basis in those common units, even if the price is less than the original cost. A portion of the amount realized, whether or not representing gain, may be ordinary income to such common unitholder.

If we were not to make, or cause to be made, an otherwise available election under Section 754 of the Internal Revenue Code to adjust our asset basis or the asset basis of certain of the Blackstone Holdings partnerships, a holder of common units could be allocated more taxable income in respect of those common units prior to disposition than if such an election were made.

We currently do not intend to make, or cause to be made, an election to adjust asset basis under Section 754 of the Internal Revenue Code with respect to us, Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. If no such election is made, there will generally be no adjustment to the basis of the assets of Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. upon our acquisition of interests in Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. in connection with our initial public offering, or to our assets or to the assets of Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. upon a subsequent transferee s acquisition of common units from a prior holder of such common units, even if the purchase price for those interests or units, as applicable, is greater than the share of the aggregate tax basis of our assets or the assets of Blackstone Holdings III L.P. or Blackstone Holdings IV L.P. attributable to those interests or units immediately prior to the acquisition. Consequently, upon a sale of an asset by us, Blackstone Holdings III L.P. or Blackstone Holdings IV L.P., gain allocable to a holder of common units could include built-in gain in the asset existing at the time we acquired those interests, or such holder acquired such units, which built-in gain would otherwise generally be eliminated if a Section 754 election had been made.

Non-U.S. persons face unique U.S. tax issues from owning common units that may result in adverse tax consequences to them.

In light of our investment activities, we will be treated as engaged in a U.S. trade or business for U.S. federal income tax purposes, which may cause some portion of our income to be treated as effectively connected income with respect to non-U.S. holders, or ECI. Moreover, dividends paid by an investment that we make in a real estate investment trust, or REIT, that are attributable to gains from the sale of U.S. real property interests and sales of certain investments in interests in U.S. real property, including stock of certain U.S. corporations owning significant U.S. real property, may be treated as ECI with respect to non-U.S. holders. In addition, certain income of non-U.S. holders from U.S. sources not connected to any such U.S. trade or business conducted by us could be treated as ECI. To the extent our income is treated as ECI, non-U.S. holders generally would be subject to withholding tax on their allocable shares of such income, would be required to file a U.S. federal income tax return for such year reporting their allocable shares of income effectively connected with such trade or business and any other income treated as ECI, and would be subject to U.S. federal income tax at regular U.S. tax rates on any such income (state and local income taxes and filings may also apply in that event). Non-U.S. holders that are corporations may also be subject to a 30% branch profits tax on their allocable share of such income. In addition, certain income from U.S. sources that is not ECI allocable to non-U.S. holders may be reduced by withholding taxes imposed at the highest effective applicable tax rate.

Tax-exempt entities face unique tax issues from owning common units that may result in adverse tax consequences to them.

In light of our investment activities, we will be treated as deriving income that constitutes unrelated business taxable income, or UBTI. Consequently, a holder of common units that is a tax-exempt organization may be subject to unrelated business income tax to the extent that its allocable share of our income consists of UBTI. A tax-exempt partner of a partnership could be treated as earning UBTI if the partnership regularly engages in a trade or business that is unrelated to the exempt function of the tax-exempt partner, if the partnership derives income from debt-financed property or if the partnership interest itself is debt-financed.

Table of Contents

We cannot match transferors and transferees of common units, and we have therefore adopted certain income tax accounting positions that may not conform with all aspects of applicable tax requirements. The IRS may challenge this treatment, which could adversely affect the value of our common units.

Because we cannot match transferors and transferees of common units, we have adopted depreciation, amortization and other tax accounting positions that may not conform with all aspects of existing Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to our common unitholders. It also could affect the timing of these tax benefits or the amount of gain on the sale of common units and could have a negative impact on the value of our common units or result in audits of and adjustments to our common unitholders tax returns.

The sale or exchange of 50% or more of our capital and profit interests will result in the termination of our partnership for U.S. federal income tax purposes. We will be considered to have been terminated for U.S. federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. Our termination would, among other things, result in the closing of our taxable year for all common unitholders and could result in a deferral of depreciation deductions allowable in computing our taxable income.

Common unitholders will be subject to state and local taxes and return filing requirements as a result of investing in our common units.

In addition to U.S. federal income taxes, our common unitholders are subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property now or in the future, even if our common unitholders do not reside in any of those jurisdictions. Our common unitholders are likely to be required to file state and local income tax returns and pay state and local income taxes in some or all of these jurisdictions. Further, common unitholders may be subject to penalties for failure to comply with those requirements. It is the responsibility of each common unitholder to file all U.S. federal, state and local tax returns that may be required of such common unitholder. Our counsel has not rendered an opinion on the state or local tax consequences of an investment in our common units.

We do not expect to be able to furnish to each unitholder specific tax information within 90 days after the close of each calendar year, which means that holders of common units who are U.S. taxpayers should anticipate the need to file annually a request for an extension of the due date of their income tax return. In addition, it is possible that common unitholders may be required to file amended income tax returns.

It will most likely require longer than 90 days after the end of our fiscal year to obtain the requisite information from all lower-tier entities so that K-1s may be prepared for the Partnership. For this reason, holders of common units who are U.S. taxpayers should anticipate the need to file annually with the IRS (and certain states) a request for an extension past April 15 or the otherwise applicable due date of their income tax return for the taxable year. In addition, it is possible that a common unitholder will be required to file amended income tax returns as a result of adjustments to items on the corresponding income tax returns of the partnership. Any obligation for a unitholder to file amended income tax returns for that or any other reason, including any costs incurred in the preparation or filing of such returns, are the responsibility of each common unitholder.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive offices are located in leased office space at 345 Park Avenue, New York, New York. We also lease other office space in New York for GSO and we lease our offices in Atlanta, Boston, Chicago, Dallas, Houston, Los Angeles, Menlo Park, San Francisco, London, Paris, Mumbai, Shanghai, Beijing, Tokyo and Hong Kong. We do not own any real property. We consider these facilities to be suitable and adequate for the management and operations of our business.

ITEM 3. LEGAL PROCEEDINGS

We may from time to time be involved in litigation and claims incidental to the conduct of our business. Our businesses are also subject to extensive regulation, which may result in regulatory proceedings against us. See Item 1A. Risk Factors above. We are not currently subject to any pending judicial, administrative or arbitration proceedings that we expect to have a material impact on our consolidated financial statements.

In December 2007, a purported class of shareholders in public companies acquired by one or more private equity firms filed a lawsuit against sixteen private equity firms and investment banks, including The Blackstone Group L.P., in the United States District Court in Massachusetts. The suit alleges that from mid-2003 defendants have violated antitrust laws by allegedly conspiring to rig bids, restrict the supply of private equity financing, fix the prices for target companies at artificially low levels, and divide up an alleged market for private equity services for leveraged buyouts. The complaint seeks injunctive relief on behalf of all persons who sold securities to any of the defendants in leveraged buyout transactions. The amended complaint also includes five purported sub-classes of plaintiffs seeking damages and/or restitution and comprised of shareholders of five companies.

In the spring of 2008, six substantially identical complaints were brought against Blackstone and some of its executive officers purporting to be class actions on behalf of purchasers of common units in Blackstone s June 2007 initial public offering. These suits were subsequently consolidated into one complaint filed in the Southern District of New York in October 2008 against Blackstone, Stephen A. Schwarzman (Blackstone s Chairman and Chief Executive Officer), Peter G. Peterson (Blackstone s former Senior Chairman), Hamilton E. James (Blackstone s President and Chief Operating Officer) and Michael A. Puglisi (Blackstone s Chief Financial Officer at the time of the IPO). The amended complaint alleged that (1) the IPO prospectus was false and misleading for failing to disclose that (a) certain investments made by Blackstone s private equity funds were performing poorly at the time of the IPO and were materially impaired and (b) prior to the IPO the U.S. real estate market had started to deteriorate, adversely affecting the value of Blackstone s real estate investments; and (2) the financial statements in the IPO prospectus were materially inaccurate principally because they overstated the value of the investments referred to in clause (1). In September 2009 the District Court judge dismissed the complaint with prejudice, ruling that even if the allegations in the complaint were assumed to be true, the alleged omissions were immaterial. The plaintiffs are appealing the District Court s ruling.

Blackstone believes that the foregoing suits are totally without merit and intends to defend them vigorously.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common units representing limited partner interests are traded on the New York Stock Exchange (NYSE) under the symbol BX. Our common units began trading on the NYSE on June 22, 2007.

The following table sets forth the high and low intra-day sales prices per unit of our common units, for the periods indicated, as reported by the NYSE.

	Sales Price			
	2009		2008	
	High	Low	High	Low
First Quarter	$ 9.19	$ 3.55	$ 22.59	$ 13.40
Second Quarter	$ 14.44	$ 6.89	$ 20.98	$ 15.91
Third Quarter	$ 15.38	$ 8.54	$ 19.50	$ 14.00
Fourth Quarter	$ 17.22	$ 12.71	$ 15.95	$ 4.15

The number of holders of record of our common units as of February 19, 2010 was 59. This does not include the number of unitholders that hold shares in street-name through banks or broker-dealers.

Cash Distribution Policy

With respect to fiscal year 2009, we have paid distributions of $0.90 per common unit to record holders of common units and we have declared an additional distribution of $0.30 per common unit to common unitholders in respect of the fourth quarter of 2009 payable on March 31, 2010 to holders of record of common units at the close of business on March 15, 2010. We have also declared a distribution of $0.22 per unit in respect of 2009 to be paid to the Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships, payable on March 31, 2010 to holders of record of Blackstone Holdings partnership units at the close of business on December 31, 2009. These distributions related to fiscal year 2009 represented our net after-tax share of our annual Adjusted Cash Flow from Operations in excess of amounts determined by our general partner to be necessary or appropriate to provide for the conduct of our business, to make appropriate investments in our business and our funds, to comply with applicable law, any of our debt instruments or other agreements, or to provide for future distributions to our common unitholders for any ensuing quarter.

As previously disclosed, public common unitholders were entitled to a priority distribution of up to $1.20 per common unit per year ahead of Blackstone personnel and others regarding distributions made in respect of fiscal periods from July 1, 2007 through December 31, 2009. On December 31, 2009, that distribution priority ended and therefore all future distributions after the distribution referred to in the preceding paragraph will be made on the same basis among all holders of Blackstone Holdings partnership units (held by Blackstone personnel and others) and all holders of Blackstone common units (held by public unitholders and others). Had the distribution priority not been in effect in 2009 so that 2009 cash distributions were made to all unitholders on the same basis, the distributions to common unitholders in respect of fiscal 2009 would have been $0.48 per unit instead of $1.20 per unit.

For distributions related to fiscal year 2010 and thereafter we will no longer use Adjusted Cash Flow from Operations to determine distributions. Going forward we intend to use our Distributable Earnings for purposes of determining the distributions to our unitholders. Distributable Earnings is a non-GAAP measure intended to show the amount of our net realized earnings. Distributable Earnings, which is a component of Economic Net Income, is the sum across all Total Reportable Segments of (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees and Allocations, and (e) Realized Investment Income (Loss) less (a) Base Compensation, (b) Realized Performance Fee Related Compensation, (c) Other Operating Expenses and (d) Cash Taxes.

Table of Contents

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

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

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

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

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

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

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

Because the wholly-owned subsidiaries of The Blackstone Group L.P. must pay taxes and make payments under the tax receivable agreements described in the Notes to Consolidated and Combined Financial Statements, Footnote 15 Related Party Transactions, the amounts ultimately distributed by The Blackstone Group L.P. to its common unitholders in respect of fiscal 2010 and subsequent years are expected to be different, and in many years likely less, on a per unit basis, than the amounts distributed by the Blackstone Holdings partnerships to the Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships in respect of their Blackstone Holdings partnership units.

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

Under the Delaware Limited Partnership Act, we may not make a distribution to a partner if after the distribution all our liabilities, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of our assets. If we were to make such an impermissible distribution, any limited partner who received a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Limited Partnership Act would be liable to us for the amount of the distribution for three years. In addition, the terms of our revolving credit facility or other financing arrangements may from time to time include covenants or other restrictions that could constrain our ability to make distributions.

Common Unit Repurchases in the Fourth Quarter of 2009

In January 2008, the Board of Directors authorized the repurchase of up to $500 million of Blackstone common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased in open market transactions, in privately negotiated transactions or otherwise. The unit repurchase program may be suspended or discontinued at any time and does not have a final specified date. No purchases of our common units were made by us or on our behalf during the quarter ended December 31, 2009. See Part II Item 8. Financial Statements and Supplementary Data Notes to Consolidated and Combined Financial Statements Note 13. Net Loss Per Common Unit and Part I Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Our Future Sources of Cash and Liquidity Needs for further information regarding this unit repurchase program.

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

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The consolidated and combined statements of financial condition and income data as of and for the five years ended December 31, 2009 have been derived from our consolidated and combined financial statements. The audited Consolidated and Combined Statements of Financial Condition as of December 31, 2009 and 2008 and Consolidated and Combined Statements of Operations for the years ended December 31, 2009, 2008 and 2007 are included elsewhere in this Form 10-K. The audited Consolidated and Combined Statements of Financial Condition as of December 31, 2007, 2006 and 2005 and Consolidated and Combined Statements of Operations for the years ended December 31, 2006 and 2005 are not included in this Form 10-K. Historical results are not necessarily indicative of results for any future period.

The selected consolidated and combined financial data should be read in conjunction with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated and combined financial statements and related notes included elsewhere in this Form 10-K.

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(Dollars in Thousands)				
Revenues					
Management and Advisory Fees	$ 1,482,226	$ 1,476,357	$ 1,566,047	$ 1,077,139	$ 478,908
Performance Fees and Allocations	221,090	(1,247,320)	1,126,640	1,267,764	880,906
Investment Income (Loss)	40,604	(622,877)	333,762	259,736	206,296
Interest and Dividend Revenue and Other	29,779	44,479	23,699	12,790	2,122
Total Revenues	1,773,699	(349,361)	3,050,148	2,617,429	1,568,232
Expenses					
Compensation and Benefits (1)	3,777,606	3,859,787	2,256,647	250,067	182,604
General, Administrative and Other	443,573	440,776	324,200	122,395	87,413
Interest Expense	13,384	23,008	32,080	36,932	23,830
Fund Expenses	7,296	63,031	151,917	143,695	67,972
Total Expenses	4,241,859	4,386,602	2,764,844	553,089	361,819
Other Income (Loss)					
Net Gains (Losses) from Fund Investment Activities	176,694	(872,336)	5,423,132	6,090,145	4,071,046
Income (Loss) Before Provision (Benefit) for Taxes	(2,291,466)	(5,608,299)	5,708,436	8,154,485	5,277,459
Provision (Benefit) for Taxes	99,230	(14,145)	47,693	31,934	12,260
Net Income (Loss)	(2,390,696)	(5,594,154)	5,660,743	8,122,551	5,265,199
Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	131,097	(632,495)	628,354	593,328	421,680
Net Income (Loss) Attributable to Non- Controlling Interests in Consolidated Entities	(14,328)	(159,828)	4,510,881	5,263,018	3,512,857
Net Income (Loss) Attributable to Non- Controlling Interests in Blackstone Holdings	(1,792,174)	(3,638,799)	857,022	2,266,205	1,330,662
Net Income (Loss) Attributable to The Blackstone Group L.P.	$ (715,291)	$ (1,163,032)	$ (335,514)	$	$

Table of Contents

	2009	2008	Year Ended December 31, 2007 (Dollars in Thousands) June 19, 2007 through December 31, 2007	2006	2005
Net Loss Per Common Unit Basic and Diluted (2)					
Common Units Entitled to Priority Distributions	$ (2.46)	$ (4.32)	$ (1.28)	N/A	N/A
Common Units Not Entitled to Priority Distributions	$ (3.71)	$ (3.06)	N/A	N/A	N/A
Priority Distributions Declared (3)	$ 0.90	$ 1.20	$ 0.30	N/A	N/A

(1) Prior to the IPO in June 2007, our compensation and benefits expense reflected compensation (primarily salary and bonus) paid or accrued solely to our non-senior managing director employees. Subsequent to our IPO, our compensation and benefits expense reflects (1) employee compensation and benefits expense paid and payable to our employees, including our senior managing directors, (2) equity-based compensation associated with grants of equity-based awards to senior managing directors, other employees and selected other individuals engaged in our businesses, including the amortization of all equity granted to existing employees at the time of the IPO, and (3) performance payment arrangements for Blackstone personnel and profit sharing interests in carried interest.

(2) Prior to our IPO in June 2007, we did not have any Blackstone common units. Accordingly, we had no earnings per common unit for the prior periods. Please refer to Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Significant Transactions Reorganization for further discussion.

(3) Distributions declared reflects the calendar date of declaration for each distribution; the fourth quarter distribution, if any, for any fiscal year will be declared and paid in the subsequent fiscal year. For fiscal 2007 we declared and paid distributions per common unit of $0.60, for fiscal year 2008 we declared and paid distributions per common unit of $0.90 and for fiscal year 2009 we declared and paid distributions per common unit of $0.90 and have declared a final distribution per common unit of $0.30.

	2009	2008	As of December 31, 2007 (Dollars in Thousands)	2006	2005
Statement of Financial Condition Data					
Total Assets (a)	$ 9,409,024	$ 9,489,057	$ 13,175,245	$ 33,891,044	$ 21,121,124
Senior Notes	$ 588,624	$	$	$	$
Total Liabilities	$ 2,865,491	$ 3,370,612	$ 2,890,960	$ 2,373,273	$ 2,082,771
Redeemable Non-Controlling Interests in Consolidated Entities	$ 526,311	$ 362,462	$ 2,438,266	$ 6,060,444	$ 4,333,757
Partners Capital	$ 6,017,222	$ 5,755,983	$ 7,846,019	$ 25,457,327	$ 14,704,596

(a) The decrease in total assets from December 31, 2006 and 2005 to December 31, 2009, 2008 and 2007 is due to the deconsolidation of the Blackstone Funds as described in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Significant Transactions Consolidation and Deconsolidation of Blackstone Funds .

Table of Contents

ITEM 7. 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 consolidated and combined financial statements and the related notes included within this Annual Report on Form 10-K.

On March 3, 2008, we acquired GSO Capital Partners LP and certain of its affiliates (GSO). GSO is an alternative asset manager specializing in the leveraged finance marketplace. GSO manages various credit-oriented funds, separately managed accounts and collateralized loan obligation (CLO) vehicles. GSO s results from the date of acquisition are included in our Credit and Marketable Alternatives segment.

During 2007 we consummated a number of significant transactions, including the reorganization on June 18, 2007, the concurrent completion of our initial public offering and sale of non-voting common units to Beijing Wonderful Investments on June 27, 2007, and the deconsolidation of a number of Blackstone Funds (effective June 27, 2007 and July 1, 2007). These transactions have had significant effects on many of the items within our consolidated and combined financial statements and affect the comparison of our results for periods following these transactions with those of prior years.

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 corporate and mergers and acquisitions advisory, restructuring and reorganization advisory and fund placement services.

Our business is organized into four business segments:

Private Equity. We are a world leader in private equity investing, having managed five general private equity funds, as well as one specialized fund focusing on media and communications-related investments, since we established this business in 1987. In addition, we are in the process of raising our seventh private equity fund and are seeking to launch new investment funds to make infrastructure and clean technology investments. Through our private equity funds we pursue transactions throughout the world, including leveraged buyout acquisitions of seasoned companies, transactions involving growth equity or start-up businesses in established industries, minority investments, corporate partnerships, distressed debt, structured securities and industry consolidations, in all cases in strictly friendly transactions.

Real Estate. We are a world leader in real estate investing with an assortment of real estate funds that are diversified geographically and across a variety of sectors. We launched our first real estate fund in 1994 and have managed six opportunistic real estate funds, two internationally focused real estate funds, a European focused real estate fund and a number of real estate debt investment funds. Our real estate funds have made significant investments in lodging, major urban office buildings and a variety of real estate operating companies. In addition, our debt investment funds target real estate non-controlling debt related investment opportunities in the public and private markets, primarily in the United States and Europe.

Credit and Marketable Alternatives. Established in 1990, our credit and marketable alternatives segment is comprised of our management of funds of hedge funds, credit-oriented funds, CLO vehicles and publicly-traded closed-end mutual funds, in many of which we are a world leader. These products are intended to provide investors with greater levels of current income and for certain products, a greater level of liquidity.

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

Table of Contents

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

Business Environment

World equity and debt markets continued to improve in the second half of 2009 in anticipation of sustained economic recovery. The United States and several other developed economies returned to growth, benefiting in part from government spending programs, and emerging economies grew more sharply. In the U.S., despite tangible evidence of economic recovery, unemployment remains high and consumer credit trends remain weak.

Equity indices improved dramatically throughout 2009 from multi-year lows reached early in the year, when valuations suffered from investor despondency and massive mutual and hedge fund withdrawals. Global equity indices in developed nations increased 20-30% in 2009. Improvement was more pronounced in developing nations, with equity indices increasing 60-100%.

Similarly, credit indices rose sharply, fueled by improving economic data and a significant increase in demand and liquidity. High yield credit spreads tightened roughly 1,100 basis points in 2009, and implied default rates declined to 2-4% versus 12-15% earlier in 2009. Average leveraged loan prices improved from 62% of par at the end of 2008 to 87% at year-end 2009.

In real estate, fundamentals are beginning to show signs of having reached bottom. For office properties, where trends tend to lag the overall economy, vacancy rates appear to have stabilized, with some markets showing signs of decreasing vacancy. In hospitality, demand appears to have bottomed as well, although pricing remains pressured. Revenue per average room (RevPAR), an important hospitality industry metric, continued to decline, but that decline clearly moderated in the fourth quarter of 2009. U.S. RevPAR has historically been highly correlated with changes in GDP and corporate profits, which are both being forecasted to improve in 2010. The combination of these factors is expected to set the stage for a recovery in lodging fundamentals. However, the timing and magnitude of the recovery are difficult to determine.

Real estate capital markets have improved dramatically. Public REITs in the U.S. raised $25 billion of equity in 2009, and the REIT Index more than doubled from its low in March 2009. Public real estate debt (CMBS and REIT unsecured) yields tightened meaningfully. Private real estate markets have recently started showing signs of improvement, and private debt capital has begun to return to the market.

Commodity prices materially increased in 2009. Oil prices, for example, rose nearly 80%. The U.S. dollar weakened, pressured by historically low interest rates coupled with heavy borrowing. The U.S. dollar fell against each of the Euro and Pound Sterling by 2% and 10%, respectively. Global monetary policy has remained very accommodative throughout the economic downturn, and there are some initial signs of foreign governments tightening, although the outlook for monetary policy is uncertain.

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

Table of Contents

Significant Transactions

Reorganization

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

Undistributed earnings of the Contributed Businesses through the date of the Reorganization inured to the benefit of predecessor owners.

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

Holders of the limited partner interests in the four Holding Partnerships may, up to four times each year, exchange their limited partnership interests (Partnership Units) for Blackstone Common Units, on a one-to-one basis, exchanging one Partnership Unit in each of the four Holding Partnerships for one Blackstone Common Unit. Until the Blackstone Common Units issued in such exchanges are sold to third parties, they will forgo any priority distributions under the cash distribution policy as described in Note 13. Net Loss Per Common Unit in the Notes to the Consolidated and Combined Financial Statements in Part II. Item 8. Financial Statements and Supplementary Data of this filing.

Initial Public Offering

On June 27, 2007, the Partnership completed an initial public offering (IPO) of its Common Units representing limited partner interests in the Partnership. Upon the completion of the IPO, public investors indirectly owned approximately 14.1% of the equity in Blackstone. Concurrently with the IPO, the Partnership completed the sale of non-voting common units, representing approximately 9.3% of the equity in Blackstone, to Beijing Wonderful Investments, an investment vehicle subsequently transferred to China Investment Corporation. On October 28, 2008, the agreement with Beijing Wonderful Investments was amended whereby it, and certain of its affiliates, are restricted in the future from engaging in the purchase of Blackstone common units that would result in its aggregate beneficial ownership in Blackstone on a fully-diluted (as-converted) basis exceeding 12.5%, an increase from 10% at the date of the IPO. In addition, Blackstone common units owned by Beijing Wonderful Investments or its affiliates in excess of 10% aggregate beneficial ownership in Blackstone on a fully-diluted (as-converted) basis are not subject to any restrictions on transfer but are non-voting while held by Beijing Wonderful Investments or its affiliates.

Table of Contents

The Partnership contributed the proceeds from the IPO and the sale of non-voting common units to Beijing Wonderful Investments to its wholly-owned subsidiaries, which in turn used these proceeds to (a) purchase interests in the Contributed Businesses from the predecessor owners (which interests were then contributed to Blackstone Holdings in exchange for newly-issued Blackstone Holdings Partnership Units) and (b) purchase additional newly-issued Blackstone Holdings Partnership Units from Blackstone Holdings.

Consolidation and Deconsolidation of Blackstone Funds

Concurrently with the Reorganization, the Contributed Businesses that act as a general partner of a consolidated Blackstone Fund (with the exception of Blackstone s then existing proprietary hedge funds and four of the funds of hedge funds) took the necessary steps to grant rights to the unaffiliated investors in each respective fund to provide that a simple majority of the fund s unaffiliated investors will have the right, without cause, to remove the general partner of that fund or to accelerate the liquidation date of that fund in accordance with certain procedures. The granting of these rights resulted in the deconsolidation of such investment funds from the Partnership s consolidated financial statements and the accounting of Blackstone s interest in these funds under the equity method. With the exception of certain funds of hedge funds, hedge funds and credit-oriented funds, these rights became effective on June 27, 2007 for all Blackstone Funds where these rights were granted. The effective date of these rights for the applicable funds of hedge funds was July 1, 2007. The consolidated results of these funds have been reflected in the Partnership s consolidated and combined financial statements up to the effective date of these rights.

Acquisition of GSO Capital Partners LP

On March 3, 2008, the Partnership acquired GSO Capital Partners LP and certain of its affiliates (GSO). GSO is an alternative asset manager specializing in the credit markets. GSO manages various multi-strategy credit hedge funds, mezzanine funds, senior debt funds, separately managed accounts and various CLO vehicles.

Key Financial Measures and Indicators

Our key financial measures and indicators are discussed below.

Revenues

Revenues primarily consist of management and advisory fees, performance fees and allocations, investment income, interest and dividend revenue and other. Please refer to Part I. Item 1. Business, Incentive Arrangements / Fee Structure and , Critical Accounting Policies, Revenue Recognition for additional information regarding the manner in which Base Management Fees and Performance Fees and Allocations are generated.

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

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

Transaction and other fees (including monitoring fees) are fees charged directly to 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 reduction) by an amount equal to a portion of the transaction and other fees directly paid to the Partnership by the portfolio companies. The amount of the reduction varies by fund, the type of fee paid by the portfolio company and the previously incurred expenses of the fund.

Table of Contents

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

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

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

Performance Fees and Allocations Performance fees earned on the performance of Blackstone s hedge fund structures are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund investment advisory agreement. Accrued but unpaid performance fees charged directly to investors in Blackstone s offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Consolidated and Combined Statements of Financial Condition. Performance fees arising on Blackstone s onshore hedge funds are allocated to the general partner. Accrued but unpaid performance fees on onshore funds as of the reporting date are reflected in Investments in the Consolidated and Combined Statements of Financial Condition.

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

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

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

Table of Contents

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

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

Other Revenue Other Revenue comprises primarily foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

Expenses

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

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

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

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

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

Non-Controlling Interests in Consolidated Entities

Non-Controlling Interests in Consolidated Entities represent the component of Partners Capital in consolidated entities held by third party investors. Such interests are adjusted for general partner allocations and by subscriptions and redemptions in funds of hedge funds and certain credit-oriented funds which occur during the reporting period. Non-controlling interests related to funds of hedge funds and certain other credit-oriented funds are subject to annual, semi-annual or quarterly redemption by investors in these funds following the expiration of a specified period of time (typically between one and three years), or may be withdrawn subject to a redemption fee in the funds of hedge funds and certain credit-oriented funds during the period when capital may

Table of Contents

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 Consolidated and Combined Statements of Financial Condition. When redeemable amounts become legally payable to investors, they are classified as a liability. For all consolidated funds in which redemption rights have not been granted, non-controlling interests are presented within Partners Capital in the Consolidated and Combined Statements of Financial Condition as Non-Controlling Interests in Consolidated Entities.

Income Taxes

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

Income taxes are accounted for using the liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis, using currently enacted tax rates. The effect on deferred assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

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

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

There remains some uncertainty regarding Blackstone s future taxation levels. In 2007, Congress considered legislation that would tax as corporations publicly traded partnerships that directly or indirectly derive income from investment adviser or asset management services. If we were taxed as a corporation, our effective tax rate would increase significantly. The federal statutory rate for corporations is currently 35%, and the state and local tax rates, net of the federal benefit, aggregate approximately 10%. If a variation of this proposed 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, this would materially increase our tax liability, and could well result in a reduction in the market price of our common units.

In 2008, the U.S. House of Representatives passed a bill that would generally (1) treat carried interest as non-qualifying income under the tax rules applicable to publicly traded partnerships, which would generally require us to hold interests in entities earning such income through taxable subsidiary corporations by the end of 2010, and (2) tax carried interest as ordinary income for U.S. federal income taxes, rather than in accordance with the character of income derived by the underlying fund, which is in many cases capital gain, starting with our 2008 taxable year. In December 2009, the U.S. House of Representatives passed substantially similar

Table of Contents

legislation. Such legislation would tax carried interest as ordinary income starting with our 2010 taxable year. However, under a transition rule, the portion of such legislation treating carried interest as non-qualifying income under the tax rules applicable to publicly traded partnerships would not apply until our first taxable year beginning 10 years after the date of the enactment of the legislation. In addition, the Obama administration proposed in its published revenue proposals for both 2010 and 2011 that the current law regarding the treatment of carried interest be changed to treat such income as income received in connection with the performance of services and subject to ordinary income tax. If any such legislation or similar legislation were to be enacted and apply to us, it would materially increase our tax liability, which could well result in a reduction in the market price of our common units.

Economic Net Income

Economic Net Income (ENI) is a key performance measure used by management. ENI represents income before taxes by segment excluding any transaction-related items, amortization of intangibles and the impact of consolidated funds. Blackstone s historical combined financial statements for periods prior to the IPO do not include these transaction-related charges nor do such financial statements reflect performance fee related compensation expenses associated with senior managing directors, departed partners and other selected employees. Those compensation expenses were accounted for as partnership distributions prior to the IPO, but are included in the financial statements for the periods following the IPO as a component of compensation and benefits expense. The aggregate of ENI for all reportable segments equals Total Reportable Segment ENI. ENI is used by management primarily in making resource deployment and compensation decisions across Blackstone s four segments. (See Note 19. Segment Reporting in the Notes to the Consolidated and Combined Financial Statements in Part II. Item 8. Financial Statements and Supplementary Data.)

Adjusted Cash Flow from Operations

Adjusted Cash Flow from Operations, which is derived from our segment reported results, is a supplemental non-GAAP measure we use to assess liquidity and amounts available for distribution to owners. Adjusted Cash Flow from Operations is intended to reflect the cash flow attributable to Blackstone without the effects of the consolidation of the Blackstone Funds. The equivalent GAAP measure is Net Cash Provided by (Used in) Operating Activities. See Liquidity and Capital Resources Liquidity and Capital Resources below for our detailed discussion of Adjusted Cash Flow from Operations.

Adjusted Cash Flow from Operations will be retired with the end of the distribution preference to public unitholders. Going forward we will disclose our Distributable Earnings, which is a non-GAAP measure intended to show the amount of our net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings, which is a component of Economic Net Income, is the sum across all Total Reportable Segments of (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other, (d) Realized Performance Fees and Allocations, and (e) Realized Investment Income (Loss) less (a) Base Compensation, (b) Realized Performance Fee Related Compensation, (c) Other Operating Expenses and (d) Cash Taxes. Distributable Earnings will be reconciled to our Consolidated Statement of Operations. It is Blackstone s current intention that on an annual basis it will distribute to unitholders all of its Distributable Earnings in excess of amounts determined by its general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its business and funds, to comply with applicable law, any of its debt instruments or other agreements, or to provide for future distributions to its unitholders for any ensuing quarter.

Net Fee Related Earnings from Operations

Net Fee Related Earnings from Operations, which is a component of Adjusted Cash Flow from Operations, is a measure that highlights our earnings from operations excluding the income and related compensation expense related to the performance fees and allocations, and income earned from Blackstone s investments in the Blackstone Funds. See Liquidity and Capital Resources Liquidity and Capital Resources below for a detailed discussion of Net Fee Related Earnings from Operations.

Table of Contents

Operating Metrics

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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,

Table of Contents

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

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

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

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

Table of Contents

Consolidated and Combined Results of Operations

Following is a discussion of our consolidated and combined results of operations for each of the years in the three year period ended December 31, 2009. For a more detailed discussion of the factors that affected the results of our four business segments (which are presented on a basis that deconsolidates the investment funds we manage) in these periods, see Segment Analysis below.

The following table sets forth information regarding our consolidated and combined results of operations and certain key operating metrics for the years ended December 31, 2009, 2008, and 2007.

	Year Ended December 31,			2009 vs. 2008		2008 vs. 2007	
	2009	2008	2007	$	%	$	%
	(Dollars in Thousands)						
Revenues							
Management and Advisory Fees	$ 1,482,226	$ 1,476,357	$ 1,566,047	$ 5,869	0%	$ (89,690)	-6%
Performance Fees and Allocations							
Realized	70,492	38,941	1,024,566	31,551	81%	(985,625)	-96%
Unrealized	150,598	(1,286,261)	102,074	1,436,859	N/M	(1,388,335)	N/M
Total Performance Fees and Allocations	221,090	(1,247,320)	1,126,640	1,468,410	N/M	(2,373,960)	N/M
Investment Income (Loss)							
Realized	44,320	(16,425)	223,147	60,745	N/M	(239,572)	N/M
Unrealized	(3,716)	(606,452)	110,615	602,736	99%	(717,067)	N/M
Total Investment Income (Loss)	40,604	(622,877)	333,762	663,481	N/M	(956,639)	N/M
Interest and Dividend Revenue	22,680	30,879	23,174	(8,199)	-27%	7,705	33%
Other	7,099	13,600	525	(6,501)	-48%	13,075	N/M
Total Revenues	1,773,699	(349,361)	3,050,148	2,123,060	N/M	(3,399,509)	N/M
Expenses							
Compensation and Benefits							
Base Compensation	3,778,686	4,062,238	2,227,310	(283,552)	-7%	1,834,928	82%
Performance Fee Related							
Realized	25,102	4,997	91,203	20,105	N/M	(86,206)	-95%
Unrealized	(26,182)	(207,448)	(61,866)	181,266	87%	(145,582)	N/M
Total Compensation and Benefits	3,777,606	3,859,787	2,256,647	(82,181)	-2%	1,603,140	71%
General, Administrative and Other	443,573	440,776	324,200	2,797	1%	116,576	36%
Interest Expense	13,384	23,008	32,080	(9,624)	-42%	(9,072)	-28%
Fund Expenses	7,296	63,031	151,917	(55,735)	-88%	(88,886)	-59%
Total Expenses	4,241,859	4,386,602	2,764,844	(144,743)	-3%	1,621,758	59%
Other Income (Loss)							
Net Gains (Losses) from Fund Investment Activities	176,694	(872,336)	5,423,132	1,049,030	N/M	(6,295,468)	N/M
Income (Loss) Before Provision (Benefit) for Taxes	(2,291,466)	(5,608,299)	5,708,436	3,316,833	59%	(11,316,735)	N/M
Provision (Benefit) for Taxes	99,230	(14,145)	47,693	113,375	N/M	(61,838)	N/M
Net Income (Loss)	(2,390,696)	(5,594,154)	5,660,743	3,203,458	57%	(11,254,897)	N/M
Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	131,097	(632,495)	628,354	763,592	N/M	(1,260,849)	N/M
	(14,328)	(159,828)	4,510,881	145,500	91%	(4,670,709)	N/M

Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities							
Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings	(1,792,174)	(3,638,799)	857,022	1,846,625	51%	(4,495,821)	N/M
Net Income (Loss) Attributable to The Blackstone Group L.P.	$ (715,291)	$ (1,163,032)	$ (335,514)	$ 447,741	38%	$ (827,518)	N/M

72

Table of Contents

Revenues

Total Revenues were $1.8 billion for the year ended December 31, 2009, an increase of $2.1 billion compared to Total Revenues for the prior year of $(349.4) million. The increase in revenues was primarily attributable to an increase of $1.5 billion in Performance Fees and Allocations, which were $221.1 million for the 2009 year, and an increase of $663.5 million in Investment Income (Loss) to $40.6 million for the year. Management and Advisory Fees were $1.5 billion for the year, relatively unchanged compared to 2008. While Base Management Fees remained relatively unchanged, Transaction and Other Fees increased approximately $11.2 million, primarily driven by one-time monitoring fees as a result of certain asset realizations. The improvements in Performance Fees and Allocations and Investment Income (Loss) were driven by improved returns by our Private Equity funds, which had a net internal rate of return (IRR) of 9% in 2009 compared to (30)% in 2008. Performance Fees and Allocations were also helped by certain Real Estate funds. The 2009 net IRR for our real estate carry funds was (35)% compared to (38)% in 2008, while our real estate debt investment hedge funds had net returns of 21% in 2009 and (9)% in 2008. Our Credit and Marketable Alternatives segment also had improved performance in 2009, contributing $155.6 million (primarily from our credit platform hedge funds and also from our funds of hedge funds which had a composite net return of 16% in 2009 versus (20)% in 2008). The Realized Performance Fees and Allocations of $70.5 million were primarily attributable to the Private Equity and Credit and Marketable Alternatives segments with $34.0 million and $43.3 million, respectively.

Total Revenues were $(349.4) million for the year ended December 31, 2008, a decrease of $3.4 billion compared to Total Revenues for the prior year of $3.0 billion. The decrease in revenues was primarily attributed to a decrease in Performance Fees and Allocations of $2.4 billion to $(1.3) billion and a decrease in Investment Income (Loss) of $956.6 million to $(622.9) million. Management and Advisory Fees declined $89.7 million, or 6%, to $1.5 billion for the year. The change in both Performance Fees and Allocations and Investment Income (Loss) was due principally to net depreciation in the fair value of the underlying portfolio investments of our Private Equity, Real Estate, fund of hedge funds, then existing proprietary hedge funds and credit oriented funds compared to net appreciation during the prior year, consistent with overall declines in the global equity and debt markets. Specifically, our Private Equity and Real Estate funds had net IRR s of (30)% and (38)%, respectively, in 2008, compared to 9% and 30% in 2007. The net reduction in the fair value of these investments was driven primarily by a decrease in projected exit multiples, lower operating projections for some portfolio investments, a reduction in share prices of various publicly held investments consistent with the general declines in the global equity markets and the decline in the value of foreign currencies versus the U.S. dollar. Realized Performance Fees and Allocations in 2008 of $38.9 million were primarily attributable to the Real Estate and Credit and Marketable Alternatives segments with $24.7 million and $15.1 million, respectively. Realized Investment Income (Loss) of $(16.4) million was primarily attributable to $(82.1) million from the Credit and Marketable Alternatives segment. The decrease in Management and Advisory Fees was primarily attributable to a decrease in transaction fees, which reflected a reduction in the size and volume of consummated transactions in 2008 compared to the prior year when we earned substantial transaction fees from our funds acquisitions of Equity Office Properties Trust and Hilton Hotels. This decrease was partially offset by an increase in base management fees of $254.2 million, or 34%, as a result of an increase in Fee-Earning Assets Under Management for 2008 compared with 2007, as well as an increase in fees generated by our restructuring and reorganization and our corporate and mergers and acquisitions advisory services businesses.

Total Revenues were $3.1 billion for the year ended December 31, 2007, Management and Advisory Fees were $1.6 billion while Performance Fees and Allocations were $1.1 billion. Investment Income was $333.8 million.

Expenses

Expenses were $4.2 billion for the year ended December 31, 2009, a decrease of $144.7 million, or 3%, compared to $4.4 billion for the year ended December 31, 2008. The decrease was primarily attributed to a decrease in Compensation and Benefits to $3.8 billion from $3.9 billion in 2008. The year 2008 included a reduction in compensation costs of $202.0 million resulting from the reversal of prior period carried interest allocations to certain personnel due to a net reduction in the fair value of underlying funds investments. General, Administrative and Other expenses remained relatively unchanged. Our expenses are primarily driven by levels of business activity, revenue growth and headcount expansion.

Expenses were $4.4 billion for the year ended December 31, 2008, an increase of $1.6 billion, or 59%, compared to $2.8 billion for the year ended December 31, 2007. The primary driver of the change was Compensation and Benefits which were $3.9 billion, 71% higher than for 2007. 2008 reflects a full year of equity-based compensation and performance payment arrangements versus approximately one half year in 2007. The net addition of personnel to support the growth of each of our business segments, including expansion into Asia and our hedge fund businesses, also contributed to the increase in Compensation and Benefits. These increases were partially offset by the reduction in compensation costs of $202.0 million discussed above. General, Administrative and Other increased $116.6 million compared to the year ended December 31, 2007, primarily due to $35.6 million of incremental amortization expense associated with intangible assets related to our IPO, the acquisition of GSO, as well as an increase in costs associated with being a public company.

Other Income (Loss)

Other Income (Loss) was $176.7 million for the year ended December 31, 2009, an increase of $1.0 billion compared to $(872.3) million for the year ended December 31, 2008. The change was due to improved performance of consolidated Blackstone Funds for the year ended December 31, 2009.

For the year ended December 31, 2008, Other Income (Loss) was $(872.3) million, a decrease of $6.3 billion compared to $5.4 billion for the year ended December 31, 2007. The change was due to the deconsolidation of certain of our funds in our Private Equity, Real Estate and Credit and Marketable Alternatives segments as described above in Consolidation and Deconsolidation of Blackstone Funds.

Operating Metrics

The following table presents certain operating metrics for the years ended December 31, 2009, 2008 and 2007. For a description of how assets under management is determined, please see Key Financial Measures and Indicators Operating Metrics Assets Under Management.

	Year Ended December 31,			2009 vs. 2008		2008 vs. 2007	
	2009	2008	2007	$	%	$	%
	(Dollars in Thousands)						
Fee-Earning Assets Under Management							
Balance, Beginning of Period	$ 91,041,057	$ 83,152,253	$ 54,795,460	$ 7,888,804	9%	$ 28,356,793	52%
Inflows, including Commitments (a)	7,407,805	27,414,604	29,547,760	(20,006,799)	-73%	(2,133,156)	-7%
Outflows, including Distributions (b)	(7,165,725)	(7,709,415)	(5,362,627)	543,690	7%	(2,346,788)	-44%
Market Appreciation (Depreciation) (c)	4,813,860	(11,816,385)	4,171,660	16,630,245	N/M	(15,988,045)	N/M
Balance, End of Period	$ 96,096,997	$ 91,041,057	$ 83,152,253	$ 5,055,940	6%	$ 7,888,804	9%
Assets Under Management (End of Period)	$ 98,183,128	$ 94,559,217	$ 102,427,372	$ 3,623,911	4%	$ (7,868,155)	-8%
Capital Deployed							
Limited Partner Capital Invested	$ 3,147,526	$ 6,548,651	$ 14,771,359	$ (3,401,125)	-52%	$ (8,222,708)	-56%

(a) Inflows represent contributions in our funds of hedge funds, credit-oriented 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. For 2008, this also includes the assets under management of GSO beginning in March 2008.

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

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

Fee-Earning Assets Under Management

Fee-Earning Assets Under Management were $96.1 billion at December 31, 2009, an increase of $5.1 billion, or 6%, compared with $91.0 billion at December 31, 2008. The increase was primarily driven by $3.7 billion of net appreciation in our funds of hedge funds, $908.0 million in our credit platform funds and $699.3 million in our closed-end mutual funds. Additionally, our Real Estate segment contributed an increase of $737.6 million while Private Equity experienced a decline of $1.0 billion.

Fee-Earning Assets Under Management were $91.0 billion at December 31, 2008, an increase of $7.9 billion, or 9%, compared with $83.2 billion at December 31, 2007. The increase was primarily driven by additional capital raised for our European focused real estate fund, contributions to our funds of hedge funds, the acquisition of GSO and the deployment of capital in funds which charge a fee based upon invested capital. These increases were partially offset by redemptions.

Assets Under Management

Assets Under Management were $98.2 billion at December 31, 2009, an increase of $3.6 billion, or 4%, compared with $94.6 billion at December 31, 2008. The change was principally due to net appreciation of $7.0 billion and $2.0 billion in our Credit and Marketable Alternatives and Private Equity segments, respectively. This was offset by $3.8 billion of net depreciation in our Real Estate Segment. Additionally, we had realizations of $1.6 billion and $1.0 billion in our Private Equity and Credit and Marketable Alternatives segments, respectively.

Assets Under Management were $94.6 billion at December 31, 2008, a decrease of $7.9 billion, or 8%, compared with $102.4 billion at December 31, 2007. The change was principally due to a net depreciation in the fair value of portfolio investments of $27.2 billion. This was partially offset by the addition of $12.3 billion of Assets Under Management associated with our acquisition of GSO and $5.6 billion of inflows into our real estate funds, primarily our European focused real estate fund.

Limited Partner Capital Invested

Limited Partner Capital Invested was $3.1 billion for the year ended December 31, 2009, a decrease of $3.4 billion, or 52%, compared to $6.5 billion for the year ended December 31, 2008. The change reflected a decrease in the size and volume of consummated transactions compared to the prior year.

Limited Partner Capital Invested was $6.5 billion for the year ended December 31, 2008, a decrease of $8.2 billion, or 56%, compared to $14.8 billion for the year ended December 31, 2007. The change reflected a decrease in the size and volume of consummated transactions compared to the prior year that most notably reflected our funds investments in Equity Office Properties Trust and Hilton Hotels Corporation.

Table of Contents

Segment Analysis

Discussed below is our ENI for each of our reportable 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 and combined 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 and combined GAAP basis. Furthermore, segment expenses are lower than related amounts presented on a consolidated and combined GAAP basis due to the exclusion of fund expenses that are paid by Limited Partners and the elimination of non-controlling interests.

Private Equity

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

	Year Ended December 31,			2009 vs. 2008		2008 vs. 2007	
	2009	2008	2007	$	%	$	%
	(Dollars in Thousands)						
Segment Revenues							
Management Fees							
Base Management Fees	$ 270,509	$ 268,961	$ 254,843	$ 1,548	1%	$ 14,118	6%
Transaction and Other Fees, Net	86,336	51,796	123,770	34,540	67%	(71,974)	-58%
Management Fee Offsets		(4,862)	(10,734)	4,862	N/M	5,872	55%
Total Management Fees	356,845	315,895	367,879	40,950	13%	(51,984)	-14%
Performance Fees and Allocations							
Realized	34,021	(749)	574,274	34,770	N/M	(575,023)	N/M
Unrealized	303,491	(429,736)	(194,357)	733,227	N/M	(235,379)	-121%
Total Performance Fees and Allocations	337,512	(430,485)	379,917	767,997	N/M	(810,402)	N/M
Investment Income (Loss)							
Realized	36,968	13,687	131,498	23,281	170%	(117,811)	-90%
Unrealized	33,269	(196,200)	(16,166)	229,469	N/M	(180,034)	N/M
Total Investment Income (Loss)	70,237	(182,513)	115,332	252,750	N/M	(297,845)	N/M
Interest and Dividend Revenue	7,756	6,459	1,731	1,297	20%	4,728	N/M
Other	2,845	4,474	470	(1,629)	-36%	4,004	N/M
Total Revenues	775,195	(286,170)	865,329	1,061,365	N/M	(1,151,499)	N/M
Expenses							
Compensation and Benefits							
Base Compensation	181,266	146,551	132,119	34,715	24%	14,432	11%
Performance Fee Related							
Realized	741	(4,255)	14,534	4,996	N/M	(18,789)	N/M
Unrealized	20,307	(126,090)	(50,251)	146,397	N/M	(75,839)	-151%
Total Compensation and Benefits	202,314	16,206	96,402	186,108	N/M	(80,196)	-83%
Other Operating Expenses	82,471	90,130	78,473	(7,659)	-8%	11,657	15%

Total Expenses	284,785	106,336	174,875	178,449	168%	(68,539)	-39%
Economic Net Income (Loss)	$ 490,410	$ (392,506)	$ 690,454	$ 882,916	N/M	$ (1,082,960)	N/M

Table of Contents

Revenues

Revenues were $775.2 million for the year ended December 31, 2009, an increase of $1.1 billion compared to $(286.2) million for the year ended December 31, 2008. The increase in revenues was primarily attributed to an increase of $768.0 million in Performance Fees and Allocations, an increase of $252.8 million in Investment Income (Loss) and an increase of $41.0 million in Total Management Fees.

Performance Fees and Allocations, which are determined on a fund by fund basis, were $337.5 million for the year ended December 31, 2009, an increase of $768.0 million compared to $(430.5) million for the year ended December 31, 2008. Investment Income (Loss) was $70.2 million, an increase of $252.8 million compared to $(182.5) million for the previous year. These increases were driven by the improved performance of our funds, which had a net IRR of 9% for the year compared to a net IRR of (30)% in 2008. At December 31, 2009, the unrealized value and cumulative realized proceeds, before carried interest, fees and expenses, of our contributed Private Equity funds represented 1.3 times investors original investments. Over 50% of the appreciation in fair value for 2009 was attributable to increased share prices of various publicly held investments, notably TRW Automotive Holdings Corp. (NYSE: TRW) and TeamHealth Holdings, Inc. (NYSE: TMH), a company that Blackstone took public during the fourth quarter of 2009. The segment s private portfolio contributed approximately one-third to the overall appreciation in fair value for 2009. This improvement was primarily due to two investments sold during the year, Orangina Schweppes, SAS (consumer sector) and Stiefel Laboratories, Inc. (healthcare sector). At a fund level, the appreciation in fair value was primarily attributed to BCP IV, which generated $340.4 million in Performance Fees and $57.2 million in Investment Income. Within BCP IV, publicly traded TRW Automotive accounted for one-third of the contribution to our Performance Fees and Allocations and approximately 15% of the contribution to Investment Income (Loss). Orangina Schweppes, SAS and Kosmos Energy, LLC each accounted for approximately 20% of Performance Fees and slightly over 25% of Investment Income within BCP IV. The Realized Performance Fees and Allocations and Investment Income (Loss) for 2009 of $34.0 million and $37.0 million, respectively, were primarily attributable to our sale of Orangina Schweppes, SAS and a Sithe Global Power LLC investment.

Total Management Fees were $356.8 million for the year ended December 31, 2009, an increase of $41.0 million compared to $315.9 million for the year ended December 31, 2008. Transaction and Other Fees increased $34.5 million primarily due to lower offsets for spending on due diligence for potential transactions. Base Management Fees were $270.5 million for the year, relatively unchanged compared to the prior year as fee-earning assets under management also remained relatively unchanged for the comparable period.

Revenues were $(286.2) million for the year ended December 31, 2008, a decrease of $1.2 billion compared to $865.3 million for the year ended December 31, 2007. The decrease in revenues was primarily attributed to a decrease of $810.4 million in Performance Fees and Allocations, a decrease of $297.8 million in Investment Income (Loss), and a decrease of $52.0 million in Total Management Fees.

Performance Fees and Allocations were $(430.5) million for the year ended December 31, 2008, a decrease of $810.4 million compared to $379.9 million for the prior year. The Investment Income (Loss) for the year was $(182.5) million, a decrease of $297.8 million compared to $115.3 million for the previous year. These decreases were driven by the deterioration in the performance of our funds, which had a net IRR of (30)% compared to positive 9% in 2007, primarily driven by a reduction in the unrealized value of the underlying portfolio investments. Approximately 60% of the depreciation in fair value was attributable to the segment s private portfolio, of which approximately 80% was driven by lower cash flow projections reflecting the difficult business environment and approximately 20% due to reduced exit multiple expectations for certain portfolio companies where changes to long term valuation trends for similar assets had an impact. The remaining 40% of the decrease was attributable to losses on foreign exchange and lower share prices of publicly traded companies such as Deutsche Telekom AG (XETRA: DTE) and TRW Automotive Holdings, Corp. The funds which drove the negative performance fees were BCP IV, BCOM and BCP V. The 2007 return of positive 9% was primarily attributable to the performance of our private portfolio, most significantly the chemicals and telecom sectors.

Total Management Fees were $315.9 million for the year ended December 31, 2008, a decrease of $52.0 million compared to $367.9 million for the year ended December 31, 2007. Transaction and Other Fees decreased $72.0 million, primarily due to a reduction in the number and size of closed fee-earning transactions in

Table of Contents

2008. Base Management Fees increased $14.1 million, primarily due to the full-year impact on management fees of the $5.4 billion of inflows to Fee-Earning Assets Under Management in 2007, which was driven by $4.7 billion of additional capital raised for BCP V.

Performance Fees and Allocations of $379.9 million and Investment Income (Loss) of $115.3 million for the year ended December 31, 2007 were principally driven by BCP IV and BCOM, with BCP V and BCP III also helping to drive Investment Income (Loss). In 2007, we had numerous realizations that contributed to Realized Performance Fees and Allocations and Investment Income of $574.3 million and $131.5 million, respectively, with the realizations of Gerresheimer Group AG and Celanese Corporation being the largest.

Expenses

Expenses were $284.8 million for the year ended December 31, 2009, an increase of $178.4 million, or 168%, compared to $106.3 million for the year ended December 31, 2008. Compensation and Benefits increased in total with Compensation and Benefits Base Compensation increasing $34.7 million to $181.3 million and Compensation and Benefits Performance Fee Related increasing $151.4 million to $21.0 million compared to the prior year. The increase in Compensation and Benefits Base Compensation was primarily due to an increase in management fee revenues, as a portion of compensation is directly related to the profitability of the segment. The increase in Compensation and Benefits Performance Fee Related was a result of reversing the prior year s negative compensation of $(126.9) million from the write-down of prior period carried interest allocations due to the decline in fair value of certain portfolio investments. Other Operating Expenses decreased $7.7 million to $82.5 million, principally due to decreases in professional fees and interest expense.

Expenses were $106.3 million for the year ended December 31, 2008, a decrease of $68.5 million, or 39%, compared to $174.9 million for the year ended December 31, 2007. Compensation and Benefits Base Compensation were $146.6 million for the year, an increase of $14.4 million, compared to $132.1 million for the prior year. The increase was primarily due to the impact of performance payment arrangements associated with our senior managing directors and other selected employees which were accounted for as partnership distributions prior to our IPO during 2007. Compensation and Benefits Performance Related declined $94.6 million, to $(130.3) million, for the year driven by the reversal of prior period carried interest allocations to certain personnel of $126.9 million, primarily due to the decline in fair value of certain portfolio investments. Other Operating Expenses increased $11.7 million in 2008 to $90.1 million, principally due to increases in professional fees, occupancy costs and foreign exchange losses, partially offset by a decrease in interest expense.

Realized Compensation and Benefits Performance Fee Related for all periods is a direct result of the Realized Revenue items described above and is determined on a deal-by-deal basis.

Operating Metrics

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

	Year Ended December 31,			2009 vs. 2008		2008 vs. 2007	
	2009	2008	2007	$	%	$	%
	(Dollars in Thousands)						
Fee-Earning Assets Under Management							
Balance, Beginning of Period	$ 25,509,163	$ 25,040,513	$ 21,122,326	$ 468,650	2%	$ 3,918,187	19%
Inflows, including Commitments	84,202	515,979	5,356,779	(431,777)	-84%	(4,840,800)	-90%
Outflows, including Distributions	(411,459)	(47,329)	(1,438,592)	(364,130)	N/M	1,391,263	97%
Market Appreciation (Depreciation)	(660,512)			(660,512)	N/M		
Balance, End of Period	$ 24,521,394	$ 25,509,163	$ 25,040,513	$ (987,769)	-4%	$ 468,650	2%
Assets Under Management							
(End of Period)	$ 24,758,992	$ 23,933,511	$ 31,802,951	$ 825,481	3%	$ (7,869,440)	-25%
Capital Deployed							
Limited Partner Capital Invested	$ 1,541,974	$ 3,760,262	$ 6,331,304	$ (2,218,288)	-59%	$ (2,571,042)	-41%

Table of Contents

Fee-Earning Assets Under Management

Fee-Earning Assets Under Management were $24.5 billion at December 31, 2009, a decrease of $987.8 million compared with $25.5 billion at December 31, 2008. The decrease was driven primarily by market depreciation of $660.5 million that resulted from a net depreciation in the fair value of certain portfolio investments in BCP IV and BCOM. Inflows were $84.2 million for the year, a decrease of $431.8 million from the prior year, primarily due to a reduction in Limited Partner Capital Invested in our funds that charge management fees based on invested capital BCP II, BCP III, BCP IV, and BCOM. Outflows for the year were $411.5 million, an increase of $364.1 million compared to $47.3 million for the prior year. The outflows were primarily due to realizations of investment gains and return of capital in our funds that charge management fees based on invested capital.

Fee-Earning Assets Under Management were $25.5 billion at December 31, 2008, an increase of $468.7 million compared with $25.0 billion at December 31, 2007. The increase was driven primarily by the limited partner capital invested in funds which charge a fee based on invested capital. Inflows of $516.0 million for the year were $ 4.8 billion lower than inflows for 2007, which included capital raised for BCP V. Outflows were $47.3 million for the year, a decrease of $1.4 billion compared to $1.4 billion for the previous year, primarily related to realizations of investment gains and return of capital of $1.4 billion in 2007.

Assets Under Management

Assets Under Management were $24.8 billion at December 31, 2009, an increase of $825.5 million, or 3%, compared with $23.9 billion at December 31, 2008. The increase was primarily due to net appreciation of $2.0 billion in the fair value of our portfolio investments and inflows of $490.1 million, partially offset by realizations of $1.6 billion.

Assets Under Management of $23.9 billion at December 31, 2008 declined by $7.9 billion from December 31, 2007, a decrease of 25%. The decrease was primarily due to net depreciation in the fair value of our portfolio investments of $7.0 billion and investment gains and return of capital associated with realizations of $456.9 million.

Limited Partner Capital Invested

Limited Partner Capital Invested was $1.5 billion for the year ended December 31, 2009, a decrease of $2.2 billion, or 59%, compared to $3.8 billion for the year ended December 31, 2008. The decrease was primarily attributed to a decrease in transaction sizes. Investments during the year ended December 31, 2009 were primarily made by BCP V.

Limited Partner Capital Invested was $3.8 billion for the year ended December 31, 2008, a decline of 41% compared to $6.3 billion for the year ended December 31, 2007. This decrease reflected a reduction in the number and size of investments closed during 2008 due to deterioration in the macroeconomic environment. During the years ended December 31, 2007 and December 31, 2008, BCP V generated substantially all of the Limited Partner Capital Invested, with 2007 including an investment in Hilton Hotels Corporation of $1.5 billion.

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.

Table of Contents

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

	Net Total Change in Carrying Value (Realized and Unrealized) (a)				
	Year Ended December 31,			Inception to Date	
Fund	2009	2008	2007	Total	Realized (b)
BCP IV	35%	-17%	21%	40%	72%
BCP V	1%	-35%	-1%	-12%	21%

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

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

The Private Equity funds net internal rates of return for the year ended December 31, 2009 were positive for BCP IV and BCP V compared to the negative returns for each of these funds for the previous year. Generally, the fund s portfolio companies saw increasing stabilization over the course of 2009 in their revenues and improvement in margins and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), an important valuation metric in Private Equity. The funds accepted offers for the sale of some portfolio companies at attractive prices from strategic buyers, resulting in an increase in the valuations of those portfolio companies. Please refer to the *Revenues* section above for more details.

The following table presents the investment record of the Private Equity funds from inception through December 31, 2009 for funds with closed investment periods:

	Fully Invested Funds							
	Total Investments				Realized / Partially Realized Investments (a)			
Fund (Investment Period)	Total Invested Capital	Total Carrying Value (b)	Net IRR (c)	MOIC (d)	Total Invested Capital	Total Carrying Value (b) (e)	Net IRR (c)	MOIC (d)
	(Dollars in Millions)				(Dollars in Millions)			
BCP I (Oct 1987 / Oct 1993)	$ 679	$ 1,742	19%	2.6	$ 679	$ 1,742	19%	2.6
BCP II (Oct 1993 / Aug 1997)	1,292	3,245	32%	2.5	1,201	3,123	37%	2.6
BCP III (Aug 1997 / Nov 2002)	4,026	7,722	12%	1.9	3,402	6,939	18%	2.0
BCOM (June 2000 / Jun 2006)	2,132	2,904	8%	1.4	1,004	2,139	25%	2.1
BCP IV (Nov 2002 / Dec 2005)	7,088	16,834	40%	2.4	3,765	12,444	72%	3.3

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

(a) Investments are considered partially realized when distributed proceeds, excluding current income (dividends, interest, etc.), are a material portion of invested capital.
(b) Carrying value includes realized proceeds and unrealized fair value.
(c) The internal rate of return (IRR) represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized fair value. Net IRR is after management fees, expenses and carried interest.
(d) Multiple of Invested Capital (MOIC) represents total realized and unrealized value, before management fees, expenses and carried interest, divided by total invested capital.
(e) The Realized / Partially Realized Carrying Value includes remaining unrealized value of $1.2 billion.

Table of Contents

The following table presents the investment record of the Private Equity funds from inception through December 31, 2009 for funds with open investment periods:

	Funds in the Investment Period								
	Total Investments					Realized / Partially Realized Investments (a)			
Fund (Investment Period)	Available Capital (b)	Invested Capital	Total Carrying Value (c)	Net IRR (d)	MOIC (e)	Invested Capital	Total Carrying Value (c) (f)	Net IRR (d)	MOIC (e)
	(Dollars in Millions)					(Dollars in Millions)			
BCP V (Dec 2005 / Dec 2011)	$ 4,550	$ 16,769	$ 13,529	-12%	0.8	$ 1,504	$ 2,385	21%	1.6

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

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

(b) Available Capital represents total capital commitments less invested capital and includes $1.4 billion committed to deals but not yet invested. Additionally, the segment has $1.0 billion of Available Capital that has been reserved for add-on investments in funds that are fully invested.

(c) Carrying value includes realized proceeds and unrealized fair value.

(d) The internal rate of return (IRR) represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized fair value. Net IRR is after management fees, expenses and carried interest.

(e) Multiple of Invested Capital (MOIC) represents total realized and unrealized value, before management fees, expenses and carried interest, divided by total invested capital.

(f) The Realized / Partially Realized Carrying Value includes remaining unrealized value of $1.0 billion.

As of December 31, 2009, all fully invested Private Equity funds (BCOM, BCP IV) were above their respective carried interest thresholds. As of December 31, 2009, BCP IV was above its carried interest preferred return threshold even if all remaining investments were deemed worthless.

The following table presents the carried interest status of our Private Equity funds in their investment period which are currently not generating performance fees as of December 31, 2009:

		Gain to Cross Carried Interest Threshold (a)	
Funds in the Investment Period	Available Capital	Amount	% Change in Total Enterprise Value (b)
	(Dollars in Millions)		
BCP V (Dec 2005 / Dec 2011)	$ 4,550	$ 6,734	16%

(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 and the Equity Value of the public portfolio companies based on fair values at the reporting date.

Table of Contents

Real Estate

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

	Year Ended December 31, 2009	2008	2007	2009 vs. 2008 $	%	2008 vs. 2007 $	%
	(Dollars in Thousands)						
Segment Revenues							
Management Fees							
Base Management Fees	$ 328,447	$ 295,921	$ 233,072	$ 32,526	11%	$ 62,849	27%
Transaction and Other Fees, Net	25,838	36,046	348,410	(10,208)	-28%	(312,364)	-90%
Management Fee Offsets	(2,467)	(4,969)	(11,717)	2,502	50%	6,748	58%
Total Management Fees	351,818	326,998	569,765	24,820	8%	(242,767)	-43%
Performance Fees and Allocations							
Realized	(3,039)	24,681	326,514	(27,720)	N/M	(301,833)	-92%
Unrealized	(252,180)	(843,704)	297,437	591,524	70%	(1,141,141)	N/M
Total Performance Fees and Allocations	(255,219)	(819,023)	623,951	563,804	69%	(1,442,974)	N/M
Investment Income (Loss)							
Realized	6,164	3,778	68,996	2,386	63%	(65,218)	-95%
Unrealized	(125,624)	(238,650)	65,472	113,026	47%	(304,122)	N/M
Total Investment Income (Loss)	(119,460)	(234,872)	134,468	115,412	49%	(369,340)	N/M
Interest and Dividend Revenue	6,030	5,880	1,321	150	3%	4,559	N/M
Other	3,261	3,008	38	253		2,970	
Total Revenues	(13,570)	(718,009)	1,329,543	704,439	98%	(2,047,552)	N/M
Expenses							
Compensation and Benefits							
Base Compensation	158,115	150,684	147,829	7,431	5%	2,855	2%
Performance Fee Related							
Realized	3,506	1,090	8,560	2,416	N/M	(7,470)	-87%
Unrealized	(113,981)	(74,981)	(11,243)	(39,000)	-52%	(63,738)	N/M
Total Compensation and Benefits	47,640	76,793	145,146	(29,153)	-38%	(68,353)	-47%
Other Operating Expenses	56,325	55,782	54,829	543	1%	953	2%
Total Expenses	103,965	132,575	199,975	(28,610)	-22%	(67,400)	-34%
Economic Net Income (Loss)	$ (117,535)	$ (850,584)	$ 1,129,568	$ 733,049	86%	$ (1,980,152)	N/M

Revenues

Revenues were $(13.6) million for the year ended December 31, 2009, an improvement of $704.4 million compared to $(718.0) million for the year ended December 31, 2008. The increase in revenues was primarily attributed to an improvement of $563.8 million in Performance Fees and Allocations, an improvement of $115.4 million in Investment Income (Loss) and an increase of $24.8 million in Total Management Fees.

Performance Fees and Allocations, which are determined on a fund by fund basis, were $(255.2) million for the year ended December 31, 2009, an improvement of $563.8 million compared to $(819.0) million for the prior year. In 2008, the funds experienced significant unrealized valuation reductions. As a result, prior period performance fees were reversed, primarily in BREP IV, V and VI, resulting in a loss of $819.0 million for the year. Specifically, the declines in these funds were due to decreased operating projections across our investments and increased capitalization rates across the real estate sector. For the first half of 2009, the funds continued to experience unrealized valuation reductions; however, the losses were limited to prior period performance fees not yet reversed in BREP IV and BREP V. During the second half of 2009 the funds experienced a general stabilization of fair value, which resulted in an overall 2009 loss of $255.2 million.

Investment Income (Loss) was $(119.5) million for the year ended December 31, 2009, an improvement of $115.4 million compared to $(234.9) million for the year ended December 31, 2008. For the year ended December 31, 2009, valuation reductions in BREP V (($27.1) million) and BREP VI (($83.5) million) had the largest impact on investment income, primarily driven by the decline in valuations on our holdings in Trizec Properties Inc., CarrAmerica Realty Corporation, Equity Office Properties Trust and Hilton Hotels Corporation. The improvement was driven by better performance of our BREP funds which had a net IRR of (35)% in 2009 compared to (38)% in 2008, while the real estate debt investment hedge funds net returns were 21% and (9%), respectively. Despite significant unrealized markdowns over the last 18 months, the December 31, 2009, unrealized value and cumulative realized proceeds, before carried interest, fees and expenses, of our contributed Real Estate carry funds represented 0.9 times investors original investments.

The Realized Performance Fees and Allocations and Investment Income (Loss) for 2009 of $(3.0) million and $6.2 million, respectively, were primarily attributable to our realized loss in a residential home-building investment (BREP IV), which was partially offset by realized gains in our debt investment funds.

Total Management Fees were $351.8 million for the year ended December 31, 2009, an increase of $24.8 million compared to $327.0 million for the year ended December 31, 2008. Base Management Fees were $328.4 million for the year ended December 31, 2009, an increase of $32.5 million compared to the prior year, driven by a full year of management fees from our European focused real estate fund and an increase in Fee-Earning Assets Under Management of 3% from the prior year, which was primarily from capital raised for our new debt investment funds. Transaction and Other Fees decreased $10.2 million, primarily due to a reduction in the number and size of closed fee-earning transactions in 2009.

For the year ended December 31, 2008, revenues were $(718.0) million, a decrease of $2.0 billion compared to $1.3 billion for the year ended December 31, 2007. The decrease (as described below) in revenues was primarily attributed to a decrease of $1.4 billion in Performance Fees and Allocations, a decrease of $369.3 million in Investment Income (Loss) and a decrease of $242.8 million in Total Management Fees.

Performance Fees and Allocations were $(819.0) million for the year ended December 31, 2008, a decrease of $1.4 billion compared to $624.0 million for the year ended December 31, 2007, while Investment Income (Loss) was $(234.9) million for the 2008 year. The negative performance in 2008 was primarily the result of unrealized valuation reductions which reflected decreased operating projections across our investments as well as an increase in capitalization rates across the real estate sector. Performance fees and investment income were primarily impacted by the results of our domestic funds BREP IV, BREP V, and BREP VI. Specifically, the decline in these funds was primarily driven by unrealized valuation reductions for Boca Resorts, Inc., Wyndham International, Inc., Equity Office Properties Trust, Trizec Properties, Inc. and Hilton Hotels Corporation. In 2008, our Realized Performance Fees and Allocations of $24.7 million and Investment Income of $3.8 million were primarily driven by current income from our investment in La Quinta Corporation (BREP IV and BREP V).

Total Management Fees were $327.0 million for the year ended December 31, 2008, a decrease of $242.8 million compared to $569.8 million for the year ended December 31, 2007. Base Management Fees were $295.9 million for the year ended December 31, 2008, an increase of $62.8 million compared to the year ended December 31, 2007, due to a full twelve months of management fees from BREP VI, which commenced in February 2007, as well as an increase in Fee-Earning Assets Under Management of 23% due to $5.1 billion of inflows, primarily related to capital raised for our European focused real estate fund. Transaction and Other Fees decreased $312.4 million primarily due to a reduction in the number and size of closed fee-earning transactions in 2008, as well as the absence of the substantial transaction fees earned in 2007 in connection with our funds acquisition of Hilton Hotels Corporation and Equity Office Properties Trust. The $6.7 million decrease in Management Fee Offsets was due to placement fees incurred in 2007 as a result of the initial fund-raising for BREP VI.

Table of Contents

The positive Performance Fees and Allocations of $624.0 million and the Investment Income (Loss) of $134.5 million for the year ended December 31, 2007 were driven by BREP V and BREP VI. Total Management Fees were $569.8 million. The positive Investment Income (Loss) for 2007 was primarily driven by our investments in BREP V and BREP VI primarily due to accretive sales within our office portfolio, primarily Equity Office Properties Trust and CarrAmerica Realty Corp.

In 2007, we had numerous realizations contributing to Realized Performance Fees and Allocations of $326.5 million and Investment Income (Loss) of $69.0 million, with Extended Stay America and CarrAmerica Realty Corp. being the largest (BREP IV and BREP V).

Expenses

Expenses were $104.0 million for the year ended December 31, 2009, a decrease of $28.6 million, or 22%, compared to $132.6 million for the year ended December 31, 2008. Compensation and Benefits Base Compensation rose 5%, or $7.4 million, to $158.1 million for the year. The increase was primarily due to an increase in compensation of senior personnel which is calculated based on segment profitability. Compensation and Benefits Performance Fee Related was $(110.5) million for the year, a decrease of $36.6 million, or 50%, compared to $(73.9) million for the prior year. The decrease resulted principally from the reversal of prior period performance fee allocations to certain personnel of $70.6 million in 2008, compared to $113.1 million in 2009, as a result of unrealized valuation reductions of certain portfolio investments. Other Operating Expenses remained relatively unchanged year over year.

For the year ended December 31, 2008, Expenses were $132.6 million, a decrease of $67.4 million, or 34%, compared to $200.0 million for the year ended December 31, 2007. Compensation and Benefits Base Compensation were $150.7 million for the year, an increase of $2.9 million, compared to $147.8 million for the previous year. The increase was primarily due to the impact of performance payment arrangements associated with our senior managing directors and other selected employees which were accounted for as partnership distributions prior to our IPO. Compensation and Benefits Performance Fee Related was $(73.9) million for the year ended December 31, 2008, a decrease of $71.2 million compared to the prior year. The decrease resulted principally from the reversal of prior period performance fee allocations to certain personnel of $70.6 million in 2008, primarily due to unrealized valuation reductions of certain portfolio investments. Other Operating Expenses remained relatively unchanged year over year. Increases in occupancy costs and foreign exchange losses were offset by decreases in professional fees and business development.

Realized Compensation and Benefits Performance Fee Related for all periods is a direct result of the Realized Revenue items described above and is determined on a deal by deal basis.

Operating Metrics

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

	Year Ended December 31,			2009 vs. 2008		2008 vs. 2007	
	2009	2008	2007	$	%	$	%
	(Dollars in Thousands)						
Fee-Earning Assets Under Management							
Balance, Beginning of Period	$ 22,970,438	$ 18,637,673	$ 9,084,168	$ 4,332,765	23%	$ 9,553,505	105%
Inflows, including Commitments	1,009,216	5,140,183	11,785,125	(4,130,967)	-80%	(6,644,942)	-56%
Outflows, including Distributions	(428,092)	(582,652)	(2,301,158)	154,560	27%	1,718,506	75%
Market Appreciation (Depreciation)	156,495	(224,766)	69,538	381,261	N/M	(294,304)	N/M
Balance, End of Period	$ 23,708,057	$ 22,970,438	$ 18,637,673	$ 737,619	3%	$ 4,332,765	23%
Assets Under Management (End of Period)	$ 20,391,334	$ 24,154,642	$ 26,128,049	$ (3,763,308)	-16%	$ (1,973,407)	-8%
Capital Deployed							
Limited Partner Capital Invested	$ 884,151	$ 968,684	$ 8,171,854	$ (84,533)	-9%	$ (7,203,170)	-88%

Table of Contents

Fee-Earning Assets Under Management

Fee-Earning Assets Under Management were $23.7 billion at December 31, 2009, an increase of $737.6 million, or 3%, compared with $23.0 billion at December 31, 2008. The increase was primarily driven by capital raised and deployed by our debt investment funds, since the end of 2008. As discussed above, current year inflows were primarily related to capital deployed by our debt investment funds whereas the prior year inflows included $4.6 billion of capital raised for our European focused real estate fund. Current year outflows were $428.1 million, primarily due to realizations in BREP IV and the end of the fund s term for BREP III, whereas the prior year outflows of $582.7 million were primarily driven by unused capital commitments at the end of the BREP International II investment period in 2008 being earmarked for fund reserves and no longer earning fees until drawn. Additional increases in the current year of $156.5 million were due to the impact of favorable foreign exchange fluctuations on committed capital for our European focused real estate fund and net valuation increases for certain of our debt investment funds. Prior year additional decreases to fee-earning assets of $224.8 million were primarily due to the unfavorable foreign exchange impact on commitments from our European focused real estate fund.

Fee-Earning Assets Under Management were $23.0 billion at December 31, 2008, an increase of $4.3 billion, or 23%, compared with $18.6 billion at December 31, 2007, primarily driven by additional capital raised for our European focused real estate fund during 2008. Inflows of $5.1 billion, as discussed above, were primarily related to capital raised for our European focused real estate fund, whereas the 2007 inflows of $11.8 billion were primarily related to capital raised for BREP VI during 2007. Outflows in 2008 were $582.7 million, due to unused capital commitments at the end of the BREP International II investment period in 2008 being earmarked for fund reserves and no longer earning fees until drawn. Additionally, 2007 outflows of $2.3 billion were driven by unused capital commitments at the end of the BREP V investment period in 2007 being earmarked for fund reserves and no longer earning fees until drawn and distributions in BREP IV and BREP V. Additional decreases in fee-earning assets in 2008 were $224.8 million due to an unfavorable foreign exchange impact on commitments from our European focused real estate fund. Fee-earning assets under management in 2007 increased $69.5 million primarily due to a favorable foreign exchange impact on commitments from BREP International II.

Assets Under Management

At December 31, 2009, Assets Under Management were $20.4 billion, a decrease of $3.8 billion, or 16%, compared with $24.2 billion at December 31, 2008. The change was primarily due to net reductions in the fair value of underlying portfolio investments of $3.8 billion, which are substantially all unrealized.

At December 31, 2008, Assets Under Management were $24.2 billion, a decrease of $2.0 billion, or 8%, compared with $26.1 billion at December 31, 2007. The change was primarily due to net reductions in the fair value of underlying portfolio investments of $7.1 billion, which are substantially all unrealized, partially offset by $5.6 billion of inflows, primarily related to additional capital raised for our European focused real estate fund during 2008.

Limited Partner Capital Invested

For the year ended December 31, 2009, Limited Partner Capital Invested was $884.2 million, a decrease of $84.5 million, or 9%, from $968.7 million for the year ended December 31, 2008. This decrease reflected a reduction in the volume and size of closed transactions as a result of the continued difficult market conditions in 2009. During the year ended December 31, 2009, Limited Partner Capital Invested was predominantly in our BREP VI and debt investment funds.

For the year ended December 31, 2008, Limited Partner Capital Invested was $968.7 million, a decrease of $7.2 billion, or 88%, from $8.2 billion for the year ended December 31, 2007. During 2008, Limited Partner

Table of Contents

Capital Invested was driven by BREP IV, V and VI. The decrease in Limited Partner Capital Invested from 2007 reflected a reduction in the volume and size of closed transactions as a result of the market conditions in 2008. The Limited Partner Capital Invested for the year ended December 31, 2007 for BREP V, BREP VI and BREP International II included Hilton Hotels Corporation ($3.7 billion), which includes fee-earning co-investments, and Equity Office Properties Trust ($3.3 billion).

Fund Returns

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

The following table presents the Internal Rates of Return of our significant Real Estate funds:

	Net Total Change in Carrying Value (Realized and Unrealized) (a)				
		Year Ended December 31,		Inception to Date	
Fund	**2009**	**2008**	**2007**	**Total**	**Realized (b)**
BREP IV	-32%	-39%	8%	14%	69%
BREP V	-35%	-31%	36%	-6%	77%
BREP International	10%	-36%	57%	28%	36%
BREP International II	-31%	-42%	19%	-27%	5%
BREP VI	-40%	-43%	44%	-33%	95%
BSSF I (c)	21%	-9%	N/A	17%	N/M
BSSF II (c)	23%	N/A	N/A	23%	140%
CMBS (c)	17%	N/A	N/A	17%	N/M

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

(a) Net total change in carrying value (realized and unrealized) is after management fees, expenses and performance fee allocations.
(b) Includes partially realized investments. Investments are considered partially realized when distributed proceeds, excluding current income (dividends, interest, etc.), are a material portion of invested capital.
(c) Represents returns for a partial year of investing which commenced for the CMBS fund in May 2009, BSSF II in July 2009, and BSSF in August 2008.

The Real Estate funds net internal rates of return for the year ended December 31, 2009 were improved for all funds except BREP V compared to the negative returns for each of these funds for the year ended December 31, 2008. Generally, beginning in the second half of 2009, the fund s portfolio company operations have seen relative stabilization in the fundamentals of the BREP funds hotels and improved leasing in the BREP funds office investments, which therefore limited the valuation reductions of our investments.

Table of Contents

The following table presents the investment record of the Real Estate funds from inception through December 31, 2009 for funds with closed investment periods:

	Fully Invested Funds							
	Total Investments				Realized / Partially Realized Investments (a)			
Fund (Investment Period)	Total Invested Capital	Carrying Value (b)	Net IRR (c)	MOIC (d)	Total Invested Capital	Carrying Value (b) (e)	Net IRR (c)	MOIC (d)
	(Dollars in Millions)				(Dollars in Millions)			
Pre-BREP	$ 141	$ 345	33%	2.5	$ 141	$ 345	33%	2.5
BREP I (Sep 1994 / Oct 1996)	467	1,328	40%	2.8	467	1,328	40%	2.8
BREP II (Oct 1996 / Mar 1999)	1,219	2,525	19%	2.1	1,219	2,525	19%	2.1
BREP III (Apr 1999 / Apr 2003)	1,415	3,330	21%	2.4	1,338	3,300	23%	2.5
BREP Int l (Jan 2001 / Sep 2005)	757	1,580	28%	2.1	658	1,521	36%	2.3
BREP IV (Apr 2003 / Dec 2005)	2,737	3,575	14%	1.3	1,058	2,501	69%	2.4
BREP V (Dec 2005 / Feb 2007)	5,183	4,750	-6%	0.9	951	1,748	77%	1.8
BREP Int l II (Sep 2005 / Jun 2008)	1,739	972	-27%	0.6	208	256	5%	1.2

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

(a) Investments are considered partially realized when distributed proceeds, excluding current income (rent, dividends, interest, etc.), are a material portion of invested capital.
(b) Carrying value includes realized proceeds and unrealized fair value.
(c) The internal rate of return (IRR) represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized fair value. Net IRR is after management fees, expenses and carried interest.
(d) Multiple of Invested Capital (MOIC) represents total realized and unrealized value, before management fees, expenses and carried interest, divided by total invested capital.
(e) The Total Realized / Partially Realized Carrying Value includes remaining unrealized value of $692.2 million.

The following table presents the investment record of the Real Estate funds from inception through December 31, 2009 for funds with open investment periods:

	Funds in the Investment Period				
		Total Investment			
Fund (Investment Period)	Available Capital (a)	Total Invested Capital	Carrying Value (b)	Net IRR (c)	MOIC (d)
	(Dollars in Millions)				
BREP VI (Feb 2007 / Aug 2012)	$ 6,208	$ 4,817	$ 2,374	-33%	0.5
BREP EU III (Jun 2008 / Dec 2013)	4,414	118	115	N/M	1.0
BSSF II (July 2009/ Aug 2017)	147	358	401	23%	1.1

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

(a) Available Capital represents total capital commitments less invested capital. It includes $276.0 million committed to deals but not yet invested. Additionally, the segment has $1.2 billion of Available Capital that has been reserved for add-on investments in funds that are fully invested.
(b) Carrying value includes realized proceeds and unrealized fair value.

(c) The internal rate of return (IRR) represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized fair value. Net IRR is after management fees, expenses and carried interest.

(d) Multiple of Invested Capital (MOIC) represents total realized and unrealized value, before management fees, expenses and carried interest, divided by total invested capital.

The following table presents the carried interest status of our Real Estate funds with closed investment periods which are currently not generating performance fees as of December 31, 2009:

	Gain to Cross Carried Interest Threshold (b)	
Fully Invested Funds (a)	**Amount**	**% Change in Total Enterprise Value (c)**
	(Dollars in Millions)	
BREP V (Dec 2005 / Feb 2007)	1,464	10%
BREP Int l II (Sep 2005 / Jun 2008)	1,376	24%

(a) As of December 31, 2009: (a) BREP International was above its carried interest preferred return threshold even if all remaining investments were deemed worthless, and (b) BREP IV was above its carried interest preferred return threshold.

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

(c) Total Enterprise Value is the respective fund s pro rata ownership of the privately held portfolio companies Enterprise Value and the Equity Value of the public portfolio companies based on fair values at the reporting date.

The following table presents the carried interest status of our Real Estate funds in their investment period as of December 31, 2009:

		Gain to Cross Carried Interest Threshold (b)	
Fund in the Investment Period (a)	**Available Capital**	**Amount**	**% Change in Total Enterprise Value (c)**
	(Dollars in Millions)		
BREP VI (Feb 2007 / Aug 2012)	$ 6,208	$ 3,741	25%
BREP EU III (Jun 2008 / Dec 2013)	4,414	120	N/M

(a) As of December 31, 2009, BSSF II was above its carried interest preferred return threshold.

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

(c) Total Enterprise Value is the respective fund s pro rata ownership of the privately held portfolio companies Enterprise Value and the Equity Value of the public portfolio companies based on fair values at the reporting date.

Table of Contents

Credit and Marketable Alternatives

The following table presents our results of operations for our Credit and Marketable Alternatives segment:

	Year Ended December 31,			2009 vs. 2008		2008 vs. 2007	
	2009	2008	2007	$	%	$	%
	(Dollars in Thousands)						
Segment Revenues							
Management Fees							
Base Management Fees	$ 400,873	$ 476,836	$ 316,337	$ (75,963)	-16%	$ 160,499	51%
Transaction and Other Fees, Net	2,866	8,516	6,630	(5,650)	-66%	1,886	28%
Management Fee Offsets	(14,694)	(6,606)	(33)	(8,088)	-122%	(6,573)	N/M
Total Management Fees	389,045	478,746	322,934	(89,701)	-19%	155,812	48%
Performance Fees and Allocations							
Realized	43,282	15,081	154,028	28,201	187%	(138,947)	-90%
Unrealized	114,556	(12,822)	2,952	127,378	N/M	(15,774)	N/M
Total Performance Fees and Allocations	157,838	2,259	156,980	155,579	N/M	(154,721)	-99%
Investment Income (Loss)							
Realized	(15,031)	(82,142)	62,363	67,111	82%	(144,505)	N/M
Unrealized	96,016	(257,084)	81,439	353,100	N/M	(338,523)	N/M
Total Investment Income (Loss)	80,985	(339,226)(a)	143,802	420,211	N/M	(483,028)	N/M
Interest and Dividend Revenue	3,452	8,527	4,249	(5,075)	-60%	4,278	101%
Other	1,025	1,214	31	(189)		1,183	
Total Revenues	632,345	151,520	627,996	480,825	N/M	(476,476)	-76%
Expenses							
Compensation and Benefits							
Base Compensation	198,117	239,436	82,594	(41,319)	-17%	156,842	190%
Performance Fee Related							
Realized	20,854	8,162	68,109	12,692	156%	(59,947)	-88%
Unrealized	67,493	(6,643)	(373)	74,136	N/M	(6,270)	N/M%
Total Compensation and Benefits	286,464	240,955	150,330	45,509	19%	90,625	60%
Other Operating Expenses	80,661	106,027	74,728	(25,366)	-24%	31,299	42%
Total Expenses	367,125	346,982	225,058	20,143	6%	121,924	54%
Economic Net Income (Loss)	$ 265,220	$ (195,462)	$ 402,938	$ 460,682	N/M	$ (598,400)	N/M

(a) $(322.2) million of this loss was related to Blackstone s equity invested in liquid Credit and Marketable Alternatives funds.

Revenues

Revenues were $632.3 million for the year ended December 31, 2009, an increase of $480.8 million, compared to $151.5 million for the year ended December 31, 2008. Total Management Fees were $389.0 million, a decline of $89.7 million from the prior year. This decline was primarily attributable to a reduction of $76.0 million in Base Management Fees to $400.9 million. This reduction was primarily the result of the absence of fees earned in 2008 from certain of our proprietary hedge funds which were liquidated at the end of 2008 as well as lower Fee-Earning Assets Under Management at the beginning of 2009 than the beginning of 2008 for our funds of hedge funds business.

Performance Fees and Allocations increased $155.6 million for the year to $157.8 million. The increase in Performance Fees and Allocations was attributable to net appreciation of the investment portfolios in addition to fee-earning inflows of $6.3 billion, principally in certain of our funds of hedge funds and credit-oriented funds, compared to the year ended December 31, 2008 which included minimal Performance Fees and Allocations. The net composite returns in our funds of hedge funds was 16% in 2009 compared to (20)% in 2008. As a result, the Fee-Earning Assets Under Management above their respective high-water marks and/or hurdle, and therefore eligible for Performance Fees and Allocations, increased during 2009 compared to 2008 (see table below). The increase of $420.2 million in Investment Income (Loss) to $81.0 million was primarily related to improved returns on our investments in our funds of hedge funds, proprietary hedge funds and certain of our credit-oriented funds. Additionally, 2008 included a loss of $60.1 million on our investments in certain of our proprietary hedge funds which were liquidated at the end of 2008. Both Investment Income and Performance Fees and Allocations benefited from favorable conditions in equity and credit markets for most of 2009.

For the year ended 2009, Realized Performance Fees and Allocations of $43.3 million were driven primarily by incentive fees earned by our funds of hedge funds business of $30.7 million. The Realized Investment Income (Loss) was $(15.1) million.

Revenues were $151.5 million for the year ended December 31, 2008, a decrease of $476.5 million, or 76%, compared to $628.0 million for the year ended December 31, 2007. Total Management Fees were $478.7 million, an increase of $155.8 million from the prior year. The increase was primarily due to an increase in Base Management Fees of $160.5 million which resulted from an increase in Fee-Earning Assets Under Management in 2008 compared with 2007. Additionally, our acquisition of GSO in the first quarter of 2008 contributed $102.5 million of the overall increase.

Investment Income (Loss) was $(339.2) million, a decline of $(483.0) million from 2007. The decrease in Investment Income (Loss) was due to difficult market conditions in 2008 which resulted in composite net returns of (20)% in our funds of hedge funds. Additionally, 2008 included the previously mentioned loss of $60.1 million on our investments in certain of our proprietary hedge funds which have since been liquidated. The decline of $154.7 million in Performance Fees and Allocations, to $2.3 million, was attributable to net depreciation of the investment portfolios, principally in certain of our funds of hedge funds, then-existing proprietary hedge funds and credit-oriented funds compared to the year ended December 31, 2007.

In 2008, the Realized Performance Fees and Allocations of $15.1 million were driven primarily by incentive fees and carried interest earned by our credit platform. The Realized Investment Income (Loss) of $(82.1) million was primarily a result of losses of $30.7 million and $42.1 million from redemptions of our investments in our funds of hedge funds and our proprietary hedge funds.

In 2007, the Realized Performance Fees and Allocations of $154.0 million was driven primarily by incentive fees earned by our funds of hedge funds business of $97.2 million and one of our then existing proprietary hedge funds of $35.9 million. The Realized Investment Income (Loss) of $62.3 million was primarily a result of a gain of $41.5 million from a redemption of our investment in our funds of hedge funds.

Expenses

Expenses were $367.1 million for the year ended December 31, 2009, an increase of $20.1 million, or 6%, compared to $347.0 million for the year ended December 31, 2008. Compensation and Benefits Base Compensation was $198.1 million for the year, a decrease of $41.3 million, compared to $239.4 million for the prior year. The decreases were primarily due to a decrease in management fee revenues, as a portion of compensation is directly related to the profitability of each of the businesses of the segment, and the impact of headcount reductions as a result of the restructuring of two of our single manager proprietary hedge funds and our credit-oriented funds. Compensation and Benefits Performance Fee Related were $88.3 million for the year, an increase of $86.8 million, compared to $1.5 million for the previous year. The increase resulted principally from the accrual of carried interest allocations to certain personnel due to the positive adjustments in fair value of certain portfolio investments.

Table of Contents

Realized Compensation and Benefits Performance Fee Related is directly attributable to the Realized Performance Fees and Allocations described above.

Other Operating Expenses decreased $25.4 million, to $80.7 million, primarily due to a decrease in professional fees and interest expense as a result of decreased investment activity. Included in our 2008 expenses were $10.3 million of accruals related to the restructuring of two of our single manager proprietary hedge funds and our credit-oriented funds.

Expenses were $347.0 million for the year ended December 31, 2008, an increase of $121.9 million, or 54%, compared to $225.1 million for the year ended December 31, 2007. Compensation and Benefits Base Compensation was $239.4 million for the year, an increase of $156.8 million, compared to $82.6 million for the prior year. The increase was principally related to the acquisition of GSO, which contributed $70.9 million of the overall increase. Additionally, 2008 compensation, included a full year of performance payment arrangements associated with our senior managing directors and other selected employees, which were accounted for as partnership distributions prior to our IPO in 2007. To a lesser extent, headcount additions due to expansion into Asia and the launch of new funds contributed to the increase in Compensation and Benefits. Compensation and Benefits Performance Fee Related were $1.5 million for the year, a decrease of $66.2 million, compared to $67.7 million for the previous year.

The amount of Compensation and Benefits Performance Fee Related Realized is directly attributable to the Performance Fees and Allocations Realized described above.

Other Operating Expenses increased $31.3 million, to $106.0 million, primarily due to the acquisition of GSO, partially offset by a decrease in interest expense as a result of decreased investment activity. Included in our 2008 expenses were the previously mentioned $10.3 million of accruals related to the restructuring of two of our single manager proprietary hedge funds and our credit-oriented funds.

Operating Metrics

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

	Year Ended December 31,			2009 vs. 2008		2008 vs. 2007	
	2009	2008	2007	$	%	$	%
	(Dollars in Thousands)						
Fee-Earning Assets Under Management							
Balance, Beginning of Period	$ 42,561,456	$ 39,474,067	$ 24,588,966	$ 3,087,389	8%	$ 14,885,101	61%
Inflows, including Commitments	6,314,387	21,758,442	12,405,856	(15,444,055)	-71%	9,352,586	75%
Outflows, including Distributions	(6,326,174)	(7,079,434)	(1,622,877)	753,260	11%	(5,456,557)	N/M
Market Appreciation (Depreciation)	5,317,877	(11,591,619)	4,102,122	16,909,496	N/M	(15,693,741)	N/M
Balance, End of Period	$ 47,867,546	$ 42,561,456	$ 39,474,067	$ 5,306,090	12%	$ 3,087,389	8%
Assets Under Management (End of Period)	$ 53,032,802	$ 46,471,064	$ 44,496,372	$ 6,561,738	14%	$ 1,974,692	4%
Capital Deployed							
Limited Partner Capital Invested	$ 721,401	$ 1,819,705	$ 268,201	$ (1,098,304)	-60%	$ 1,551,504	N/M

91

Table of Contents

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

	Fee-Earning Assets Under Management Eligible for Incentive Fees As of December 31,			Estimated % Above High Water Mark and/or Hurdle (a) As of December 31,		
	2009	2008	2007	2009	2008	2007
Funds of Hedge Funds	$ 13,695,111	$ 11,349,475	$ 12,610,855	40%		91%

(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 Blackstone Fund has positive investment performance. Incremental positive performance in the applicable Blackstone Funds may cause additional assets to reach their respective High Water Mark / or Hurdle, thereby resulting in an increase in Estimated % Above High Water Mark and/or Hurdle. For our funds of hedge funds, at December 31, 2009, 31% of the estimated assets that were below their respective High Water Mark were within 5% of reaching their respective High Water Mark.

Fee-Earning Assets Under Management

Fee-Earning Assets Under Management were $47.9 billion at December 31, 2009, an increase of $5.3 billion, or 12%, compared to $42.6 billion at December 31, 2008. The increase was primarily driven by market appreciation of $3.7 billion in our funds of hedge funds, $908.0 million in our credit platform funds and $698.5 million in our closed-end mutual funds. Additionally, $6.3 billion of outflows (generally a result of liquidity needs of limited partners), were offset by inflows.

The inflows of $6.3 billion for the current year were $15.4 billion less than the $21.8 billion of inflows for the prior year. The decrease was primarily due to the acquisition of GSO, which contributed $10.9 billion of inflows, being included in the 2008 inflows. Outflows were $6.3 billion for the year, a decrease of $753.3 million compared to $7.1 billion for the previous year. The decrease was primarily related to the liquidation of certain proprietary hedge funds at the end of 2008. Market appreciation was $5.3 billion for the year, an increase of $16.9 billion, and was primarily a result of more favorable market conditions which resulted in significantly improved returns for virtually all of our funds in 2009.

Fee-Earning Assets Under Management were $42.6 billion at December 31, 2008, an increase of $3.1 billion, or 8%, compared to $39.5 billion at December 31, 2007. The increase was primarily driven by inflows of $21.8 billion, which were primarily driven by the acquisition of GSO in 2008 and capital raised in our funds of hedge funds, partially offset by outflows of $7.1 billion which were generally a result of liquidity needs of limited partners. Market depreciation was $11.6 billion for the year, a decrease of $15.7 billion compared to market appreciation of $4.1 billion for the previous year.

Fee-Earning Assets Under Management had net inflows of $1.0 billion from January 1 through February 2010 from our funds of hedge funds.

Assets Under Management

Assets Under Management were $53.0 billion at December 31, 2009, an increase of $6.6 billion, or 14%, compared to $46.5 billion at December 31, 2008. The change was driven by $4.0 billion of net market appreciation in our funds of hedge funds and $2.4 billion in our credit platform funds. Additionally, $7.7 billion of outflows were mostly offset by $7.2 billion of inflows.

Assets Under Management were $46.5 billion at December 31, 2008, an increase of $2.0 billion, compared to $44.5 billion at December 31, 2007. The change was driven by the acquisition of GSO, which contributed $12.3 billion to Assets Under Management, as well as capital raised in our funds of hedge funds of $7.7 billion.

Table of Contents

These increases were substantially offset by reductions in the fair value of portfolio investments of $12.7 billion and total outflows of $9.8 billion, primarily comprised of redemptions and realizations.

Limited Partner Capital Invested

Limited Partner Capital Invested in carry funds was $721.4 million for the year ended December 31, 2009, a decrease of $1.1 billion compared to $1.8 billion for the year ended December 31, 2008. The prior year included investments made by certain of our credit-oriented funds launched in 2008.

Limited Partner Capital Invested in carry funds was $1.8 billion for the year ended December 31, 2008, an increase of $1.6 billion compared to $268.2 million for the year ended December 31, 2007. This increase principally reflected investments made by certain of our credit-oriented funds launched in 2008.

Composite and Fund Returns

Composite and fund return information for our significant businesses is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The composite and fund returns information reflected in this discussion and analysis is not indicative of the performance of The Blackstone Group L.P. and is also not necessarily indicative of the future 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.

	Average Annual Net Returns (a) Periods Ended December 31, 2009			
Composite	**One Year**	**Three Year**	**Five Year**	**Inception to Date**
Funds of Hedge Funds, Core Funds Composite	16%	2%	5%	10%

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.

Table of Contents

Financial Advisory

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

	Year Ended December 31,			2009 vs. 2008		2008 vs. 2007	
	2009	2008	2007	$	%	$	%
	(Dollars in Thousands)						
Segment Revenues							
Advisory Fees	$ 390,718	$ 397,519	$ 360,284	$ (6,801)	-2%	$ 37,235	10%
Investment Income (Loss)							
Realized	1,443			1,443			
Unrealized	219			219			
Total Investment Income (Loss)	1,662			1,662			
Interest and Dividend Revenue	5,254	8,148	7,385	(2,894)	-36%	763	10%
Other	(35)	4,899	(11)	(4,934)	N/M	4,910	
Total Revenues	397,599	410,566	367,658	(12,967)	-3%	42,908	12%
Expenses							
Compensation and Benefits Base Compensation	232,359	234,755	132,633	(2,396)	-1%	102,122	77%
Other Operating Expenses	79,572	67,277	39,037	12,295	18%	28,240	72%
Total Expenses	311,931	302,032	171,670	9,899	3%	130,362	76%
Economic Net Income (Loss)	$ 85,668	$ 108,534	$ 195,988	$ (22,866)	-21%	$ (87,454)	-45%

Revenues

Revenues were $397.6 million for the year ended December 31, 2009, a decrease of $13.0 million, or 3%, compared to $410.6 million for the year ended December 31, 2008. Our restructuring and reorganization advisory services business generated $74.7 million in increased fees, a 66% increase, as continued credit market turmoil and low levels of available liquidity led to increased debt defaults, debt restructurings and bankruptcies. Additionally, fees earned from our corporate and mergers and acquisitions advisory services business increased $10.1 million, or 7%, as clients increasingly looked to us for independent advice in complicated transactions. These increases were offset by a decrease of $91.6 million in fees generated from our fund placement business compared to 2008.

Revenues were $410.6 million for the year ended December 31, 2008, an increase of $42.9 million, or 12%, compared to $367.7 million for the year ended December 31, 2007. The change was driven by an increase in fees of $50.8 million, or 81%, generated by our restructuring and reorganization advisory services business. Additionally, fees earned from our corporate and mergers and acquisitions advisory services business increased $22.2 million, or 17%. The revenues earned by our restructuring and reorganization advisory services and our corporate and mergers and acquisitions advisory services businesses were influenced by the same factors as in 2009. These increases were partially offset by a decrease of $35.7 million in fees generated from our fund placement business compared to 2007, which included a substantial fee earned from one transaction in the first quarter of the year.

The revenues generated by each of the businesses in our financial advisory segment are transactional in nature and therefore results can fluctuate significantly from period to period.

Expenses

Expenses were $311.9 million for the year ended December 31, 2009, an increase of $9.9 million, or 3%, compared to $302.0 million for the year ended December 31, 2008. Compensation and Benefits Base Compensation decreased $2.4 million, principally related to a decrease in Advisory Fees revenues from our Fund

Placement business, as a portion of compensation is directly related to the profitability of each of the service businesses of the segment. Other Operating Expenses increased $12.3 million, principally due to costs related to the full year impact of the expansion of our London and Hong Kong-based corporate and mergers and acquisitions advisory services business.

Expenses were $302.0 million for the year ended December 31, 2008, an increase of $130.3 million, or 76%, compared to $171.7 million for the year ended December 31, 2007. Compensation and Benefits Base Compensation increased $102.1 million, principally related to compensation associated with our senior managing directors which was accounted for as partnership distributions prior to our IPO. Additionally, the change in Compensation and Benefits was due to an increase in Advisory Fees revenues, as a portion of compensation is directly related to the profitability of each of the service businesses. Other Operating Expenses increased $28.2 million, principally due to costs related to the expansion of our London and Hong Kong-based corporate and mergers and acquisitions advisory services business and an increase in bad debt expense.

Liquidity and Capital Resources

Liquidity and Capital Resources

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

Fluctuations in our balance sheet result primarily from activities of the Blackstone Funds which are consolidated as well as business transactions, such as the issuance of senior notes described below. The majority economic ownership interests of the Blackstone Funds are reflected as Non-Controlling Interests in Consolidated Entities in the consolidated and combined financial statements. The consolidation of these Blackstone Funds has no net effect on the Partnership s Net Income or Partners Capital. Additionally, fluctuations in our balance sheet also include appreciation or depreciation in Blackstone investments in the Blackstone Funds, additional investments and redemptions of such interests in the Blackstone Funds and the collection of receivables related to management and advisory fees. For the year ended December 31, 2009, we had total management and advisory fees and interest income of $1.5 billion and total expenses of $1.1 billion, generating Net Fee Related Earnings from Operations of $410.4 million for the year.

We have multiple sources of liquidity to meet our capital needs, including annual cash flows, accumulated earnings in the businesses, investments in our own liquid funds and access to our debt capacity, including our $850 million committed revolving credit facility and the proceeds from our issuance of senior notes. On August 20, 2009, we issued $600 million of senior notes at a rate of 6.625% per annum due August 15, 2019. The interest is payable semi-annually in arrears on February 15 and August 15 of each year, commencing on February 15, 2010. We plan to use the proceeds for general corporate purposes. As of December 31, 2009, Blackstone had $952.1 million in cash, $626.2 million invested in cash management strategies and $495.2 million invested in liquid Blackstone Funds, against $652.0 million in outstanding borrowings.

We use Adjusted Cash Flow from Operations as a supplemental non-GAAP measure to assess our cash flows and amounts available for distribution to unitholders. In accordance with GAAP, certain of the Blackstone Funds are consolidated into the consolidated financial statements of Blackstone, notwithstanding the fact that Blackstone has only a minor economic interest in these funds. Consequently, Blackstone s consolidated and combined financial statements reflect the cash flows of the consolidated Blackstone Funds on a gross basis rather

Table of Contents

than the cash flows attributable to Blackstone. Adjusted Cash Flow from Operations is therefore intended to reflect the cash flows attributable to Blackstone and is equal to operating activities presented in accordance with GAAP, adjusted for cash flows relating to changes in our operating assets and liabilities, Blackstone Funds related investment activity, differences in the timing of realized gains between Blackstone and Blackstone Funds, non-controlling interests related to departed employees and non-controlling interests in income of consolidated entities and other non-cash adjustments. Management assesses Adjusted Cash Flow from Operations, which is derived from our segment reported results, by monitoring its key components, defined by management to be (a) Net Fee Related Earnings from Operations, (b) Performance Fees and Allocations net of related profit sharing interests that are included in compensation and (c) Blackstone investment income related to its investments in liquid funds and its net realized investment income on its illiquid investments.

The following table is a reconciliation of Net Cash Provided by (Used In) Operating Activities presented on a GAAP basis to Adjusted Cash Flow from Operations:

	Year Ended December 31, 2009	2008	2007
	(Dollars in Thousands)		
Net Cash Provided by (Used in) Operating Activities	$ 411,509	$ 1,890,435	$ (850,296)
Unrealized Depreciation on Hedge Activities	6,975		
Changes in Operating Assets and Liabilities	(70,200)	(757,084)	166,867
Short Term Investment Activity	553,288		
Blackstone Funds Related Investment Activities	(446,233)	(469,693)	1,699,433
Net Realized Gains (Losses) on Investments	(135,243)	(164,726)	3,800,137
Non-controlling Interests in Income of Consolidated Entities	1,942,838	3,523,697	(1,499,587)
Realized Gains (Losses) Blackstone Funds	13,227	(197,426)	87,373
			Pro Forma
Cash Flows from Operations Adjustments (a)			
Elimination of Non-Contributed Entities (b)			(46,523)
Increase in Compensation Expense (c)			(255,426)
Interests Held by Blackstone Holdings Limited Partners (d)	(1,792,173)	(3,638,799)	(1,101,730)
Eliminate Interest Expense (e)			26,302
Realized Gains (Losses) Blackstone Funds			(275,333)
Incremental Cash Tax Effect (f)	42,250	(57,603)	(234,613)
Adjusted Cash Flow from Operations	$ 526,238	$ 128,801	$ 1,516,604

96

Table of Contents

The following table provides the details of the components of Adjusted Cash Flow from Operations. Adjusted Cash Flow from Operations is the principal factor in determining the amount of distributions to unitholders.

	Year Ended December 31, 2009	2008 (Dollars in Thousands)	2007
Fee Related Earnings			
Total Management and Advisory Fees (g)	$ 1,530,382	$ 1,561,766	$ 1,638,947
Total Expenses (h)	1,119,972	1,134,098	1,252,250
Net Fee Related Earnings from Operations	410,410	427,668	386,697
Performance Fees and Allocations Net of Related Compensation (i)	32,092	33,210	829,568
Blackstone Investment Income (j)			
Liquid	58,362	(327,453)	138,203
Illiquid	25,374	(4,624)	162,136
	83,736	(332,077)	300,339
Adjusted Cash Flow from Operations	$ 526,238	$ 128,801	$ 1,516,604
Earnings Before Interest, Taxes and Depreciation and Amortization from Net Fee Related Earnings from Operations (k)	$ 495,484	$ 510,760	$ 686,169

(a) Adjusted Cash Flow from Operations is based upon historical results of operations and gives effect to the pre-initial public offering reorganization and the initial public offering as if they were completed as of January 1, 2007. These pro forma adjustments are consistent with Rule 11-01 of Regulation S X at the time of the IPO.

(b) Represent adjustments to eliminate from Adjusted Cash Flow from Operations the cash flows of the businesses that were not contributed as part of the reorganization.

(c) Represent adjustments to reflect in Adjusted Cash Flow from Operations the cash portion of expenses related to employee compensation that were not effective prior to the IPO as well as vested carried interest for departed partners.

(d) Represents an adjustment to add back net income (loss) allocable to interest holders of Blackstone Holdings Limited Partners after the Reorganization recorded as Non-Controlling Interests.

(e) Represent adjustments to eliminate interest expense in Adjusted Cash Flow from Operations for 2007 on the assumption that the revolving credit facility was repaid in full from the proceeds of the IPO.

(f) Represent the provisions for and/or adjustments to income taxes that were calculated using the same methodology applied in calculating such amounts for the period after the reorganization.

(g) Comprised of total segment Management and Advisory Fees plus Interest Income.

(h) Comprised of total segment compensation expense (excluding compensation expense related to Performance Fees and Allocations pursuant to Blackstone s profit sharing plans related to carried interest and incentive fees which are included in (i) below), other operating expenses and Blackstone s estimate of cash taxes currently due.

(i) Represents realized Performance Fees and Allocations net of corresponding actual amounts due under Blackstone s profit sharing plans related thereto.

(j) Comprised of Blackstone s investment income (realized and unrealized) from its liquid investments in its Credit and Marketable Alternatives segment as well as its net realized investment income from its illiquid investments, principally in its Private Equity and Real Estate Segments and permanent impairment charges on certain illiquid investments.

(k) Earnings Before Interest, Taxes and Depreciation and Amortization from Net Fee Related Earnings from Operations represents Net Fee Related Earnings from Operations adding back the implied cash taxes payable component from the Adjusted Cash Flows from Operations reconciliation presented above, which is included in (f), and segment interest and segment depreciation and amortization. The cash taxes payable component of (f) was $56.9 million, $43.5 million and $282.3 million for the years ended December 31, 2009, 2008 and 2007, respectively. Interest and depreciation and amortization was $34.0 million, $39.6 million and $17.1 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Our Sources of Cash and Liquidity Needs

We expect that our primary liquidity needs will be cash to (1) provide capital to facilitate the growth of our existing businesses which principally includes funding our general partner and co-investment commitments to our funds, (2) provide capital to facilitate our expansion into new businesses that are complementary, (3) pay operating expenses, including cash compensation to our employees and other obligations as they arise, (4) fund modest capital expenditures, (5) repay borrowings and related interest costs, (6) pay income taxes and (7) make distributions to our unitholders and the holders of Blackstone Holdings Partnership Units. Our own capital commitments to our funds and funds we invest in as of December 31, 2009, consisted of the following:

Fund	**Original Commitment**	**Remaining Commitment**
Private Equity	**(Dollars in Thousands)**	
BCP VI	$ 500,000	$ 500,000
BCP V	629,356	175,391
BCP IV	150,000	14,614
BCOM	50,000	5,074
Real Estate Funds		
BREP VI	750,000	423,770
BREP V	52,545	7,747
BREP International II	28,666	3,667
BREP IV	50,000	
BREP International	20,000	3,293
BREP Europe III	100,000	97,078
BSSF I	6,992	
BSSF II	43,008	13,276
CMBS Fund	4,010	
Credit and Marketable Alternatives		
BMEZZ II	17,692	2,725
BMEZZ	41,000	2,590
Strategic Alliance	50,000	16,185
Blackstone Credit Liquidity Partners	32,244	7,428
Value Recovery	25,000	2,631
Blackstone / GSO Capital Solutions	50,125	44,682
Other (a)	42,451	28,941
Total	$ 2,643,089	$ 1,349,092

(a) Represents capital commitments to a number of other Credit and Marketable Alternatives funds.

For some of the general partner commitments shown in the table above we require our senior managing directors and certain other professionals to fund a portion of the commitment even though the ultimate obligation to fund the aggregate commitment is ours pursuant to the governing agreements of the respective funds. For BCP VI, BREP VI and BREP Europe III it is intended that our senior managing directors and certain other professionals will fund $250 million, $150 million and $35 million of the aggregate applicable general partner commitment shown above, respectively. In addition, certain senior managing directors and other professionals are required to fund a de minimis amount of the commitment in the other private equity and real estate funds. We expect our commitments to be drawn down over time and to be funded by available cash and cash generated from operations and realizations. Taking into account prevailing market conditions and both the liquidity and cash or liquid investment balances, we believe that the sources of liquidity described below will be more than sufficient to fund our working capital requirements.

In May 2009, Blackstone Holdings Finance Co. L.L.C., our indirect subsidiary, entered into an $850 million guaranteed revolving credit facility with a bank group arranged by Citigroup Global Markets Inc. and Banc of America Securities LLC that expires in May 2010, unless otherwise extended. The revolving credit facility contains customary covenants and financial restrictions that, among other things, limit the ability of substantially all of our subsidiaries (other than investment funds and portfolio companies), subject to certain exceptions, to incur indebtedness, make restricted payments, create liens, merge, consolidate or sell, transfer or lease assets, or engage in certain other activities. The revolving credit facility also contains financial covenants and customary events of default.

In August 2009, Blackstone Holdings Finance Co. L.L.C. issued $600 million in aggregate principal amount of 6.625% Senior Notes which will mature on August 15, 2019, unless earlier redeemed or repurchased. The notes are unsecured and unsubordinated obligations of Blackstone Holdings Finance Co. L.L.C. and are fully and unconditionally guaranteed, jointly and severally, by The Blackstone Group L.P. and each of the Blackstone Holdings partnerships. The notes contain customary covenants and financial restrictions that among other things limit Blackstone Holdings Finance Co. L.L.C. and the guarantors ability, subject to certain exceptions, to incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The notes also contain customary events of default. All or a portion of the notes may be redeemed at our option in whole or in part, at any time and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the notes. If a change of control repurchase event occurs, the notes are subject to repurchase at the repurchase price as set forth in the notes.

In addition to the cash we received in connection with our IPO, debt offering and our borrowing facilities, we expect to receive (1) cash generated from operating activities, (2) carried interest and incentive income realizations, and (3) realizations on the carry fund investments that we make. The amounts received from these three sources in particular may vary substantially from year to year and quarter to quarter depending on the frequency and size of realization events or net returns experienced by our investment funds. Blackstone s investment income from our liquid investments (whether or not realized) in our Credit and Marketable Alternatives segment is also included in our Adjusted Cash Flow from Operations. Our available capital could be adversely affected if there are prolonged periods of few substantial realizations from our investment funds accompanied by substantial capital calls for new investments from those investment funds. Therefore, Blackstone s commitments to our funds are taken into consideration when managing our overall liquidity and cash position.

For distributions related to fiscal 2010 and thereafter, our current intention is to distribute to our common unitholders substantially all of The Blackstone Group L.P. s net after-tax share of our annual Distributable Earnings in excess of amounts determined by our general partner to be necessary or appropriate to provide for the conduct of our business, to make appropriate investments in our business and our funds, to comply with applicable law, any of our debt instruments or other agreements, or to provide for future distributions to our unitholders for any ensuing quarter. Because we will not know what our Distributable Earnings will be for any fiscal year until the end of such year, we expect that our first three quarterly distributions in respect of any given year will be based on our anticipated annualized Net Fee Related Earnings. As such, the distributions for the first three quarters will likely be smaller than the final quarterly distribution in respect of such year, which is expected to also include realized Performance Fees and Allocations net of related compensation and realized net investment income.

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

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

With respect to fiscal year 2009, we have paid distributions of $0.90 per common unit to record holders of common units and we have declared an additional distribution of $0.30 per common unit to common unitholders in respect of the fourth quarter of 2009 payable on March 31, 2010 to holders of record of common units at the close of business on March 15, 2010. We have also declared a distribution of $0.22 per unit in respect of 2009 to be paid to the Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships, payable on March 31, 2010 to holders of record of Blackstone Holdings partnership units at the close of business on December 31, 2009. These distributions related to fiscal year 2009 represented our net after-tax share of our annual Adjusted Cash Flow from Operations in excess of amounts determined by our general partner to be necessary or appropriate to provide for the conduct of our business, to make appropriate investments in our business and our funds, to comply with applicable law, any of our debt instruments or other agreements, or to provide for future distributions to our common unitholders for any ensuing quarter.

As previously disclosed, public common unitholders were entitled to a priority distribution of up to $1.20 per common unit per year ahead of Blackstone personnel and others regarding distributions made in respect of fiscal periods from July 1, 2007 through December 31, 2009. On December 31, 2009 that distribution priority ended and therefore all future distributions after the distributions referred to in the preceding paragraph will be made on the same basis among all holders of Blackstone Holdings partnership units (held by Blackstone personnel and others) and all holders of Blackstone common units (held by public unitholders and others). Had the distribution priority not been in effect in 2009 so that 2009 cash distributions were made to all unitholders on the same basis, the distributions to common unitholders in respect of fiscal 2009 would have been $0.48 per unit instead of $1.20 per unit.

In January 2008, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to $500 million of our common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. This unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date. During the year ended December 31, 2009, we repurchased a combination of 4,689,101 vested and unvested Blackstone Common Units and Blackstone Holdings Partnership Units as part of the unit repurchase program for a total cost of $30.5 million. There were no repurchases of Blackstone Common Units and Blackstone Holdings Partnership Units for the three months ended December 31, 2009. As of December 31, 2009, the amount remaining available for repurchases was $339.5 million under this program.

We may under certain circumstances use leverage opportunistically and over time to create the most efficient capital structure for Blackstone and our public common unitholders, including through the issuance of debt securities. As of December 31, 2009, we had partners capital of $6.0 billion, including $952.1 million in cash, $626.2 million invested in cash management strategies and $495.2 million invested in liquid Blackstone Funds, against $652.0 million in outstanding borrowings.

Our private equity funds, real estate funds and funds of hedge funds have not historically utilized substantial leverage at the fund level other than for short-term borrowings between the date of an investment and the receipt of capital from the investing fund s investors. Our carry funds make direct or indirect investments in companies that utilize leverage in their capital structure. The degree of leverage employed varies among portfolio companies.

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

Critical Accounting Policies

We prepare our consolidated and combined financial statements in accordance with accounting principles generally accepted in the United States. In applying many of these accounting principles, we need to make assumptions, estimates and/or judgments that affect the reported amounts of assets, liabilities, revenues and expenses in our consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates and/or judgments, however, are often subjective. Actual results may be affected negatively based on changing circumstances. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. We believe the following critical accounting policies could potentially produce materially different results if we were to change underlying assumptions, estimates and/or judgments. (See Note 2. Summary of Significant Accounting Policies in the Notes to the Consolidated and Combined Financial Statements in Part II. Item 8. Financial Statements and Supplementary Data of this filing.)

Principles of Consolidation

The Partnership consolidates all entities that it controls through a majority voting interest or otherwise, including those Blackstone Funds in which the general partner is presumed to have control. Although the Partnership has a minority interest in the Blackstone Holding 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 absorbs the majority of the VIE s expected losses, receives the majority of the VIE s expected returns, or both.

GAAP requires an analysis to (a) determine whether an entity in which the Partnership holds a variable interest is a variable interest entity, and (b) whether the Partnership s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., management and performance related fees), would be expected to absorb a majority of the variability of the entity. Performance of that analysis requires the exercise of judgment. The Partnership determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a variable interest entity and reconsiders that conclusion based on certain reconsideration events. In evaluating whether the Partnership is the primary beneficiary, Blackstone evaluates its economic interests in the fund held either directly by the Partnership or indirectly through employees. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that the Partnership is not the primary beneficiary, a quantitative expected losses and expected residual returns calculation is 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 Fund could affect an entity s status as a VIE or the determination of the primary beneficiary. At each reporting date and on the occurrence of reconsideration events, the Partnership assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

Table of Contents

Revenue Recognition

Revenues primarily consist of management and advisory fees, performance fees and allocations, investment income, interest and dividend revenue and other.

Please refer to Part I. Item 1. Business, Incentive Arrangements / Fee Structure for additional information regarding the manner in which Base Management Fees and Performance Fees and Allocations are generated.

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

The Partnership earns base management fees from 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. Base management fees are based on contractual terms specified in the underlying investment advisory agreements. The range of management fee rates and the calculation base from which they are earned are as follows:

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

1 2% of committed capital during the commitment period,

0.75 1.5% of invested capital subsequent to the investment period for private equity and real estate funds, and

1 1.5% of invested capital for certain credit oriented funds

On credit-oriented funds structured like hedge funds:

1.5 2 % of net asset value

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

0.65% to 1.5% of assets under management

On CLO vehicles:

0.50% to 1.25% of total assets

On closed-end mutual funds:

0.75% to 1.1% of fund assets.

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

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

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

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

Performance Fees and Allocations performance fees earned on the performance of Blackstone s hedge fund structures are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund investment advisory agreement. Performance Fees range between 5% and 20%. Accrued but unpaid performance fees charged directly to limited partners in Blackstone s offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Consolidated and Combined Statements of Financial Condition. Performance fees arising on Blackstone s onshore hedge funds are allocated to the general partner. Accrued but unpaid performance fees on onshore funds as of the reporting date are reflected in Investments in the Consolidated and Combined Statements of Financial Condition.

In certain fund structures, specifically in private equity, real estate and certain credit-oriented funds (Carry Funds), performance fees (Carried Interest) are allocated to the general partner based on cumulative fund performance to date, subject to a preferred return to limited partners. Carried Interest allocations range between 10% and 20% of fund appreciation. At the end of each reporting period, the Partnership calculates the Carried Interest that would be due to the Partnership for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as Carried Interest to reflect either (a) positive performance resulting in an increase in the Carried Interest allocated to the general partner or (b) negative performance that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue, resulting in a negative adjustment to Carried Interest allocated to the general partner. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Consolidated and Combined Statements of Financial Condition.

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

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

Investment Income (Loss) Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership s principal investments, including its investments in Blackstone Funds that are not consolidated, its equity method investments, and other principal investments.

Table of Contents

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

Other Revenue Other Revenue comprises primarily foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

Expenses

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

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

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

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

Fair Value of Financial Instruments

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

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

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

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

Table of Contents

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

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

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

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

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

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

Table of Contents

comparables, and in some instances by reference to option pricing models or other similar methods. Additionally, where applicable, projected distributable cash flow through debt maturity will also be considered in support of the investment s carrying value.

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

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

Investments, at Fair Value

The Blackstone Funds are accounted for as investment companies under the AICPA Audit and Accounting Guide, *Investment Companies*, and reflect their investments, including majority-owned and controlled investments (the Portfolio Companies), at fair value. Blackstone has retained the specialized accounting for the consolidated Blackstone Funds. Thus, such consolidated funds investments are reflected in Investments on the Consolidated and Combined 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 Consolidated and Combined 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 Consolidated and Combined Statements of Operations within Investment Income (Loss).

For certain instruments, the Partnership has elected the fair value option. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. The Partnership has applied the fair value option for certain loans and receivables and certain investments in private debt and equity securities. Loans extended to third parties are recorded within Accounts Receivable within the Consolidated and Combined Statements of Financial Condition. Debt and equity securities for which the fair value option has been elected are recorded within Investments. The methodology for measuring the fair value of such investments is consistent with the methodology applied to private equity, real estate and fund of hedge funds investments. Changes in the fair value of such instruments are recognized in Investment Income (Loss) in the Consolidated and Combined Statements of Operations. Interest income on interest bearing loans and receivables and debt securities on which the fair value option has been elected is based on stated coupon rates adjusted for the accretion of purchase discounts and the amortization of purchase premiums. This interest income is recorded within Interest and Dividend Revenue. Further disclosure on instruments for which the fair value option has been elected is presented in Note 7. Fair Value Option in the Notes to the Consolidated and Combined Financial Statements in Part II. Item 8. Financial Statements and Supplementary Data of this filing.

Intangibles and Goodwill

Blackstone s intangible assets consist of contractual rights to earn future fee income, including management and advisory fees and Carried Interest from its Carry Funds. Identifiable finite-lived intangible assets are amortized on a straight line basis over their estimated useful lives, ranging from 5 to 20 years, reflecting the contractual lives of such funds. The Partnership does not hold any indefinite-lived intangible assets.

Table of Contents

Goodwill comprises goodwill arising from the Reorganization of the Partnership in 2007 and the acquisition of GSO in 2008.

Intangibles and goodwill are reviewed for impairment at least annually, or more frequently if circumstances indicate impairment may have occurred.

We test goodwill for impairment at the operating segment level (the same as our reportable segments). Management has organized the firm into four operating segments. All of the components in each segment have similar economic characteristics and management makes key operating decisions based on the performance of each segment. Therefore, we believe that operating segment is the appropriate reporting level for testing the impairment of goodwill. In determining fair value for each of our segments, we utilize a discounted cash flow methodology based on the adjusted cash flows from operations for each segment. We believe this method provides the best approximation of fair value. In calculating the discounted cash flows, we begin with the adjusted cash flows from operations of each segment. We then determine the most likely growth rate by operating segment for each of the next five years and keep the growth rates for years six through twenty the same as the growth rate used in year five. We assume no terminal value for any segment, nor do we apply a control premium. The discounted cash flow analysis assumes no borrowings, but includes an allocation of interest expense for the assumed unused commitment fee on Blackstone s revolving credit facility, which is allocated to each segment. We use a discount rate that reflects the weighted average cost of capital adjusted for the risks inherent in the future cash flows.

In 2009 and 2008, Blackstone utilized the discounted cash flow model, described above, to approximate the fair value of each of its segments.

Off-Balance Sheet Arrangements

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

Further disclosure on our off-balance sheet arrangements is presented in the Notes to the Consolidated and Combined Financial Statements in Part II. Item 8. Financial Statements and Supplementary Data of this filing as follows:

- Note 6 Derivative Financial Instruments ,
- Note 9 Variable Interest Entities , and
- Note 16 Commitments and Contingencies Commitments, Operating Leases; Commitments, Investment Commitments; and Contingencies, Guarantees .

Recent Accounting Developments

During 2009, the Partnership adopted guidance issued by the FASB on the Accounting Standards Codification and the hierarchy of generally accepted accounting principles which established the FASB Standards Accounting Codification (Codification) as the source of authoritative GAAP recognized by the FASB to be applied to nongovernmental entities, and rules and interpretive releases of the SEC as authoritative GAAP for SEC registrants. The Codification supersedes all the existing non-SEC accounting and reporting standards and subsequently, the FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. This guidance also replaces the prior guidance regarding the

Table of Contents

GAAP hierarchy, given that once in effect, the guidance within the Codification will carry the same level of authority. As the guidance is limited to disclosures in the consolidated financial statements and the manner in which the Partnership refers to GAAP authoritative literature, adoption did not have a material impact on the Partnership s financial statements.

Effective January 1, 2009, the Partnership adopted accounting guidance issued by the Financial Accounting Standards Board (FASB) on business combinations. The guidance requires the acquiring entity in a business combination, for which the acquisition date is on or after January 1, 2009, to recognize the full fair value of assets, liabilities, contingencies and contingent consideration obtained in the transaction (whether for a full or partial acquisition); establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. The guidance applies to all transactions or other events in which the Partnership obtains control of one or more businesses, including those sometimes referred to as true mergers or mergers of equals and combinations achieved without the transfer of consideration, for example, by contract alone or through the lapse of minority veto rights. The Partnership did not enter into any business combination transactions during the year ended December 31, 2009.

Effective January 1, 2009, the Partnership adopted guidance on the accounting and financial statement presentation of non-controlling (minority) interests. The guidance requires reporting entities to present non-redeemable non-controlling (minority) interests as equity (as opposed to a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and non-controlling interests. As a result of adoption, (a) with respect to the Consolidated and Combined Statements of Financial Condition, the Redeemable Non-Controlling Interests in Consolidated Entities was renamed as such and remained classified as mezzanine equity, and the non-redeemable Non-Controlling Interests in Consolidated Entities and Non-Controlling Interests in Blackstone Holdings have been reclassified as components of Partners Capital, (b) with respect to the Consolidated and Combined Statements of Operations, Net Income (Loss) is now presented before non-controlling interests, the Net Income (Loss) attributable to the three categories of non-controlling interests discussed in (a) above are now presented separately, and the Consolidated and Combined Statements of Operations now net to Net Income (Loss) Attributable to The Blackstone Group L.P., and (c) with respect to the Consolidated and Combined Statements of Changes in Partners Capital, roll forward columns have now been added for each component of non-controlling interests discussed in (a) above. The presentation and disclosure requirements have been applied retrospectively for all periods presented in accordance with the issued guidance. The guidance also clarifies the scope of accounting and reporting for decreases in ownership of a subsidiary to include groups of assets that constitute a business. The scope clarification did not have a material impact on the Partnership s financial statements.

Effective January 1, 2009, the Partnership adopted guidance issued by the Emerging Issues Task Force (EITF) on the application of the two-class share method of earnings per share as applied to master limited partnerships. The guidance applies to master limited partnerships that make incentive equity distributions. The Partnership has applied the guidance on a retrospective basis and has presented earnings per share-based on the two-class share method for all periods presented. The adoption did not have a material impact on the Partnership s financial statements.

Effective January 1, 2009, the Partnership adopted guidance issued by the FASB regarding disclosures about derivative instruments and hedging activities. The purpose of the guidance is to improve financial reporting of derivative instruments and hedging activities. The guidance requires enhanced disclosures to enable investors to better understand how those instruments and activities are accounted for, how and why they are used and their effects on an entity s financial position, financial performance and cash flows. The adoption resulted in additional required disclosures relating to derivative instruments as presented in Note 6. Derivative Financial Instruments in the Notes to the Consolidated and Combined Financial Statements in Part II. Item 8. Financial Statements and Supplementary Data of this filing.

Table of Contents

Effective January 1, 2009, the Partnership adopted guidance on the determination of the useful life of intangible assets. The guidance amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets. The new guidance applies prospectively to (a) intangible assets that are acquired individually or with a group of other assets and (b) both intangible assets acquired in business combinations and asset acquisitions. The adoption of the guidance did not have a material impact on the Partnership s financial statements.

Effective January 1, 2009, the Partnership adopted guidance issued by the FASB on determining whether instruments granted in share-based payment transactions are participating securities. The guidance addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and therefore need to be included in the earnings allocation in calculating earnings per share under the two-class method of calculation. The guidance requires entities to treat unvested share-based payment awards that have non-forfeitable rights to dividends or dividend equivalents as a separate class of securities in calculating earnings per share. As a result of adoption, the Partnership includes unvested participating Blackstone Common Units as a component of Common Units Entitled to Priority Distributions Basic in the calculation of earnings per common unit for all periods presented, due to their equivalent distribution rights as Blackstone Common Units. The impact of the adoption and retroactive application on 2008 was as follows:

	Year Ended December 31, 2008		June 19, 2007 through December 31, 2007	
	Originally Reported	**Upon Adoption**	**Originally Reported**	**Upon Adoption**
Net Loss Per Common Unit Basic and Diluted				
Common Units Entitled to Priority Distributions	$ (4.36)	$ (4.32)	$ (1.29)	$ (1.28)
Common Units Not Entitled to Priority Distributions	$ (3.09)	$ (3.06)	N/A	N/A

During 2009, the Partnership adopted guidance issued by the FASB on determining fair value when the volume and level of activity for the asset or liability has significantly decreased and identifying transactions that are not orderly. Adoption did not have a material impact on the Partnership s financial statements.

During 2009, the Partnership adopted guidance on interim disclosures about fair value of financial instruments. Such disclosures were previously required only in annual financial statements. The adoption of the guidance resulted in the inclusion of interim financial statement disclosures which had previously been annual.

During 2009, the Partnership adopted guidance on subsequent events. The guidance is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption resulted in additional disclosure regarding subsequent events as presented in Note 20 Subsequent Events in the Notes to the Consolidated and Combined Financial Statements in Part II. Item 8. Financial Statements and Supplementary Data of this filing.

During 2009, the Partnership adopted guidance issued by the FASB on the measurement of the fair value of liabilities. The guidance provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, fair value must be measured using valuation techniques that use the quoted price of the identical liability when traded as an asset, quoted prices for similar liabilities or similar liabilities when traded as assets or alternative valuation techniques including an income approach or a market approach. In addition, guidance is provided on the classification of liabilities measured at fair value within the fair value hierarchy. Where the fair value of a liability is based on a quoted price in an active market for the identical liability or on the quoted price for an identical liability when traded as an asset in an active market without adjustment to the quoted price, the fair value measurement shall be classified as Level 1. The adoption did not have a material impact on the Partnership s financial statements.

During 2009, the Partnership adopted implementation guidance issued by the FASB on accounting for uncertainty in income taxes. The updated guidance considers an entity s assertion that it is a tax-exempt not for profit or a pass through entity as a tax position that requires evaluation. In addition, the guidance provided implementation guidance on the attribution of income taxes to entities and owners. The adoption of the guidance did not have a material impact on the Partnership s financial statements.

In September 2009, the FASB issued guidance on fair value measurements and disclosures relating to investments in certain entities that calculate net asset value (NAV) per share (or its equivalent). The guidance permits, as a practical expedient, an entity holding investments in certain entities that either are investment companies as defined by the AICPA Audit and Accounting Guide, *Investment Companies*, or have attributes similar to an investment company, and calculate net asset value per share or its equivalent for which the fair value is not readily determinable, to measure the fair value of such investments on the basis of that NAV per share, or its equivalent, without adjustment. The guidance also requires disclosure of the attributes of investments within the scope of the guidance by major category of investment. Such disclosures include the nature of any restrictions on an investor s ability to redeem its investments at the measurement date, any unfunded commitments and the investment strategies of the investee. Additional guidance is provided on the classification of investments for which NAV is used to measure fair value within the fair value hierarchy. If an entity has the ability to redeem its investment at net asset value at the measurement date or within the near term, the fair value measurement of the investment shall be categorized as a Level II fair value measurement. If an entity does not know when it will have the ability to redeem its investment or cannot do so in the near term, the fair value measurement of the investment shall be categorized as a Level III fair value measurement. The guidance is effective for interim and annual periods ending after December 15, 2009. The Partnership has adopted the guidance effective with the issuance of its December 31, 2009 financial statements with additional disclosure requirements presented in Note 5. Net Asset Value as Fair Value in the Notes to the Consolidated and Combined Financial Statements in Part II. Item 8. Financial Statements and Supplementary Data of this filing.

In June 2009, the FASB issued amended guidance on issues related to variable interest entities (VIEs). The amendments will significantly affect the overall consolidation analysis, changing the approach taken by companies in identifying which entities are VIEs and in determining which party is the primary beneficiary. The guidance requires continuous assessment of the reporting entity s involvement with such VIEs. The revised guidance also enhances the disclosure requirements for a reporting entity s involvement with VIEs, irrespective of whether they qualify for deferral, as noted below. The guidance is effective as of the beginning of the first fiscal year that begins after November 15, 2009 and early adoption is prohibited. In February 2010, the FASB issued further guidance which provided a limited scope deferral for a reporting entity s interest in an entity that met all of the following conditions: (a) the entity has all the attributes of an investment company as defined under AICPA Audit and Accounting Guide, Investment Companies, or does not have all the attributes of an investment company but is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with the AICPA Audit and Accounting Guide, Investment Companies, (b) the reporting entity does not have explicit or implicit obligations to fund any losses of the entity that could potentially be significant to the entity, and (c) the entity is not a securitization entity, asset-backed financing entity or an entity that was formerly considered a qualifying special-purpose entity. The reporting entity is required to perform a consolidation analysis for entities that qualify for the deferral in accordance with previously issued guidance on variable interest entities. Blackstone s involvement with its funds is such that all three of the above conditions are met with the exception of certain CLO vehicles which fail condition (c) above and certain funds in which leveraged employee interests in dedicated funds are financed by third parties with Blackstone acting as an intermediary which fail condition (b) above. Such employee funds are currently consolidated as it is concluded that Blackstone is the primary beneficiary based on its implicit interest. The incremental impact of the revised consolidation rules will result in the consolidation of certain CLO vehicles managed by Blackstone. The impact of consolidation of such vehicles is expected to have a material impact on the Consolidated and Combined

Statements of Financial Condition. Based on the fair value of CLO assets and liabilities of impacted CLO vehicles managed by Blackstone as of January 1, 2010, the assets and liabilities of Blackstone would have increased by approximately $3.7 billion and $3.3 billion, respectively.

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

Contractual Obligations, Commitments and Contingencies

The following table sets forth information relating to our contractual obligations as of December 31, 2009 on a consolidated basis and on a basis deconsolidating the Blackstone funds:

Contractual Obligations	2010	2011 2012	2013 2014	Thereafter	Total
			(Dollars in Thousands)		
Operating Lease Obligations (a)	$ 54,669	$ 97,638	$ 92,572	$ 298,352	$ 543,231
Purchase Obligations	12,665	4,924			17,589
Blackstone Issued Notes and Revolving Credit Facility (b)				600,000	600,000
Interest on Blackstone Issued Notes and Revolving Credit Facility (c)	39,750	79,500	79,500	183,844	382,594
Blackstone Operating Entities Loan and Credit Facilities Payable (d)	23,821	32,263	7,285		63,369
Interest on Blackstone Operating Entities Loan and Credit Facilities Payable (e)	515	437	92		1,044
Blackstone Funds Debt Obligations Payable (f)	992	4,638			5,630
Interest on Blackstone Funds Debt Obligations Payable (g)	102	182			284
Blackstone Fund Capital Commitments to Investee Funds (h)	24,226				24,226
Due to Certain Non-Controlling Interest Holders in Connection with Tax Receivable Agreement (i)	4,076	66,442	57,095	764,310	891,923
Blackstone Operating Entities Capital Commitments to Blackstone Funds (j)	1,349,092				1,349,092
Consolidated Contractual Obligations	1,509,908	286,024	236,544	1,846,506	3,878,982
Blackstone Funds Debt Obligations Payable (f)	(992)	(4,638)			(5,630)
Interest on Blackstone Funds Debt Obligations Payable (g)	(102)	(182)			(284)
Blackstone Fund Capital Commitments to Investee Funds (h)	(24,226)				(24,226)
Blackstone Operating Entities Contractual Obligations	$ 1,484,588	$ 281,204	$ 236,544	$ 1,846,506	$ 3,848,842

(a) We lease our primary office space under agreements that expire through 2024. In connection with certain lease agreements, we are responsible for escalation payments. The contractual obligation table above includes only guaranteed minimum lease payments for such leases and does not project potential escalation or other lease-related payments. These leases are classified as operating leases for financial statement purposes and as such are not recorded as liabilities on the Consolidated and Combined Statements of Financial Condition. The amounts are presented net of contractual sublease commitments.

(b) Represents borrowings from the 6.625% senior notes we issued. As of December 31, 2009 we had no outstanding borrowings under our revolver.

(c) Represents interest to be paid over the maturity of our 6.625% senior notes and borrowings under our revolving credit facility which has been calculated assuming no prepayments are made and debt is held until its final maturity date. These amounts exclude commitment fees for unutilized borrowings under our revolver.

(d) Represents borrowings for employee term facilities program and a capital asset facility.

(e) Represents interest to be paid over the maturity of the related debt obligation which has been calculated assuming no prepayments are made and debt is held until its final maturity date. The future interest payments are calculated using variable rates in effect as of December 31, 2009, at spreads to market rates pursuant to the financing agreements, and range from 1.09% to 1.50%.

(f) These obligations are those of the Blackstone Funds.

(g) Represents interest to be paid over the maturity of the related Blackstone Funds debt obligations which has been calculated assuming no prepayments will be made and debt will be held until its final maturity date. The future interest payments are calculated using variable rates in effect as of December 31, 2009, at spreads to market rates pursuant to the financing agreements, and range from 1.98% to 4.64%. The majority of the borrowings are due on demand and for purposes of this schedule are assumed to mature within one year. Interest on the majority of these borrowings rolls over into the principal balance at each reset date.

(h) These obligations represent commitments of the consolidated Blackstone Funds to make capital contributions to investee funds and portfolio companies. These amounts are generally due on demand and are therefore presented in the less than one year category.

(i) Represents obligations by the Partnership s corporate subsidiaries to make payments under the Tax Receivable Agreement to certain non-controlling interest holders for the tax savings realized from the taxable purchases of their interests in connection with the reorganization at the time of Blackstone s initial public offering in 2007 and subsequent purchases. The obligation represents the amount of the payments currently expected to be made, which are dependent on the tax savings actually realized as determined annually without discounting for the timing of the payments. As required by GAAP, the amount of the obligation included in the Consolidated and Combined Financial Statements and shown in Note 15. Related Party Transactions (see Part II Item 8. Financial Statements and Supplementary Data) differs to reflect the net present value of the payments due to certain non-controlling interest holders.

(j) These obligations represent commitments by us to provide general partner capital funding to the Blackstone Funds, limited partner capital funding to other funds and Blackstone principal investment commitments. These amounts are generally due on demand and are therefore presented in the less than one year category; however, the capital commitments are expected to be called substantially over the next three years. We expect to continue to make these general partner capital commitments as we raise additional amounts for our investment funds over time.

Guarantees

Certain of Blackstone s consolidated real estate funds guarantee payments to third parties in connection with the on-going business activities and/or acquisitions of their Portfolio Companies. There is no direct recourse to the Partnership to fulfill such obligations. To the extent that underlying funds are required to fulfill guarantee obligations, the Partnership s invested capital in such funds is at risk. Total investments at risk in respect of guarantees extended by real estate funds were $6.4 million as of December 31, 2009.

Table of Contents

Indemnifications

In many of its service contracts, Blackstone agrees to indemnify the third party service provider under certain circumstances. The terms of the indemnities vary from contract to contract and the amount of indemnification liability, if any, cannot be determined and has not been included in the table above or recorded in our Consolidated and Combined Financial Statements as of December 31, 2009.

Clawback Obligations

At December 31, 2009, none of the general partners of our private equity, real estate or credit-oriented funds had an actual cash clawback obligation to any limited partners of the funds. For financial reporting purposes at period end, the general partner has reflected a clawback obligation to the limited partners of certain funds due to changes in unrealized value of a fund on which there have been previously distributed carried interest realizations; however, the settlement of a potential obligation is not due until the end of the life of the respective fund except in the case of our real estate funds, which have a provision for interim clawback. Since the inception of the funds, the general partners have not been required to make a cash clawback payment. (See Note 15. Related Party Transactions and Note 16. Commitments and Contingencies in the Notes to the Consolidated and Combined Financial Statements in Part II. Item 8. Financial Statements and Supplementary Data of this filing.)

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

Effect on Fund Management Fees

Our management fees are based on (a) third parties capital commitments to a Blackstone Fund, (b) third parties capital invested in a Blackstone Fund or (c) the net asset value, or NAV, of a Blackstone Fund, as described in our consolidated and combined financial statements. Management fees will only be directly affected by short-term changes in market conditions to the extent they are based on NAV or represent permanent impairments of value. These management fees will be increased (or reduced) in direct proportion to the effect of changes in the market value of our investments in the related funds. The proportion of our management fees that are based on NAV is dependent on the number and types of Blackstone Funds in existence and the current stage of each fund s life cycle. For the year ended December 31, 2009 approximately 29% of our fund management fees were based on the NAV of the applicable funds. For the year ended December 31, 2008 approximately 36% of our fund management fees were based on the NAV of the applicable funds.

Market Risk

The Blackstone Funds hold investments which are reported at fair value. Based on the fair value as of December 31, 2009, we estimate that a 10% decline in fair value of the investments would have the following effects: (a) management fees would decrease by $34.7 million on an annual basis, (b) performance fees and allocations, net of the related compensation expense, would decrease by $151.8 million, and (c) investment income, net of the related compensation expense, would decrease by $126.6 million. Based on the fair value as of December 31, 2008, we estimated that a 10% decline in fair value of the investments would have the following effects: (a) management fees would decrease by $33.4 million on an annual basis, (b) performance fees and allocations, net of the related compensation expense would decrease by $169.1 million, and (c) investment income, net of the related compensation expense, would decrease by $118.2 million.

Total assets under management, excluding undrawn capital commitments and the amount of capital raised for our CLO s, by segment, and the percentage amount classified as Level III investments as defined within the fair value standards of GAAP, are: Private Equity $19.2 billion (88% Level III), Real Estate $8.4 billion (91% Level III), and Credit and Marketable Alternatives $35.9 billion (79% Level III), respectively. The fair value of our investments and securities can vary significantly based on a number of factors that take into consideration the diversity of the Blackstone Funds investment portfolio and on a number of factors and inputs such as similar transactions, financial metrics, and industry comparatives, among others. (See Part I, Item 1A. Risk Factors above. Also see Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Investments, at Fair Value.) We believe these estimated fair value amounts should be utilized with caution as our intent and strategy is to hold investments and securities until prevailing market conditions are beneficial for investment sales.

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

Exchange Rate Risk

The Blackstone Funds hold investments that are denominated in non-U.S. dollar currencies that may be affected by movements in the rate of exchange between the U.S. dollar and non-U.S. dollar currencies. Additionally, a portion of our management fees are denominated in non-U.S. dollar currencies. We estimate that as of December 31, 2009, a 10% decline in the rate of exchange of all foreign currencies against the U.S. dollar would have the following effects: (a) management fees would decrease by $9.3 million on an annual basis, (b) performance fees and allocations would decrease by $29.8 million, after allocations to non-controlling interest holders and (c) investment income would decrease by $19.2 million.

As of December 31, 2008, we estimated that a 10% decline in the rate of exchange against the U.S. dollar would have the following effects: (a) management fees would decrease by $6.9 million on an annual basis, (b) performance fees and allocations would decrease by $37.3 million, after allocations to non-controlling interest holders and (c) investment income would decrease by $17.2 million.

Table of Contents

Interest Rate Risk

Blackstone has debt obligations payable that accrue interest at variable rates. Additionally, we have swapped a portion of our recent debt offering into a variable rate instrument. Interest rate changes may therefore affect the amount of interest payments, future earnings and cash flows. Based on our debt obligations payable as of December 31, 2009 and our outstanding interest rate swaps, we estimate that interest expense relating to variable rates would increase by $5.2 million on an annual basis, in the event interest rates were to increase by one percentage point.

Blackstone maintains a diversified portfolio of highly liquid assets to meet the liquidity needs of various businesses (the Treasury Liquidity Portfolio). This portfolio includes cash, open-ended money market mutual funds, open-ended bond mutual funds and marketable investment securities. We estimate that our investment income would decrease by $9.3 million, or 0.6% of the Treasury Liquidity Portfolio, if interest rates were to increase by one percentage point.

Based on our debt obligations payable as of December 31, 2008, we estimated that interest expense relating to variable rate debt obligations payable would increase by $3.9 million on an annual basis, in the event interest rates were to increase by one percentage point.

Credit Risk

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

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

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

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
INDEX TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm	117
Consolidated and Combined Statements of Financial Condition as of December 31, 2009 and 2008	118
Consolidated and Combined Statements of Operations for the Years Ended December 31, 2009, 2008 and 2007	119
Consolidated and Combined Statements of Changes in Partners Capital for the Years Ended December 31, 2009, 2008 and 2007	120
Consolidated and Combined Statements of Cash Flows for the Years Ended December 31, 2009, 2008 and 2007	123
Notes to Consolidated and Combined Financial Statements	125

Table of Contents

Report of Independent Registered Public Accounting Firm

To the General Partner and Unitholders of The Blackstone Group L.P.:

We have audited the accompanying consolidated and combined statements of financial condition of The Blackstone Group, L.P. and subsidiaries (Blackstone) as of December 31, 2009 and 2008, and the related consolidated and combined statements of operations, changes in partners capital, and cash flows for each of the three years in the period ended December 31, 2009. We also have audited Blackstone s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Blackstone s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on Blackstone s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of The Blackstone Group L.P. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, Blackstone maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP

New York, New York

February 26, 2010

Table of Contents

THE BLACKSTONE GROUP L.P.

Consolidated and Combined Statements of Financial Condition

(Dollars in Thousands, Except Unit Data)

	December 31, 2009	December 31, 2008
Assets		
Cash and Cash Equivalents	$ 952,096	$ 503,737
Cash Held by Blackstone Funds and Other	86,084	907,324
Investments	3,565,483	2,830,942
Accounts Receivable	306,307	312,067
Due from Affiliates	759,907	1,088,304
Intangible Assets, Net	919,477	1,077,526
Goodwill	1,703,602	1,703,602
Other Assets	172,556	219,977
Deferred Tax Assets	943,512	845,578
Total Assets	$ 9,409,024	$ 9,489,057
Liabilities and Partners Capital		
Loans Payable	$ 657,623	$ 387,000
Due to Affiliates	1,410,066	1,285,577
Accrued Compensation and Benefits	488,945	413,459
Accounts Payable, Accrued Expenses and Other Liabilities	308,857	1,284,576
Total Liabilities	2,865,491	3,370,612
Commitments and Contingencies		
Redeemable Non-Controlling Interests in Consolidated Entities	526,311	362,462
Partners Capital		
Partners Capital (common units: 319,939,772 issued and outstanding as of December 31, 2009; 273,891,358 issued and 272,998,484 outstanding as of December 31, 2008)	3,376,707	3,509,448
Accumulated Other Comprehensive Income (Loss)	2,420	(291)
Non-Controlling Interests in Consolidated Entities	540,283	425,067
Non-Controlling Interests in Blackstone Holdings	2,097,812	1,821,759
Total Partners Capital	6,017,222	5,755,983
Total Liabilities and Partners Capital	$ 9,409,024	$ 9,489,057

See notes to consolidated and combined financial statements.

Table of Contents

THE BLACKSTONE GROUP L.P.

Consolidated and Combined Statements of Operations

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

	Year Ended December 31,		
	2009	**2008**	**2007**
Revenues			
Management and Advisory Fees	$ 1,482,226	$ 1,476,357	$ 1,566,047
Performance Fees and Allocations			
Realized	70,492	38,941	1,024,566
Unrealized	150,598	(1,286,261)	102,074
Total Performance Fees and Allocations	221,090	(1,247,320)	1,126,640
Investment Income (Loss)			
Realized	44,320	(16,425)	223,147
Unrealized	(3,716)	(606,452)	110,615
Total Investment Income (Loss)	40,604	(622,877)	333,762
Interest and Dividend Revenue	22,680	30,879	23,174
Other	7,099	13,600	525
Total Revenues	1,773,699	(349,361)	3,050,148
Expenses			
Compensation and Benefits			
Base Compensation	3,778,686	4,062,238	2,227,310
Performance Fee Related			
Realized	25,102	4,997	91,203
Unrealized	(26,182)	(207,448)	(61,866)
Total Compensation and Benefits	3,777,606	3,859,787	2,256,647
General, Administrative and Other	443,573	440,776	324,200
Interest Expense	13,384	23,008	32,080
Fund Expenses	7,296	63,031	151,917
Total Expenses	4,241,859	4,386,602	2,764,844
Other Income (Loss)			
Net Gains (Losses) from Fund Investment Activities	176,694	(872,336)	5,423,132
Income (Loss) Before Provision (Benefit) for Taxes	(2,291,466)	(5,608,299)	5,708,436
Provision (Benefit) for Taxes	99,230	(14,145)	47,693
Net Income (Loss)	(2,390,696)	(5,594,154)	5,660,743
Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	131,097	(632,495)	628,354
Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities	(14,328)	(159,828)	4,510,881

Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings	(1,792,174)	(3,638,799)	857,022
Net Income (Loss) Attributable to The Blackstone Group L.P.	$ (715,291)	$ (1,163,032)	$ (335,514)
Net Loss Attributable to The Blackstone Group L.P. Per Common Unit Basic and Diluted			
Common Units Entitled to Priority Distributions	$ (2.46)	$ (4.32)	$ (1.28)
Common Units Not Entitled to Priority Distributions	$ (3.71)	$ (3.06)	N/A
Weighted-Average Common Units Outstanding Basic and Diluted			
Common Units Entitled to Priority Distributions	285,163,954	266,876,031	262,810,720
Common Units Not Entitled to Priority Distributions	3,826,233	1,501,373	N/A
Revenues Earned from Affiliates			
Management and Advisory Fees	$ 134,284	$ 188,276	$ 594,967

See notes to consolidated and combined financial statements.

Table of Contents

THE BLACKSTONE GROUP L.P.

Consolidated and Combined Statements of Changes in Partners Capital

(Dollars in Thousands, Except Unit Data)

	Common Units	Partners Capital	Accumulated Other Compre-hensive Income (Loss)	Non-Controlling Interests in Consolidated Entities	Non-Controlling Interests in Blackstone Holdings	Total Partners Capital	Redeemable Non-Controlling Interests in Consolidated Entities	Compre-hensive Income (Loss)
Balance at December 31, 2006		$	$ 10,274	$ 22,734,450	$ 2,712,604	$ 25,457,328	$ 6,060,444	$ 8,126,628
Net Income				4,533,944	1,958,751	6,492,695	644,103	$ 7,136,798
Currency Translation Adjustment			(191)	13,635		13,444		13,444
Net Unrealized Loss on Cash Flow Hedges			(6,930)			(6,930)		(6,930)
Capital Contributions				5,740,798	233,659	5,974,457	1,419,261	
Capital Distributions				(5,209,141)	(2,492,352)	(7,701,493)	(429,311)	
Relinquished in Deconsolidation of Partnership				(26,782,715)		(26,782,715)		
Elimination of Non-Contributed Entities			(2,803)		(161,103)	(163,906)		
Transfer of Non-Controlling Interests in Consolidated Entities		35,276		(506,186)	(35,276)	(506,186)	(139,241)	
Balance at June 18, 2007		35,276	350	524,785	2,216,283	2,776,694	7,555,256	7,143,312
Balance at June 19, 2007		35,276	350	524,785	2,216,283	2,776,694	7,555,256	7,143,312
Net Loss		(335,514)		(23,063)	(1,101,729)	(1,460,306)	(15,749)	(1,476,055)
Currency Translation Adjustment			(5)	551		546		546
Capital Contributions				128,361		128,361	223,336	
Capital Distributions		(78,794)		(96,455)	(49,906)	(225,155)	91,133	
Relinquished in Deconsolidation of Partnership							(5,415,730)	
Elimination of Non-Contributed Entities				140,167		140,167		
Transfer of Non-Controlling Interests in Consolidated Entities		1,174,367		(158,460)	(1,549,865)	(533,958)	20	
Issuance of Units in Initial Public Offering, Net of Issuance Costs	153,333,334	4,501,240				4,501,240		
Issuance of Units to Beijing Wonderful Investments	101,334,234	3,000,000				3,000,000		
Purchase of Interests from Certain Non-Controlling Interest Holders		(4,570,756)				(4,570,756)		
Purchase Price due to the Reorganization of the Partnership					2,255,803	2,255,803		
Deferred Tax Effects Resulting from Acquisition of Ownership Interests		111,876				111,876		

Equity-based Compensation		404,850			1,332,702	1,737,552		
Net Delivery of Vested Common Units	5,804,294							
Repurchase of Common Units	(645,162)	(16,045)				(16,045)		
Balance at December 31, 2007	259,826,700	$ 4,226,500	$ 345	$ 515,886	$ 3,103,288	$ 7,846,019	$ 2,438,266	$ 5,667,803

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See notes to consolidated and combined financial statements.

Table of Contents

THE BLACKSTONE GROUP L.P.

Consolidated and Combined Statements of Changes in Partners Capital

(Dollars in Thousands, Except Unit Data)

	Common Units	Partners Capital	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interests in Consolidated Entities	Non-Controlling Interests in Blackstone Holdings	Total Partners Capital	Redeemable Non-Controlling Interests in Consolidated Entities	Comprehensive Income (Loss)
Balance at December 31, 2007	259,826,700	$ 4,226,500	$ 345	$ 515,886	$ 3,103,288	$ 7,846,019	$ 2,438,266	$ 5,667,803
Net Loss		(1,163,032)		(159,828)	(3,638,799)	(4,961,659)	(632,495)	$ (5,594,153)
Currency Translation Adjustment			(636)	(532)		(1,168)		(1,168)
Capital Contributions				76,884		76,884	317,884	
Capital Distributions		(319,897)		(128,217)	(410,104)	(858,218)	(749,233)	
Relinquished in Deconsolidation of Partnership							(612,088)	
Issuance of Blackstone Holdings Partnership Units for GSO Acquisition		14,307			266,092	280,399		
Purchase of Interests from Certain Non-Controlling Interest Holders		(74,278)			(19,511)	(93,789)		
Deferred Tax Effects Resulting from Acquisition of Ownership Interests		5,164				5,164		
Equity-based Compensation		818,076			2,473,236	3,291,312		
Net Delivery of Vested Common Units	4,601,493	(26,525)				(26,525)		
Repurchase of Common Units	(902,874)	(5,338)				(5,338)		
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	9,473,165	34,471			(34,471)			
Adjustment to Pre-IPO Reorganization Purchase Price					82,028	82,028		
Consolidation of Partnership							159,031	
Payable to Non-Controlling Interest Holders due to Consolidated Blackstone Funds in Liquidation							(649,091)	
Acquisition of Consolidated Blackstone Funds				120,874		120,874	90,188	
Balance at December 31, 2008	272,998,484	$ 3,509,448	$ (291)	$ 425,067	$ 1,821,759	$ 5,755,983	$ 362,462	$ (5,595,321)

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See notes to consolidated and combined financial statements.

Table of Contents

THE BLACKSTONE GROUP L.P.

Consolidated and Combined Statements of Changes in Partners Capital

(Dollars in Thousands, Except Unit Data)

	Common Units	Partners Capital	Accumulated Other Compre-hensive Income (Loss)	Non-Controlling Interests in Consolidated Entities	Non-Controlling Interests in Blackstone Holdings	Total Partners Capital	Redeemable Non-Controlling Interests in Consolidated Entities	Compre-hensive Income (Loss)
Balance at December 31, 2008	272,998,484	$ 3,509,448	$ (291)	$ 425,067	$ 1,821,759	$ 5,755,983	$ 362,462	$ (5,595,321)
Net Loss		(715,291)		(14,328)	(1,792,174)	(2,521,793)	131,097	$ (2,390,696)
Currency Translation Adjustment			2,711			2,711		2,711
Capital Contributions				61,862	549	62,411	138,255	
Capital Distributions		(260,629)		(34,806)	(1)	(295,436)	(63,349)	
Transfer of Non-Controlling Interests in Consolidated Entities				1,991	(1,991)			
Transfer Due to Reorganization				100,497		100,496		
Purchase of Interests from Certain Non-Controlling Interest Holders		(10,020)			(13)	(10,033)		