Blackstone Group L.P.
Form 10-Q
May 08, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 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	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

345 Park Avenue

New York, New York 10154

(Address of principal executive offices)(Zip Code)

(212) 583-5000

(Registrant s telephone number, including area code)

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

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

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

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

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

The number of the Registrant s voting common units representing limited partner interests outstanding as of April 30, 2009 was 155,888,515. The number of the Registrant s non-voting common units representing limited partner interests outstanding as of April 30, 2009 was 109,083,468.

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Forward-Looking Statements

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as outlook, believes, expects, potential, continues, may, wil should, seeks, approximately, predicts, intends, plans, estimates, anticipates or the negative version of these words or other compara Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled Risk Factors in our annual report on Form 10-K for the year ended December 31, 2008 and in this report, as such factors may be updated from time to time in our periodic filings with the SEC, which are accessible on the SEC s website at www.sec.gov. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

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

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Financial Condition (Unaudited)

(Dollars in Thousands, Except Unit Data)

	March 31, 2009	December 31, 2008
Assets		
Cash and Cash Equivalents	$ 776,303	$ 503,737
Cash Held by Blackstone Funds and Other	67,505	907,324
Investments	2,397,134	2,830,942
Accounts Receivable	248,689	312,067
Due from Brokers	970	48,506
Investment Subscriptions Paid in Advance		1,916
Due from Affiliates	429,869	861,434
Intangible Assets, Net	1,038,013	1,077,526
Goodwill	1,703,602	1,703,602
Other Assets	167,098	169,555
Deferred Tax Assets	845,326	845,578
Total Assets	$ 7,674,509	$ 9,262,187
Liabilities and Partners Capital		
Loans Payable	$ 81,874	$ 387,000
Amounts Due to Non-Controlling Interest Holders	247,879	1,103,423
Securities Sold, Not Yet Purchased	690	894
Due to Affiliates	1,273,422	1,285,577
Accrued Compensation and Benefits	265,419	413,459
Accounts Payable, Accrued Expenses and Other Liabilities	208,681	180,259
Total Liabilities	2,077,965	3,370,612
Commitments and Contingencies		
Redeemable Non-Controlling Interests in Consolidated Entities	432,585	362,462
Partners Capital		
Partners Capital (common units: 277,375,119 issued and 272,107,151 outstanding as of March 31, 2009; 273,891,358 issued and 272,998,484 outstanding as of December 31, 2008)	3,433,752	3,509,448
Accumulated Other Comprehensive Loss	(2,906)	(291)
Non-Controlling Interests in Consolidated Entities	84,683	198,197
Non-Controlling Interests in Blackstone Holdings	1,648,430	1,821,759
Total Partners Capital	5,163,959	5,529,113
Total Liabilities and Partners Capital	$ 7,674,509	$ 9,262,187

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Operations (Unaudited)

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

	Three Months Ended March 31, 2009	2008
Revenues		
Management and Advisory Fees	$ 341,172	$ 309,409
Performance Fees and Allocations	(214,248)	(188,687)
Investment Income (Loss) and Other	(79,793)	(52,199)
Total Revenues	47,131	68,523
Expenses		
Compensation and Benefits	812,347	977,147
Interest	1,399	2,743
General, Administrative and Other	107,817	95,221
Fund Expenses	3,012	22,952
Total Expenses	924,575	1,098,063
Other Income (Loss)		
Net Gains (Losses) from Fund Investment Activities	(34,763)	(215,636)
Income (Loss) Before Provision for Taxes	(912,207)	(1,245,176)
Provision for Taxes	17,731	8,981
Net Income (Loss)	(929,938)	(1,254,157)
Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	2,596	(184,194)
Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities	(41,031)	(14,916)
Net Income (Loss) Attributable to Non-Controlling Interests in Blackstone Holdings	(659,929)	(804,054)
Net Income (Loss) Attributable to The Blackstone Group L.P.	$ (231,574)	$ (250,993)
Net Loss Attributable to The Blackstone Group L.P. Per Common Unit Basic and Diluted		
Common Units Entitled to Priority Distributions	$ (0.84)	$ (0.95)
Common Units Not Entitled to Priority Distributions	$ (1.14)	
Weighted-Average Common Units Outstanding Basic and Diluted		
Common Units Entitled to Priority Distributions	273,624,497	263,147,120
Common Units Not Entitled to Priority Distributions	1,627,540	N/A
Revenues Earned from Affiliates		
Management and Advisory Fees	$ 20,284	$ 28,407

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Changes in Partners Capital (Unaudited)

(Dollars in Thousands, Except Unit Data)

	The Blackstone Group L.P. Unitholders							
	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, 2008	272,998,484	$ 3,509,448	$ (291)	$ 198,197	$ 1,821,759	$ 5,529,113	$ 362,462	
Net Loss		(231,574)		(41,031)	(659,929)	(932,534)	2,596	$ (929,938)
Currency Translation Adjustment			(2,615)			(2,615)		(2,615)
Certain Partners Allocations of Blackstone Profit Sharing Arrangements				(91,707)		(91,707)		
Capital Contributions				10,186		10,186	95,959	
Capital Distributions				(8,957)		(8,957)	(30,658)	
Loss Attributable to Consolidated Blackstone Funds in Liquidation							2,226	
Purchase of Interests from Certain Non-Controlling Interest Holders		(2,479)				(2,479)		
Repurchase of Common Units	(4,375,094)	(27,008)				(27,008)		
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		1,469				1,469		
Transfer of Non-Controlling Interests in Consolidated Entities				17,995	(17,995)			
Equity-Based Compensation		177,742			535,837	713,579		
Net Delivery of Vested Common Units	250,286	(926)				(926)		
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	3,233,475	7,080			(7,080)			
Allocation of Taxes Attributable to Non-Controlling Interests in Blackstone Holdings					(24,162)	(24,162)		
Balance at March 31, 2009	272,107,151	$ 3,433,752	$ (2,906)	$ 84,683	$ 1,648,430	$ 5,163,959	$ 432,585	$ (932,553)

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Changes in Partners Capital (Unaudited)

(Dollars in Thousands, Except Unit Data)

	The Blackstone Group L.P. Unitholders							
	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	$ 515,888	$ 3,079,556	$ 7,822,289	$ 2,438,266	
Net Loss		(250,993)		(14,916)	(804,054)	(1,069,963)	(184,194)	$ (1,254,157)
Currency Translation Adjustment			512	1,256		1,768		1,768
Certain Partners Allocations of Blackstone Profit Sharing Arrangements				(119,229)		(119,229)		
Capital Contributions				3,786	12,577	16,363	98,648	
Capital Distributions				(82,629)		(82,629)	(25,372)	
Acquisition of Consolidated Blackstone Funds				102,874		102,874	90,188	
Purchase of Interests from Certain Non-Controlling Interest Holders		(44,072)			(35,556)	(79,628)		
Adjustment to Pre-IPO Reorganization Purchase Price					82,028	82,028		
Distribution					(34,703)	(34,703)		
Equity-Based Compensation		213,084			693,623	906,707		
Net Delivery of Vested Common Units	181,834							
Balance at March 31, 2008	260,008,534	$ 4,144,519	$ 857	$ 407,030	$ 2,993,471	$ 7,545,877	$ 2,417,536	$ (1,252,389)

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Operating Activities		
Net Income (Loss)	$ (929,938)	$ (1,254,157)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Blackstone Funds Related:		
Unrealized Depreciation (Appreciation) on Investments Allocable to Non-Controlling Interests in Consolidated Entities	13,235	209,980
Net Realized (Gains) Losses on Investments	53,190	256
Changes in Unrealized (Gains) Losses on Investments Allocable to Blackstone Group	78,218	62,823
Non-Cash Performance Fees and Allocations	101,770	76,279
Equity-Based Compensation Expense	738,045	914,671
Intangible Amortization	39,513	33,528
Other Non-Cash Amounts Included in Net Income	6,006	3,845
Cash Flows Due to Changes in Operating Assets and Liabilities:		
Cash Held by Blackstone Funds and Other	839,819	46,183
Due from Brokers	47,536	247,304
Accounts Receivable	83,605	(9,139)
Due from Affiliates	431,312	210,742
Other Assets	5,919	(29,122)
Accrued Compensation and Benefits	(172,510)	(46,299)
Accounts Payable, Accrued Expenses and Other Liabilities	(826,317)	(58,082)
Due to Affiliates	(212,332)	14,261
Amounts Due to Non-Controlling Interest Holders	(14,314)	(59,485)
Blackstone Funds Related:		
Investments Purchased	(181,552)	(10,013,010)
Cash Proceeds from Sale of Investments	454,677	9,764,576
Net Cash Provided by Operating Activities	555,882	115,154
Investing Activities		
Purchase of Furniture, Equipment and Leasehold Improvements	(4,482)	(7,219)
Cash Paid for Acquisition, Net of Cash Acquired		(336,571)
Changes in Restricted Cash	2,438	(45,128)
Net Cash Used in Investing Activities	(2,044)	(388,918)
Financing Activities		
Distributions to Non-Controlling Interest Holders in Consolidated Entities	(40,432)	(183,353)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	94,674	96,523
Purchase of Interests from Certain Non-Controlling Interest Holders	(2,479)	(79,627)
Net Settlement of Vested Common Units and Repurchase of Common Units	(27,934)	
Proceeds from Loans Payable	819	285,781

continued...

See notes to condensed consolidated financial statements.

THE BLACKSTONE GROUP L.P.

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

(Dollars in Thousands)

	Three Months Ended March 31, 2009	2008
Repayment of Loans Payable	(305,920)	(41,610)
Net Cash Provided by (Used in) Financing Activities	(281,272)	77,714
Effect of Exchange Rate Changes on Cash and Cash Equivalents		90
Net Increase (Decrease) in Cash and Cash Equivalents	$ 272,566	$ (195,960)
Cash and Cash Equivalents, Beginning of Period	503,737	868,629
Cash and Cash Equivalents, End of Period	$ 776,303	$ 672,669
Supplemental Disclosure of Cash Flows Information		
Payments for Interest	$ 653	$ 2,931
Payments for Income Taxes	$ 9,594	$ 11,845
Supplemental Disclosure of Non-Cash Financing Activities		
Reduction of Due to LP Account to Fund Sidepocket Investment	$ (2,442)	$
Contributions Related to Transfers by Affiliated Partners	$ 2,442	$
In-kind Redemption of Capital	$ (907,373)	$
In-kind Contribution of Capital	$ 907,373	$
Transfer of Interests to Non-Controlling Interest Holders	$ 15,069	$
Settlement of Vested Common Units	$ 922	$
Conversion of Blackstone Holdings Units to Common Units	$ 7,080	$
Exchange of Founders and Senior Managing Directors Interests in Blackstone Holdings:		
Deferred Tax Asset	$ 9,789	$ 4,440
Due to Affiliates	$ (8,321)	$ (3,774)
Partners Capital	$ 1,468	$ 666
Acquisition of GSO Capital Partners LP:		
Fair Value of Assets Acquired	$	$ 1,018,747
Cash Paid for Acquisition		(356,972)
Fair Value of Non-Controlling Interests in Consolidated Entities and Liabilities Assumed		(381,375)
Acquisition of GSO Capital Partners LP Units Issued	$	$ 280,400

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements

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

1. ORGANIZATION AND BASIS OF PRESENTATION

The Blackstone Group L.P. (the Partnership), together with its consolidated subsidiaries (collectively, Blackstone), is a leading global alternative asset manager and provider of financial advisory services. The alternative asset management businesses include the management of corporate private equity funds, real estate funds, funds of hedge funds, credit-oriented funds, collateralized loan obligation (CLO) vehicles and publicly traded closed-end mutual funds and related entities that invest in such funds, collectively referred to as the Blackstone Funds . Carry Funds refers to the corporate private equity funds, real estate funds and certain of the credit-oriented funds that are managed by Blackstone. Blackstone also provides various financial advisory services, including corporate and mergers and acquisitions advisory, restructuring and reorganization advisory and fund placement services.

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

Certain of the Blackstone Funds are included in the condensed consolidated financial statements of the Partnership. Consequently, the condensed consolidated financial statements of the Partnership reflect the assets, liabilities, revenues, expenses and cash flows of these consolidated Blackstone Funds on a gross basis. The majority economic ownership interests in these funds are reflected as Non-Controlling Interests in Consolidated Entities and Redeemable Non-Controlling Interests in Consolidated Entities in the condensed consolidated financial statements. The consolidation of these Blackstone Funds has no net effect on the Partnership s Net Income (Loss) or Partners Capital.

The Partnership s interest in Blackstone Holdings is within the scope of the Emerging Issues Task Force (EITF) Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* (EITF 04-5). Although the Partnership has a minority economic interest in Blackstone Holdings, it has a majority voting interest and controls the management of Blackstone Holdings. Additionally, although the Blackstone Holdings limited partners hold a majority economic interest in Blackstone Holdings, they do not have the right to dissolve the partnership 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 for the economic interests of limited partners of the Blackstone Holdings partnerships.

On January 1, 2009, in order to simplify Blackstone s structure and ease the related administrative burden and costs, Blackstone effected an internal restructuring to reduce the number of holding partnerships from five to four by causing Blackstone Holdings III L.P. to transfer all of its assets and liabilities 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. The economic interests of the Partnership

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THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements (Continued)

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

in Blackstone s business remain entirely unaffected. Blackstone Holdings refers to the five holding partnerships prior to the January 2009 reorganization and the four holdings partnerships subsequent to the January 2009 reorganization.

Certain prior period financial statement balances have been reclassified to conform to the current presentation.

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 and various CLO vehicles. GSO s results have been included in the Marketable Alternative Asset Management segment from the date of acquisition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments, At Fair Value The Blackstone Funds are, for GAAP purposes, investment companies under the AICPA Audit and Accounting Guide *Investment Companies* that reflect their investments, including majority-owned and controlled investments (the Portfolio Companies) as well as Securities Sold, Not Yet Purchased at fair value. The Partnership has retained the specialized accounting for the Blackstone Funds pursuant to EITF Issue No. 85-12, *Retention of Specialized Accounting for Investments in Consolidation* (EITF 85-12). Thus, such consolidated funds investments are reflected on the Condensed Consolidated Statements of Financial Condition at fair value, with unrealized gains and losses resulting from changes in fair value reflected as a component of Net Gains (Losses) from Fund Investment Activities in the Condensed Consolidated Statements of Operations. Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price).

The fair value of the Partnership s Investments and Securities Sold, Not Yet Purchased are based on observable market prices when available. Such prices are based on the last sales price on the measurement date, or, if no sales occurred on such date, at the close of business bid price and if sold short, at the ask price or at the mid price depending on the facts and circumstances. Futures and options contracts are valued based on closing market prices. Forward and swap contracts are valued based on market rates or prices obtained from recognized financial data service providers.

A significant number of the investments, including our carry fund investments, have been valued by the Partnership, in the absence of observable market prices, using the valuation methodologies described below. Additional information regarding these investments is provided in Note 4 to the condensed consolidated financial statements. 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, including appropriate risk adjustments for nonperformance and liquidity risks. The Partnership estimates the fair value of investments when market prices are not observable as follows:

Corporate private equity, real estate and debt investments For investments for which observable market prices do not exist, such investments are reported at fair value as determined by the Partnership. Fair value is determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization (EBITDA) and balance sheets, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are unaudited at the time received. With respect to real estate investments, in determining fair values management considers projected operating cash flows and balance sheets, sales of

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements (Continued)

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

comparable assets, if any, and replacement costs, among other measures. The methods used to estimate the fair value of private investments include the discounted cash flow method and/or capitalization rates (cap rates) analysis. Valuations may also 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. Corporate private equity and real estate 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.

Funds of hedge funds Blackstone Funds direct investments in hedge funds (Investee Funds) are stated at fair value, based on the information provided by the Investee Funds which reflects the Partnership s share of the fair value of the net assets of the investment fund. If the Partnership determines, based on its own due diligence and investment procedures, that the valuation for any Investee Fund based on information provided by the Investee Fund s management does not represent fair value, the Partnership will estimate the fair value of the Investee Fund in good faith and in a manner that it reasonably chooses, in accordance with its valuation policies.

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.

Certain Blackstone Funds sell securities that they do not own, and will therefore be obligated to purchase such securities at a future date. The value of an open short position is recorded as a liability, and the fund records unrealized appreciation or depreciation to the extent of the difference between the proceeds received and the value of the open short position. The applicable Blackstone Fund records a realized gain or loss when a short position is closed. By entering into short sales, the applicable Blackstone Fund bears the market risk of increases in value of the security sold short. The unrealized appreciation or depreciation as well as the realized gain or loss associated with short positions is included in the Condensed Consolidated Statements of Operations as Net Gains (Losses) from Fund Investment Activities.

Securities transactions are recorded on a trade date basis.

Recent Accounting Developments In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141(R), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) requires the acquiring entity in a business combination to recognize the full fair value of assets, liabilities, contractual 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. SFAS No. 141(R) 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. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The Partnership had no such transactions for the quarter ended March 31, 2009.

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THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements (Continued)

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

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51* (SFAS No. 160). SFAS No. 160 requires reporting entities to present 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. SFAS No. 160 applies prospectively as of January 1, 2009, except for the presentation and disclosure requirements which are applied retrospectively for all periods presented. The Partnership adopted SFAS No. 160 effective January 1, 2009 and as a result, (a) with respect to the Condensed Consolidated 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 a component of Partners Capital, (b) with respect to the Condensed Consolidated Statements of Operations, Net Income (Loss) is now presented before non-controlling interests, the three categories of non-controlling interests discussed in (a) above are now presented separately, and the Condensed Consolidated Statement of Operations now nets to Net Income (Loss) Attributable to The Blackstone Group L.P., (c) with respect to the Condensed Consolidated Statement of Changes in Partners Capital, roll forward columns have now been added for each component of non-controlling interests discussed in (a) above.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161). SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring 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. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS No. 161 on January 1, 2009 did not have a material impact on the Partnership s consolidated financial statements.

In March 2008, the EITF reached a consensus on Issue No. 07-4, *Application of the Two-Class Method under FASB Statement No. 128,* Earnings Per Share*, to Master Limited Partnerships* (EITF 07-4). EITF 07-4 applies to master limited partnerships that make incentive equity distributions. EITF 07-4 is to be applied retrospectively beginning with financial statements issued in the interim periods of fiscal years beginning after December 15, 2008. The Partnership adopted EITF 07-4 on January 1, 2009. The adoption of EITF 07-4 did not have a material impact on the Partnership s consolidated financial statements.

In April 2008, the FASB issued Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP No. 142-3). FSP No. 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under SFAS No. 142, *Goodwill and Other Intangible Assets*. FSP No. 142-3 affects entities with recognized intangible assets and is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The new guidance applies prospectively to (1) intangible assets that are acquired individually or with a group of other assets and (2) both intangible assets acquired in business combinations and asset acquisitions. The adoption of FSP No. 142-3 did not have a material impact on the Partnership s consolidated financial statements.

In June 2008, the FASB issued Staff Position EITF No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF No. 03-6-1). FSP EITF No. 03-6-1 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 described in SFAS No. 128, *Earnings per Share.* FSP EITF No. 03-6-1 requires entities to treat unvested share-based payment awards that have non-forfeitable rights to dividend or

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THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements (Continued)

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

dividend equivalents as a separate class of securities in calculating earnings per share. This FSP is effective for fiscal years beginning after December 15, 2008; earlier application is not permitted. The Partnership adopted FSP EITF No. 03-6-1 effective January 1, 2009 and 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:

	Three Months Ended March 31, 2008	Year Ended