Blackstone Group L.P.
Form 10-K
March 12, 2008
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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, 2007**

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)

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(b) 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 ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 ¨	Accelerated filer ¨
Non-accelerated filer x (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 aggregate market value of the common units of the Registrant as of June 30, 2007 was approximately $7,454.1 million, which includes non-voting common units with a value of approximately $2,966.1 million.

The number of the Registrant s voting common units representing limited partner interests outstanding as of March 6, 2008 was 152,688,172. The number of the Registrant s non-voting common units representing limited partner interests outstanding as of March 6, 2008 was 101,334,234.

DOCUMENTS INCORPORATED BY REFERENCE

None

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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 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, we, us or our refer (1) prior to the consummation of our reorganization into a holding 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 corporate private equity funds, real estate funds, funds of hedge funds, mezzanine funds, senior debt vehicles, proprietary hedge funds and closed-end mutual funds that are managed by Blackstone. Our carry funds refer to the corporate private equity funds, real estate funds and mezzanine funds that are managed by Blackstone. Our hedge funds refer to the funds of hedge funds and proprietary hedge funds that are managed by Blackstone.

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

1. the fair market 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 market value of co-investments arranged by us that were made by limited partners of our corporate private equity and real estate funds in portfolio companies of such funds and as to which we receive fees or a carried interest allocation);

2. the net asset value of our funds of hedge funds, proprietary hedge funds and closed-end mutual funds; and

3. the amount of capital raised for our senior debt vehicles.

Our calculation of 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. Our definition of assets under management is not based on any definition of assets under management that is set forth in the agreements governing the investment funds that we manage.

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PART I

ITEM 1. BUSINESS

Overview

We are a leading global alternative asset manager and provider of financial advisory services. We are one of the largest independent alternative asset managers in the world, with assets under management of $102.43 billion as of December 31, 2007. Our alternative asset management businesses include the management of corporate private equity funds, real estate funds, funds of hedge funds, mezzanine funds, senior debt vehicles, proprietary hedge funds and closed-end mutual funds. We also provide various financial advisory services, including corporate and mergers and acquisitions advisory, restructuring and reorganization advisory 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.

As of December 31, 2007, we had 65 senior managing directors and employed approximately 395 other investment and advisory professionals at our headquarters in New York and our offices in Atlanta, Boston, Chicago, Dallas, Los Angeles, San Francisco, London, Paris, Tokyo, Mumbai and Hong Kong. We believe that the depth and breadth of the intellectual capital and experience of our professionals are key reasons why we have generated exceptional returns 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) Corporate Private Equity, (2) Real Estate, (3) Marketable Alternative Asset Management, which comprises our management of funds of hedge funds, mezzanine funds, senior debt vehicles, proprietary hedge funds 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.

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.

Corporate Private Equity Segment

Our Corporate Private Equity segment, established in 1987, is a global business with approximately 95 investment professionals and offices in New York, London, Mumbai and Hong Kong. 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. 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 start-up businesses in established industries, turnarounds, minority investments, corporate partnerships, distressed debt, structured securities and industry consolidations, in all cases in strictly friendly transactions supported by the subject company s board of directors. Our Corporate Private Equity segment s approach to investing is guided by several core investment principles: corporate partnerships, sector expertise, out-of-favor / under-appreciated industries, global scope, distressed securities investing, significant number of exclusive opportunities, superior financing expertise and operations oversight. As of December 31, 2007, our Corporate Private Equity segment had $31.80 billion of assets under management, or 31% of our total assets under management. In addition, our Corporate Private Equity group is in the process of raising its seventh global buyout fund. For more information concerning the revenues and fees we derive from our Corporate Private Equity segment, see Incentive Arrangements / Fee Structure in this Item 1.

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Real Estate Segment

We are a world leader in real estate investing, having managed as of December 31, 2007, a total of six domestic and two non-U.S. real estate funds. In addition, our Real Estate segment is currently in the process of raising our third non-U.S. real estate fund that will focus on European real estate investments. We are also organizing a real estate fund that will focus primarily on debt and non-control equity investments in the real estate sector. The Real Estate segment is comprised of approximately 65 investment professionals and offices in New York, London, Hong Kong, Los Angeles, Mumbai, Tokyo and Paris. Our Real Estate segment s approach to investing is guided by several core investment principles, many of which are similar to our Corporate Private Equity segment, including global scope, focus on large transactions, significant number of exclusive opportunities, superior financing expertise and operations oversight. As of December 31, 2007, our Real Estate segment had $26.13 billion of assets under management, or 26% 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.

Marketable Alternative Asset Management Segment

Our Marketable Alternative Asset Management segment comprises our funds of hedge funds, mezzanine funds, senior debt vehicles, proprietary hedge funds and publicly-traded closed-end mutual funds. For more information concerning the revenues and fees we derive from our Marketable Alternative Asset Management segment, see Incentive Arrangements / Fee Structure in this Item 1.

Funds of Hedge Funds. Our funds of hedge funds group was organized in 1990 and manages a variety of funds of hedge funds. Working with our clients over the past seventeen years, our funds of hedge fund group has developed into a leading manager of institutional funds of hedge funds with approximately 80 professionals and offices in New York, London and Hong Kong. Our funds of hedge fund group 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 and a focus on downside protection are key tenets of our approach. Our funds of hedge funds operation had $26.92 billion of assets under management as of December 31, 2007.

Corporate Debt. Founded in 1999, our corporate debt operation, which comprises our mezzanine funds and our senior debt vehicles, has grown to become a major participant in the leveraged finance markets with $10.32 billion of assets under management as of December 31, 2007. Our corporate debt operations investment portfolio is comprised of securities spread across the capital structure including senior debt, subordinated debt, preferred stock and common equity. Our corporate debt operation has 32 investment professionals and offices in New York and London. Our mezzanine funds invest primarily in mezzanine debt of middle-market companies arranged through privately negotiated transactions. It typically makes investments through direct negotiations with issuers and private equity sponsors. The senior debt vehicles we manage consist of a series of structured vehicles investing primarily in senior secured loans. These investment vehicles are of the type commonly referred to as collateralized loan obligation funds.

Proprietary Hedge Funds. In 2004, we commenced a strategy of sponsoring proprietary hedge funds managed by individuals affiliated with Blackstone. In 2005, we established our distressed securities hedge fund, which seeks to provide superior risk-adjusted returns on investments in the debt or equity of financially distressed companies and in other deep-value, catalyst-driven opportunities. The fund focuses primarily on financially distressed companies and seeks to invest in securities that, due to security specific and other complex circumstances, it believes are incorrectly valued. As of December 31, 2007, our distressed securities hedge fund had $1.60 billion of assets under management. In 2006, we established our equity hedge fund, which seeks to provide superior risk-adjusted returns by investing in a global portfolio consisting primarily of long and short equity investments. It uses a fundamentally driven, research-intensive approach that is intended to identify and evaluate investments where there is an opportunity to take advantage of mispriced and misunderstood securities. As of December 31, 2007, our equity hedge fund had $2.67 billion of assets under management. In 2007, we launched an Asian equity hedge fund,

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which seeks to provide superior risk-adjusted returns through a portfolio consisting primarily of long and short investments in equity securities of Asia ex-Japan companies. The Asian equity hedge fund employs a long-biased investment strategy intended to capture the attractive returns available in the Asia ex-Japan markets, but with lower volatility. As of December 31, 2007, our Asian equity hedge fund had $79.2 million of assets under management.

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 $2.75 billion in assets under management as of December 31, 2007, 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 $148.1 million in assets under management as of December 31, 2007, 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.

Other Marketable Alternative Asset Management Activities. During the last six months of 2007, we raised a private investment fund to seek to take advantage of investment opportunities arising from the credit market disruptions that occurred during the latter half of 2007. A total of $1.32 billion was raised for this fund.

Financial Advisory Business 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 approximately 150 professionals and offices in New York, Atlanta, Chicago, Dallas, Boston, Los Angeles, San Francisco and London. For more information concerning the revenues and fees we derive from our Financial Advisory segment operation, see Incentive Arrangements / Fee Structure in this Item 1.

Corporate and Mergers and Acquisitions Advisory Services. Our corporate and mergers and acquisitions advisory operation has been an independent provider of financial and corporate and mergers and acquisitions advisory services for over 22 years. We provide financial and corporate and mergers and acquisitions advisory services with a wide range of transaction execution capability with respect to acquisitions, mergers, joint ventures, minority investments, asset swaps, divestitures, takeover defenses and distressed sales. Some recent clients include Kraft Foods Inc., Microsoft Corporation, Northern Rock plc, The Procter & Gamble Company, Reuters Group PLC, SONY Corporation and Suez S.A. The success of our corporate and mergers and acquisitions advisory services 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 15 senior managing directors in our corporate and mergers and acquisitions services operation have an average of over 20 years of experience in providing financial 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 services 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. Some of the debtor clients that we have advised include Delta Air Lines, Enron, Global Crossing, W.R. Grace, Mirant, and Winn-Dixie Stores in their Chapter 11 reorganizations. In addition to restructuring advice, the group has provided general advice to such major companies as General Motors, Goodyear and Xerox. Senior-level attention and the ability to facilitate prompt resolutions are critical ingredients in our restructuring and reorganization advisory approach. We believe we have one of the most seasoned and experienced restructuring and reorganization advisory operations on Wall Street, working on a significant share of all major restructuring assignments. Our six senior managing directors in this area have an average of over 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 corporate 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

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time and providing insights into new alternative asset products and trends. Park Hill Group has approximately 75 employees and offices in New York, San Francisco, Chicago, Dallas, Los Angeles and London. Park Hill Group and our investment funds each benefit from the others relationships with both limited partners and other fund sponsors.

Financial and Other Information by Segment

The following table illustrates assets under management and the percentage of total assets under management on a segment basis at December 31, 2007, 2006 and 2005:

	Assets Under Management At December 31,			% of Total		
	2007	2006	2005	2007	2006	2005
Corporate Private Equity	$ 31,802,951	$ 29,808,110	$ 27,263,416	31%	43%	53%
Real Estate	26,128,049	12,796,999	6,927,990	26%	18%	14%
Marketable Alternative Asset Management	44,496,372	26,907,093	16,907,421	43%	39%	33%
	$ 102,427,372	$ 69,512,202	$ 51,098,827	100%	100%	100%

Financial and other information by segment for the years ended December 31, 2007, 2006 and 2005 is set forth in Note 15 to our consolidated and combined financial statements.

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.

Corporate Private Equity Funds

Our Corporate Private Equity segment investment professionals are responsible for selecting, evaluating, structuring, diligencing, negotiating, executing, managing and exiting investments, as well as pursuing operational improvements. After an initial selection, evaluation and diligence process, the relevant team of investment professionals will present a proposed transaction to a weekly review committee comprised of the senior managing directors of our Corporate 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 investment committee of our corporate private equity funds. The investment committee of our corporate private equity funds is comprised of certain members of our senior management, including Stephen A. Schwarzman and Hamilton E. James, and the senior managing directors of our Corporate Private Equity segment. Both the review committee and the investment committee processes involve a consensus approach to decision making among committee members. The investment committee is responsible for approving all investment decisions made on behalf of our corporate private equity funds. Members of the investment committee provide guidance to the deal team on strategy, process and other pertinent considerations.

The investment professionals of our corporate 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 responsible for monitoring and assisting in enhancing portfolio companies operations, all professionals in the Corporate Private Equity segment meet several times each year to review the performance of the funds portfolio companies.

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Real Estate, Mezzanine and Senior Debt Funds

Each of our real estate, mezzanine and senior debt operations has an investment committee similar to that described under Corporate Private Equity Funds. The real estate investment committee, which includes Stephen A. Schwarzman, Hamilton E. James, Kenneth C. Whitney 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 of each investment as well as each disposition. The investment committees for the mezzanine and senior debt operations, which comprise Stephen A. Schwarzman, Hamilton E. James, Garrett M. Moran, Kenneth C. Whitney and senior members of the respective operations, 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 these operations.

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, a back office review, 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 J. Tomilson Hill, will make the ultimate decision to approve an investment decision. Our funds of hedge funds team monitors and reviews existing hedge fund investments.

Proprietary Hedge Funds

The senior managing director who leads each of our proprietary hedge funds is responsible for all investment and risk management activities for that fund. An oversight committee, including Stephen A. Schwarzman, Hamilton E. James and Garrett M. Moran, meets weekly to discuss investment and risk management activities and market conditions.

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. Hedge funds and other investment vehicles, such as many of our funds of hedge funds and our proprietary hedge 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.

Our investment funds generally have an investment adviser, which is registered under the Advisers Act. Substantially all of the responsibility for the day-to-day operations of the investment funds 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 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 excepts 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,

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are qualified purchasers. 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 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 policy 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 our proprietary hedge funds and certain of our funds of hedge 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 corporate private equity funds).

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 at least 0.75% of invested capital after the investment period. The investment adviser of each of our proprietary hedge funds receives an annual management fee that ranges from 1.5% to 2.0% of the hedge fund s net asset value and for general partners or similar entities a performance-based allocation fee (or similar incentive fee) equal to 20% of the applicable fund s net capital appreciation per annum, subject to certain net loss carry-forward provisions (known as a highwater mark). The investment adviser of each of our funds of hedge funds is generally entitled to a management fee with respect to each fund it manages ranging from 0.75% to 1.5% of assets under management per annum plus, in some cases, an incentive fee 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 senior debt vehicles receives annual management fees typically equal to 0.50% to 1.25% of each fund s total assets, generally with additional management fees which are incentive based (that is, subject to meeting certain return criteria). 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 received by our funds of hedge funds and 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. Our ability to generate performance fees and allocations is an important element of our business and these items have historically accounted for a very significant portion of our income.

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. 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, as a result of diminished performance of later

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investments in a carry fund s life, the carry fund does not achieve investment returns that (in most cases) exceed the preferred return threshold or (in all cases) the general partner receives in excess of 20% of the fund s net profits over the life of the fund, we will be obligated to repay the amount by which the carried interest that was previously distributed to us exceeds amounts to which we are ultimately entitled. This obligation, which is known as a clawback obligation, operates with respect to a given carry fund s own net investment performance only. Performances of other funds are not netted for this purpose. 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.

Our investment advisors receive customary transaction fees upon consummation of many of the funds acquisition transactions, receive monitoring fees from many of their portfolio companies following acquisition, and may from time to time receive disposition and other fees in connection with their activities. The transaction fees which they receive are generally calculated as a percentage (that can range up to 1%) of the total enterprise value of the acquired entity. 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 our own 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. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Financing Activities Our Future 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 carry 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. The general partners 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.

Investors in many of our carry 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 opportunity to make co-investments, which we refer to as side-by-side investments, with all 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 a carry fund. In certain cases, such co-investments may involve additional manager fees or carried interest. Side-by-side investments are similar to co-investments but are made 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 the senior managing directors, employees and certain affiliates of Blackstone, as well as Blackstone itself, 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 subject to 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 other private equity funds, specialized investment funds, hedge fund sponsors, 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,

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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 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, the allocation of increasing amounts of capital to alternative investment strategies by institutional and individual investors could well 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 financial advisory and investment banking 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 revenue 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 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 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.

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, 2007, we employed approximately 1,020 people, including our 65 senior managing directors and approximately 395 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 are registered as investment advisers with the SEC. 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 advisor and advisory clients and general anti-fraud prohibitions.

Blackstone Advisory Services 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 46 states, the District of Columbia and the Commonwealth of Puerto Rico. 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

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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.

The Blackstone Group International Ltd. is an authorized investment manager in the United Kingdom. The U.K. Financial Services and Markets Act 2000, or FSMA, and rules promulgated thereunder govern all aspects of the U.K. investment business, 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 aggressively 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 and Hong Kong), their respective agencies and/or various self-regulatory organizations or exchanges relating to, among other things, 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. 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. 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.

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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.

Recent Developments

Acquisition of GSO Capital Partners

On March 3, 2008, we acquired GSO Capital Partners LP and certain of its affiliates (GSO). The purchase price, subject to certain closing adjustments, paid by Blackstone consists of cash and Blackstone Holdings Partnership Units currently valued at $635 million in the aggregate, plus up to an additional targeted $310 million to be paid over the next five years contingent upon the realization of specified earnings targets over that period. Additionally, profit sharing and other compensatory payments subject to performance and vesting may be paid to the GSO personnel. GSO is a credit focused alternative asset manager with $10 billion of assets under management as of December 31, 2007. It manages a multi-strategy credit opportunity fund, a mezzanine fund, a senior debt fund and various senior debt vehicles. As of December 31, 2007, GSO had 136 employees worldwide with offices in New York, Houston, Los Angeles and London. GSO s businesses are being combined with our own credit businesses, including our mezzanine funds, distressed securities hedge fund and senior debt vehicles. The combined businesses will be managed by the three founding members of GSO, Bennett Goodman, Tripp Smith and Doug Ostrover. We expect this integrated credit platform to afford us significant competitive advantages and synergies such as increased deal flow and market knowledge that we expect to translate into superior returns for the investors in our funds.

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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 throughout the world that are outside our control, such as 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. In the event of a market downturn, each of our businesses could be affected in different ways. For instance, concerns over weakness in the U.S. housing market and sub-prime mortgage market, coupled with a large volume of debt financing backlog related to leveraged equity transactions, served to create very challenging financing conditions starting in the last week of June 2007, which continue to date. The lack of liquidity in the financing markets has materially hindered the initiation of new, large-sized corporate private equity transactions, significantly affecting the operating performance of our corporate private equity and real estate segments. Our operating performance may also be adversely affected by our fixed costs 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.

Our investment funds may be affected by reduced opportunities to exit and realize value from their investments and by the fact that we may not be able to find suitable investments for the investment funds to effectively deploy capital, which could adversely affect our ability to raise new funds. During periods of difficult market conditions or slowdowns in a particular sector, companies in which we invest may experience decreased revenues, financial losses, difficulty in obtaining access to financing and increased funding costs. For instance, during the latter half of 2007, weakness in the sub-prime residential lending area spread to general commercial real estate lending. Although there was no evidence that these credit problems have significantly affected the underlying operating fundamentals of the investment portfolio of our real estate funds, valuation multiples have declined. During such periods of weakness, companies owned by our investment funds may also have difficulty expanding their businesses and operations or be unable to meet their debt service obligations or other expenses as they become due, including expenses payable to us. In addition, during periods of adverse economic conditions access to the financing markets generally becomes more challenging. Challenging financing conditions make it more difficult or impossible for us to obtain funding for additional investments and could harm our assets under management and operating results. A general market downturn, or a specific market dislocation, may result in lower investment returns for our investment funds, which would adversely affect our revenues and cash flow. Furthermore, such 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 mezzanine funds, senior debt vehicles and distressed securities hedge fund.

In addition, our financial advisory business can be materially affected by conditions in the global economy and various financial markets. For example, revenue generated by our financial advisory business is 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.

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, primarily 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

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significantly from quarter to quarter. We may also experience fluctuations in our results 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.

Since the latter half of 2007, the credit dislocation and related reluctance of creditors such as commercial banks to provide financing has made it difficult for potential purchasers to secure financing to purchase companies in our investments funds portfolio, thereby decreasing potential realization events and the potential for carried interest. 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.

With respect to our proprietary hedge funds and many of our funds of hedge funds, our incentive fees are paid annually or semi-annually if the net asset value of a fund has increased. Our hedge funds also have high water marks whereby we do not earn incentive fees during a particular period even though the fund had positive returns in such period as a result of losses in prior periods. If a hedge fund experiences losses, we will not be able to earn incentive fees from the fund until it surpasses the previous high water mark. The incentive fees we earn are therefore dependent on the net asset value of the hedge fund, which could lead to significant volatility in our quarterly 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.

We depend on our founders 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 founders, Messrs. Schwarzman and Peterson, 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. Mr. Peterson has informed us that he intends to retire from our firm and relinquish his role as a founder by no later than December 31, 2008. We have experienced departures of several key senior managing directors in the past and 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.

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. For example, if any of our senior managing directors were to join or form a competing firm, that could have a material adverse effect on our business, results and financial condition.

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. The competition for talent remains fierce. As part of the reorganization we effected prior to our initial public offering in June 2007, our current senior managing directors and other senior personnel received partnership units in Blackstone Holdings. Distributions in respect of these equity interests may not equal the cash distributions previously received by our senior managing directors prior to our initial public offering. Until December 31, 2009, the income (and accordingly distributions) of Blackstone Holdings will be allocated on a priority basis to The Blackstone Group L.P. s wholly-owned subsidiaries, which may reduce the amount of distributions received by our senior managing directors. Additionally, ownership of a portion of the Blackstone Holdings Partnership Units received by our senior managing directors is not dependent upon their continued employment with us as those equity interests were fully vested upon issuance. 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 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 to treat carried interest as ordinary income rather than as capital gain for U.S. federal income 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 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. 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.

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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.

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 (including our acquisition of GSO Capital Partners) 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 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.

On June 14, 2007, the Chairman and the Ranking Republican Member of the U.S. Senate Committee on Finance introduced legislation (the Baucus-Grassley Bill) that would tax as corporations publicly traded partnerships that directly or indirectly derive income from investment adviser or asset management services. In addition, they concurrently issued a press release stating that they do not believe that proposed public offerings of private equity and hedge fund management firms are consistent with the intent of the existing rules regarding publicly traded partnerships because the majority of their income is derived from the active provision of services to investment funds and limited partner investors in such funds.

If enacted, the Baucus-Grassley Bill would be effective as of June 14, 2007 but under a transition rule contained in the proposed legislation, it would apply to us beginning with our taxable year beginning January 1, 2013. On June 20, 2007, legislation was introduced in the House of Representatives that is substantially similar to the Baucus-Grassley Bill except that if enacted it would apply to us commencing with our taxable year beginning January 1, 2008. If either proposed legislation survives the legislative and executive process in its proposed form and were to be enacted into law, we would incur a material increase in our tax liability when such legislation begins to apply to us. 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 value of our common units.

On November 1, 2007 the House Ways & Means Committee of the U.S. House of Representatives approved 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 starting in 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. If any such proposed legislation were to be enacted and apply to us, it would materially increase our tax liability, which would likely result in a reduction of the value of our common units.

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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, which is discussed below. 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 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 expect to incur significant additional annual expenses related to these steps and, 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.

Failure to achieve and maintain effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes Oxley Act (Section 404) could have a material adverse effect on our business and common unit price.

In order to be in compliance with the requirements of Section 404, we are in the process of documenting our internal controls over financial reporting, identifying key financial reporting risks, assessing their potential impact and linking those risks to specific areas and activities within our organization. Commencing with the filing of our 10-K for the year ended December 31, 2008, we will be required under Section 404 to provide an annual management assessment of the effectiveness of our internal controls over financial reporting and the inclusion of an opinion from our independent registered public accounting firm addressing these assessments. We expect to complete our preparation for compliance with Section 404 in time to achieve compliance by the required date, but if we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, our independent registered public accounting firm may not be able to certify as to the adequacy of our internal controls over financial reporting. The lack of any certification from our independent registered public accounting firm or any material weakness in our internal controls or a combination of significant deficiencies in our internal controls could materially adversely affect us and lead to a decline in our common unit price.

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.

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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. See Business Regulatory and Compliance Matters for a further discussion of the regulatory environment in which we conduct our businesses.

The regulatory environment in which we operate is subject to further regulation. 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.

Legislation has recently 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 corporate 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.

In addition, regulatory developments designed to increase oversight of hedge funds may adversely affect our business. In recent years, there has been debate in U.S. and foreign governments about new rules and regulations for hedge funds. For example, the SEC had recently adopted a rule, which was later struck down by a federal court, that would have required registration under the Investment Advisers Act of 1940, or Advisers Act, of hedge fund managers if they had 15 or more clients. While all of our entities that serve as advisers to our investment funds are already registered with the SEC under the Advisers Act as investment advisers, other new regulations could constrain or otherwise impose burdens on our business.

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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 a significant amount of borrowings to finance our business operations as a public company. That leverage exposes us to the typical risks associated with the use of substantial 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 . 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.

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.

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 corporate private equity, real estate opportunity and mezzanine funds. We determine the value of the investments of each of our corporate private equity, real estate opportunity and mezzanine funds on a quarterly basis based on the fair value of such investments. The fair value of investments of a corporate private equity, real estate opportunity or mezzanine fund is determined using several methodologies described in the investment funds valuation policies.

Investments for which market prices are not observable are generally either private investments in the equity of operating companies or real estate properties or investments in funds managed by others. Fair values of private investments are determined by reference to public market or private transactions or valuations for comparable companies or assets in the relevant asset class when such amounts are available. Generally these valuations are derived by multiplying key performance metrics of the investee company or asset (e.g., EBITDA) by the relevant valuation multiple (e.g., price/equity ratio) observed for comparable companies or transactions, adjusted by management for differences between the investment and the comparable referenced. Private investments may also be valued at cost for a period of time after an acquisition as the best indicator of fair value. If the fair value of private investments held cannot be valued by reference to observable valuation measures for comparable companies, then the primary analytical method used to estimate the fair value of such private investments is the discounted cash flow method. A sensitivity analysis is applied to the estimated future cash flows using various factors depending on the investment, including assumed growth rates (in cash flows), capitalization rates (for determining terminal values) and appropriate discount rates to determine a range of reasonable values. The valuation based on the inputs determined to be the most probable is used as the fair value of the investment.

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

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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;

- in the past few years, the rates of returns of our corporate private equity and real estate opportunity funds have been 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;

- our investment funds returns have benefited from investment opportunities and general market conditions that may not repeat themselves, including favorable borrowing conditions in the debt markets, and there can be no assurance that our current or future investment funds will 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 continued ability to access sufficient sources of indebtedness at attractive rates. For example, in many private equity investments, indebtedness may constitute 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. An increase in either the general levels of interest rates or in the risk spread demanded by sources of indebtedness would make it more expensive to finance those 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. 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. For instance, there has been little available financing at attractive rates during the latter half of 2007 and 2008 to date, which has significantly reduced the ability of our corporate private equity and real estate opportunity funds to consummate investments.

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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.

Our hedge funds, many of the hedge funds in which our funds of hedge funds invest and our mezzanine funds and senior debt vehicles 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. The fund may borrow money from time to time to purchase or carry securities. 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, brand recognition and business reputation. Our asset management business competes with a number of private equity funds, specialized investment funds, hedge funds, 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;
- 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;

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- 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 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;

- 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;

- there are relatively few barriers to entry impeding new investment funds, including a relatively low cost of entering these businesses, and the successful efforts of new entrants into our various lines of business, including major commercial and investment banks and other financial institutions, have resulted in increased competition;

- some investors may prefer to invest with an investment manager that is not publicly traded; 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. In addition, if interest rates were to rise or there were to be a prolonged bull market in equities, the attractiveness of our investment funds relative to investments in other investment products could decrease. 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 that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful.

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 corporate private equity 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 corporate private equity and real estate funds have invested and plan to continue to invest in very large transactions. The substantial 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. Recently, labor unions have been more active in opposing certain larger investments by our corporate private equity funds and private equity firms generally.

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 have participated in a significant number of consortium transactions in recent years due to the increased size of many of the transactions in which we have been 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.

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 corporate private equity and real estate opportunity funds may acquire minority equity interests (particularly in consortium transactions, as described in We have increasingly 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;

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- 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;

- 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.

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.

Third party investors in our investment funds have the right to dissolve the investment funds and investors in our hedge funds may redeem their investments in our hedge funds. These events would lead to a decrease in our revenues, which could be substantial.

The governing agreements of all of our investment funds (with the exception of our proprietary hedge funds and 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. 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 corporate private equity 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.

Investors in our hedge funds may also 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,

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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.

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 to 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.

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.

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 opportunity 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 opportunity 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. In addition, if our real estate opportunity 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.

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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 95% of the investments of our real estate opportunity funds 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 opportunity funds may be exacerbated by this concentration of investments, which would result in lower investment returns for our real estate opportunity funds.

Our hedge fund investments are subject to numerous additional risks.

Our hedge fund investments, including investments by our funds of hedge funds in other 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 do not have as significant track records as an independent manager.

Certain of our funds invests in distressed issuers, issuers involved in bankruptcy or reorganization proceedings or issuers with weak financial conditions, poor operating results, substantial financial needs, negative net worth and/or special competitive problems.

Generally, there are few limitations on the execution of our 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.

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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.

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 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. As a result, our financial advisory revenue could decline materially due to such changes in the volume, nature and scope of our engagements.

The fees earned by Park Hill Group, our fund placement business, are generally payable upon the successful subscription by an investor in a client s fund and/or the closing of that fund. 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.

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

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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 revenue 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 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, will manage 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 founders, Messrs. Schwarzman and Peterson (or, following their withdrawal, death or disability, the remaining founder or any successor founder designated by them), will have the power to appoint and remove the directors of our general partner. Actions by our founders in this regard must be taken with such founders unanimous approval. Following the withdrawal, death or disability of our founders (and any successor founder), the power to appoint and remove the directors of our general partner 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. Blackstone Partners L.L.C., an entity wholly owned by our senior managing directors, has 84.4% 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.

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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. 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 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;

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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 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 Certain Relationships and Related Person Transactions and Conflicts of Interest and Fiduciary Responsibilities .

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.

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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 Conflicts of Interest and Fiduciary Responsibilities .

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.

We intend to pay cash distributions on a quarterly basis. 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. 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 that The Blackstone Group L.P. s wholly-owned subsidiaries will be entitled to priority allocations of income through December 31, 2009.

The declaration and payment of any future distributions are at the sole discretion of our general partner, which may change our distribution policy at any time. In exercising its discretion, our general partner takes into account 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 payment obligations pursuant to the tax receivable agreement and restrictions pursuant to our revolving credit facility, legal, tax and regulatory restrictions, restrictions or 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. 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 require that the ratio of recourse debt of the Blackstone Holdings partnerships on a combined basis to partners capital of the Blackstone Holdings partnerships on a combined basis be no greater than one to one, which may prohibit us from making certain distributions. Subject to a notice period and a cure period, distributions in violation of the terms of our revolving credit facility would result in a default under our revolving credit facility. In addition, Blackstone Holdings cash flow from operations may be insufficient to enable it to make required minimum tax distributions to its partners, in which case Blackstone Holdings may have to borrow funds or sell assets, and thus our liquidity and financial condition could be materially adversely affected. Furthermore, by paying cash distributions rather than investing that cash in our businesses, we risk slowing the pace of our growth, or not having a sufficient amount of cash to fund our operations, new investments or unanticipated capital expenditures, should the need arise.

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 preliminarily 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 $722.3 million of finite lived intangible assets (in addition to approximately $1.60 billion of goodwill). We anticipate amortizing these finite lived intangibles over their estimated useful lives, which are expected to range between three and ten 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 will be 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 five 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 acquire Blackstone Holdings Partnership Units. This payment obligation is an obligation of the corporate taxpayers and not of Blackstone Holdings. 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.

A person 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

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3(a)(1)(C) of the 1940 Act as described in the second bullet point above. 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 price that we deem appropriate. We have a total of 152,688,172 voting common units outstanding as of March 6, 2008. 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 826,765,697 Blackstone Holdings Partnership Units outstanding as of March 6, 2008. 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 five 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 Item 15. Certain Relationships and Related Transactions and Director Independence 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.

Under our 2007 Equity Incentive Plan, we had granted 40,538,443 outstanding deferred restricted common units and 1,741,423 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, respectively, as of March 6, 2008.

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 161,352,238 additional common units and Blackstone Holdings Partnership Units were available for grant under our 2007 Equity Incentive Plan as of March 6, 2008. 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, 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 Members of the United States Congress have introduced legislation that would, if enacted, preclude us from qualifying for treatment 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 to 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 , various legislative proposals have been introduced in Congress 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 unit holders 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 by allocated income, gain, loss and deduction 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 Members of the United States Congress have introduced legislation that would, if enacted, preclude us from qualifying for treatment 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 to 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 dividends 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. 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 dividends from us. See Material U.S. Federal Tax Considerations .

Our common unitholders may not receive cash dividends 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 V 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 V 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.

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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., Blackstone Holdings IV L.P. or Blackstone Holdings V 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., Blackstone Holdings IV L.P. or Blackstone Holdings V L.P. upon our acquisition of interests in Blackstone Holdings III L.P., Blackstone Holdings IV L.P. or Blackstone Holdings V L.P. in connection with our initial public offering, or to our assets or to the assets of Blackstone Holdings III L.P., Blackstone Holdings IV L.P. or Blackstone Holdings V 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., Blackstone Holdings IV L.P. or Blackstone Holdings V 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., Blackstone Holdings IV L.P. or Blackstone Holdings V 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.

Common unitholders may be subject to U.S. federal income tax on their share of our taxable income, regardless of whether you receive any cash dividends 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. As a result, common unitholders may be subject to U.S. federal, state, local and possibly, in some cases, foreign income taxation on a common unitholder s 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 unit holder receives cash dividends from us. See Material U.S. Federal Tax Considerations .

Common unitholders may not receive cash dividends 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.

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.

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.

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.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our principal executive offices are located in leased office space at 345 Park Avenue, New York, New York. We also lease the space for our offices in Atlanta, Boston, Chicago, Dallas, Los Angeles, San Francisco, London, Paris, Mumbai, Tokyo and Hong Kong. GSO Capital Partners LP leases other office space in New York, New York and additional office space in Los Angeles, Houston and London. 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.

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 complaint also includes three purported sub-classes of plaintiffs seeking damages and/or restitution and comprised of shareholders of three companies, including one purchased by one of our private equity funds. In February 2008, a virtually identical lawsuit was filed in the same court by a purported class of shareholders of one company that was purchased by an investor group that included one of Blackstone s private equity funds. We intend to vigorously defend against the allegations in these cases.

Other than the foregoing we are not currently subject to any pending judicial, administrative or arbitration proceedings that we expect to have a material impact on our results of operations or financial condition. See Item 1A. Risk Factors Risks Related to Our Business 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 and 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 .

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

Not applicable.

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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	
2007	**High**	**Low**
First Quarter	N/A	N/A
Second Quarter	$ 38.00	$ 28.75
Third Quarter	$ 31.99	$ 21.30
Fourth Quarter	$ 29.75	$ 20.40

The number of holders of record of our common units as of March 6, 2008 was 29. This does not include the number of unitholders that hold shares in street-name through banks or broker-dealers.

Cash Distribution Policy

On December 14, 2007, we paid a distribution of $0.30 per common unit to record holders of common units at the close of business on November 30, 2007. We have declared a distribution in the amount of $0.30 per common unit payable to record holders of our common units at the close of business on March 31, 2008. The payment date for that distribution is April 11, 2008.

Our current intention is to distribute to our common unitholders on a quarterly basis substantially all of The Blackstone Group L.P. s 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 one or more of the ensuing four quarters. 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. Because we will not know what our available adjusted cash flow from operations will be for any year until the end of such year, we expect that our first three quarterly distributions in respect of any given year will generally be smaller than the final quarterly distribution in respect of such year.

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, subject to the priority distribution arrangements described below.

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The partnership agreements of the Blackstone Holdings partnerships provide that until December 31, 2009, the income (and accordingly distributions) of Blackstone Holdings are to be allocated each year:

first, to The Blackstone Group L.P. s wholly-owned subsidiaries until sufficient income has been so allocated to permit The Blackstone Group L.P. to make aggregate distributions to our common unitholders of $1.20 per common unit on an annualized basis for such year;

second, to the other partners of the Blackstone Holdings partnerships until an equivalent amount of income on a partnership interest basis has been allocated to such other partners for such year; and

thereafter, pro rata to all partners of the Blackstone Holdings partnerships in accordance with their respective partnership interests.

In addition, the partnership agreements of the Blackstone Holdings partnerships will 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.

Accordingly, until December 31, 2009, the holders of Blackstone Holdings Partnership Units (other than The Blackstone Group L.P. s wholly-owned subsidiaries) will not receive distributions other than tax distributions in respect of their Blackstone Holdings Partnership Units for a year unless and until our common unitholders receive aggregate distributions of $1.20 per common unit on an annualized basis for such year. We do not intend to maintain this priority allocation after December 31, 2009. After December 31, 2009, all the income (and accordingly distributions) of Blackstone Holdings will be allocated pro rata to all partners of the Blackstone Holdings partnerships in accordance with their respective partnership interests.

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 require that the ratio of recourse debt of the Blackstone Holdings partnerships on a combined basis to partners capital of the Blackstone Holdings partnerships on a combined basis be no greater than one to one, which may prohibit us from making certain distributions. Subject to a notice period and a cure period, distributions in violation of the terms of our revolving credit facility would result in a default under our revolving credit facility.

Common Unit Repurchases in the Fourth Quarter of 2007

No purchases of our common units were made by us or on our behalf in the fourth quarter of the year ended December 31, 2007.

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ITEM 6. SELECTED FINANCIAL DATA

The consolidated and combined statements of financial condition and income data as of and for the years ended December 31, 2007, 2006, 2005, 2004 and 2003 have been derived from our consolidated and combined financial statements. The audited Consolidated and Combined Statements of Financial Condition as of December 31, 2007 and 2006 and Consolidated and Combined Statements of Income for the years ended December 31, 2007, 2006 and 2005 are included elsewhere in this Form 10-K. The audited Consolidated and Combined Statements of Financial Condition as of December 31, 2004 and Consolidated and Combined Statements of Income for the year ended December 31, 2004 and the unaudited Combined Statements of Financial Condition as of December 31, 2003 and Combined Statements of Income for the year ended December 31, 2003 are not included in this Form 10-K. The unaudited combined financial statements of Blackstone have been prepared on substantially the same basis as the audited combined financial statements and include all adjustments that we consider necessary for a fair presentation of our combined financial position and results of operations for all periods presented. 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,				
	2007	2006	2005	2004	2003
	(Dollars in Thousands)				
Revenues					
Management and Advisory Fees	$ 1,566,047	$ 1,077,139	$ 478,908	$ 496,195	$ 421,782
Performance Fees and Allocations	1,125,053	1,267,764	880,906	973,496	535,219
Investment Income and Other	359,048	272,526	208,418	255,455	137,422
Total Revenues	3,050,148	2,617,429	1,568,232	1,725,146	1,094,423
Expenses					
Compensation and Benefits (1)	2,256,647	250,067	182,604	139,513	114,218
Interest	32,080	36,932	23,830	16,239	13,834
General, Administrative and Other	324,200	122,395	87,413	78,126	67,796
Fund Expenses	151,917	143,695	67,972	43,123	42,076
Total Expenses	2,764,844	553,089	361,819	277,001	237,924
Other Income					
Net Gains from Fund Investment Activities	5,423,132	6,090,145	4,071,046	4,992,837	2,869,541
Income Before Non-Controlling Interests in Income of Consolidated Entities and Provision for Taxes	5,708,436	8,154,485	5,277,459	6,440,982	3,726,040
Non-Controlling Interests in Income of Consolidated Entities	4,059,221	5,856,345	3,934,536	4,901,547	2,773,014
Income Before Provision for Taxes	1,649,215	2,298,140	1,342,923	1,539,435	953,026
Provision for Taxes	25,978	31,934	12,260	16,120	11,949
Net Income	$ 1,623,237	$ 2,266,206	$ 1,330,663	$ 1,523,315	$ 941,077

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	Year Ended December 31, 2007 June 19, 2007 through December 31, 2007	2006	2005	2004	2003
Net Loss Per Common Unit (2)					
Basic	$ (1.29)	N/A	N/A	N/A	N/A
Diluted	$ (1.29)	N/A	N/A	N/A	N/A
Dividend Declared	$ 0.30	N/A	N/A	N/A	N/A

(1) Prior to our IPO, our compensation and benefits expense reflected compensation (primarily salary and bonus) paid solely to our non-senior managing director employees. Subsequent to our IPO, compensation and benefits expense reflects employee compensation and benefits expense paid to our employees, including our senior managing directors, equity-based compensation associated with unvested deferred restricted common units, phantom deferred cash settled equity-based awards and Blackstone Holdings Partnership Units received by senior managing directors, employees and selected other individuals engaged in our businesses and profit sharing-based compensation payments for Blackstone personnel and profit sharing interests in carried interest.

(2) Prior to our IPO, 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.

	As of December 31, 2007	2006	2005	2004	2003
	(Dollars in Thousands)				
Statement of Financial Condition Data					
Total Assets	$ 13,174,200	$ 33,891,044	$ 21,121,124	$ 21,253,939	$ 14,937,386
Total Liabilities	$ 2,868,199	$ 2,373,271	$ 2,082,771	$ 1,930,001	$ 1,458,512
Non-Controlling Interests in Consolidated Entities	$ 6,079,156	$ 28,794,894	$ 17,213,408	$ 17,387,507	$ 12,398,271
Partners Capital	$ 4,226,845	$ 2,722,879	$ 1,824,945	$ 1,936,431	$ 1,080,603

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ITEM 6A. UNAUDITED CONSOLIDATED PRO FORMA STATEMENT OF INCOME

The following unaudited consolidated pro forma Statement of Income for the year ended December 31, 2007 is based upon our 2007 consolidated and combined Statement of Income included elsewhere in this report. This pro forma Statement of Income presents our consolidated results of operations giving pro forma effect to the Initial Public Offering and the Reorganization as if such transactions had been completed as of January 1, 2007. The pro forma adjustments are based on available information and upon assumptions that our management believes are reasonable in order to reflect, on a pro forma basis, the impact of these transactions on the 2007 Statement of Income of Blackstone. The adjustments are described in the notes to the unaudited consolidated pro forma Statement of Income.

The unaudited consolidated pro forma Statement of Income deconsolidates all Blackstone investment funds (other than our proprietary hedge funds and six of our funds of hedge funds, as these funds remain consolidated within our 2007 financial statements, we are the general partner of these funds and the presumption of control has not been overcome) and eliminates entities that were not contributed to Blackstone Holdings as part of the Reorganization. Additionally, we have reflected the ongoing impacts of transactions as if they had been completed January 1, 2007, including performance based compensation expense, a provision for taxes and the effects of non-controlling interests. Finally, we have recalculated the pro forma loss per unit based upon the pro forma annual loss and the weighted-average units outstanding for the period we have been a public entity.

The unaudited consolidated pro forma Statement of Income should be read together with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and with our historical financial statements and related notes included elsewhere in this report.

The unaudited consolidated pro forma Statement of Income is included for informational purposes only and does not purport to reflect the results of operations of Blackstone that would have occurred had the transactions referenced above occurred on the date indicated or had we operated as a public entity during the period presented. The unaudited consolidated pro forma Statement of Income should not be relied upon as being indicative of our results of operations had the transactions contemplated in connection with the Reorganization and the initial public offering been completed on the date assumed. The unaudited consolidated pro forma Statement of Income also does not project our results of operations or financial condition for any future period or date.

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Unaudited Consolidated Pro Forma Statement of Income

	For the Year Ended December 31, 2007							
	Blackstone Group Consolidated and Combined Historical	Deconsolidation of Blackstone Funds and Elimination of Non-Contributed Entities (1)	Blackstone Group Deconsolidated	Reorganization and Offering Adjustments (2)	Subtotal	Consolidation of Blackstone Funds (3)	Non-Cash and Other Adjustments (4)	The Blackstone Group L.P. Consolidated Pro Forma
	(Dollars in Thousands)							
Revenues								
Management and Advisory Fees	$ 1,566,047	$ 54,814	$ 1,620,861	$	$ 1,620,861	$ (54,814)	$	$ 1,566,047
Performance Fees and Allocations	1,125,053	(31,064)	1,093,989		1,093,989	(34,210)		1,059,779
Investment Income and Other	359,048	47,522	406,570		406,570			406,570
Total Revenues	3,050,148	71,272	3,121,420		3,121,420	(89,024)		3,032,396
Expenses								
Compensation and Benefits	2,256,647		2,256,647	255,427 (c) (1,732,134) (d)	779,940		2,968,106 (h)	3,748,046
Interest	32,080	443	32,523	(26,302) (e)	6,221			6,221
General, Administrative and Other	324,200	7,951	332,151	(117,606) (f)	214,545		219,014 (i)	433,559
Fund Expenses	151,917	(151,917)				61,411		61,411
Total Expenses	2,764,844	(143,523)	2,621,321	(1,620,615)	1,000,706	61,411	3,187,120	4,249,237
Other Income								
Net Gains from Fund Investment Activities	5,423,132	(5,423,132)				797,624		797,624
Income (Loss) Before Non-Controlling Interests in Income (Loss) of Consolidated Entities and Provision for Taxes	5,708,436	(5,208,337)	500,099	1,620,615	2,120,714	647,189	(3,187,120)	(419,217)
Non-Controlling Interests in Income of Consolidated Entities	4,059,221	(5,139,232)	(1,080,011)	1,080,011 (g)		647,189	(817,934) (j)	(170,745)
Income (Loss) Before Provision for Taxes	1,649,215	(69,105)	1,580,110	540,604	$ 2,120,714 *		(2,369,186)	(248,472)
Provision for Taxes	25,978		25,978				21,334 (k)	47,312

Net Income (Loss)	$ 1,623,237	$ (69,105)	$ 1,554,132	$ 540,604	$	$ (2,390,520)	$ (295,784)

* Represents Pro Forma Adjusted Economic Net Income, Total Reportable Segments. For additional information please see our Form 8-K and related press release furnished with the SEC on March 10, 2008.

	June 19, 2007 through December 31, 2007	
Net Loss	$ (335,514)	
Net Income Per Common Unit		
Basic	$ (1.29)	$ (1.14)
Diluted	$ (1.29)	$ (1.14)
Weighted-Average Per Common Unit		
Basic	259,979,606	259,979,606
Diluted	259,979,606	259,979,606

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Notes to Unaudited Consolidated Pro Forma Statement of Income

1. Adjustments for Deconsolidation of Blackstone Funds and Elimination of Non-Contributed Entities

These adjustments reflect the effects of deconsolidation of all the Blackstone funds and the elimination of the financial results of all entities that were not contributed to Blackstone Holdings as part of the Reorganization:

	Deconsolidation of Blackstone Funds (a)	Elimination of Non-Contributed Entities (b)	Total
		(Dollars in Thousands)	
Revenues			
Management and Advisory Fees	$ 54,814	$	$ 54,814
Performance Fees and Allocations	34,209	(65,273)	(31,064)
Investment Income and Other	47,522		47,522
Total Revenues	136,545	(65,273)	71,272
Expenses			
Compensation and Benefits			
Interest	443		443
General, Administrative and Other	7,951		7,951
Fund Expenses	(151,917)		(151,917)
Total Expenses	(143,523)		(143,523)
Other Income			
Net Gains from Fund Investment Activities	(5,419,300)	(3,832)	(5,423,132)
Income Before Non-Controlling Interests in Income of Consolidated Entities and Provision (Benefit) for Taxes	(5,139,232)	(69,105)	(5,208,337)
Non-Controlling Interests in Income of Consolidated Entities	(5,139,232)		(5,139,232)
Income Before Provision (Benefit) for Taxes		(69,105)	(69,105)
Provision (Benefit) for Taxes			
Net Income	$	$ (69,105)	$ (69,105)

(a) The portion of the interests of the limited partner investors in our deconsolidated investment funds, which are reflected in the financial statement caption Non-Controlling Interests in Income of Consolidated Entities in our 2007 consolidated and combined Statement of Income, were eliminated in connection with the deconsolidation of our investment funds. Accordingly, the deconsolidation of these investment funds did not result in a change in net income in our consolidated and combined statement of income, as we continue to reflect our share of these entities results in our net income. The adjustment reflects the elimination of the actual aggregate historical amounts for all Blackstone funds. We continue to consolidate our proprietary hedge funds and six of our funds of hedge funds (see note 3 below).

(b) This adjustment reflects the elimination of the financial results of the general partners of certain legacy Blackstone funds and of a number of investment vehicles through which our predecessor owners and other parties have made commitments to, or investments in or alongside of, our investment funds because such entities were not contributed to Blackstone Holdings as part of the Reorganization. Accordingly, the adjustment represents the elimination of the actual historical net gain from investment activities of entities not contributed to Blackstone Holdings included in the consolidated and combined Statement of Income.

2. Reorganization and Offering Adjustments

(c) This adjustment reflects performance compensation of $255.5 million for the year ended December 31, 2007. Prior to the Reorganization, Blackstone was comprised of entities which were partnerships or limited liability companies. Accordingly, payments to our senior managing directors generally had been accounted for as distributions of partners capital rather than as compensation expense. Following our initial public offering, we account for performance payments to our senior managing directors as compensation. This amount is based upon historical results and assumed prospective compensation arrangements to our senior managing directors prior to the date of the Reorganization.

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(d) As part of the Reorganization, our predecessor owners received 827,516,625 Blackstone Holdings Partnership units, of which 387,805,088 were vested and 439,711,537 were unvested. The unvested Blackstone Holdings Partnership units are considered compensation expense as these units vest over the requisite service period on a straight-line basis. The vesting periods range up to eight years. At the time of the initial public offering we also granted 39,067,034 deferred restricted common units of The Blackstone Group L.P. to our non-senior managing director professionals (of which 5,804,294 were vested upon grant), as well as 974,190 unvested deferred cash settled equity awards to our other non-senior managing director employees. The fair value of these awards are charged to compensation expense over the vesting period. The deferred restricted common units generally vest over a five year period. The $1.73 billion represents the amount recorded in the 2007 consolidated and combined Statement of Income for the service period beginning June 19, 2007 through December 31, 2007. This adjustment eliminates those expenses. The pro forma effect of a full year s compensation expense is reflected in Non-Cash and Other Adjustments (see note 4 below).

(e) This adjustment reflects the elimination of all interest expense related to our revolving credit facility. This credit facility was repaid in full from the proceeds of the Initial Public Offering. The remaining interest expense results from other borrowings not related to our revolving credit facility, which were not repaid with the proceeds from the initial public offering.

(f) We acquired finite-lived intangible assets in conjunction with the acquisition of non-controlling interests in our business from some of our predecessor owners. We have reflected $117.6 million of amortization expense for the period June 19, 2007 through December 31, 2007 related to these acquired intangible assets is reflected in the 2007 consolidated and combined Statement of Income. The estimated useful lives of the finite-lived intangibles range between three and ten years. We are amortizing the finite-lived intangibles over their estimated useful lives using the straight-line method. This adjustment eliminates the amortization of this expense. The pro forma effect of a full year s amortization expense for this charge is reflected in Non-Cash and Other Adjustments (see note 4 below).

(g) Represents the elimination of Non-Controlling Interests in Income of Consolidated Entities related to the non-controlling interests in Blackstone Holdings retained by the limited partners of the Blackstone Holdings partnerships. From June 19, 2007 through December 31, 2007, the limited partners of the Blackstone Holdings partnerships continued to own 77.7% of Blackstone Holdings. These interests are eliminated for the purposes of management reporting and Economic Net Income.

3. Consolidation of Blackstone Funds

Reflects the consolidation of our proprietary hedge funds, as well as six of our funds of hedge funds. As general partner, we control the operations of our proprietary hedge funds and the funds of hedge funds that we have determined to be variable interest entities to which Blackstone is the primary beneficiary.

4. Non-Cash and Other Adjustments

(h) As part of the Reorganization, our predecessor owners received 827,516,625 Blackstone Holdings Partnership Units, of which 387,805,088 were vested and 439,711,537 are to vest over a period of up to 8 years from the IPO date. At the time of the initial public offering we also granted 39,067,034 deferred restricted common units of The Blackstone Group L.P. to our non-senior managing director professionals (of which 5,804,294 were vested upon grant), as well as 974,190 unvested deferred cash settled equity awards to our other non-senior managing director employees. The fair value of these awards are charged to compensation expense over the vesting period. The deferred restricted common units generally vest over a five year period. This adjustment reflects a full year s compensation expense for all equity-based awards.

(i) We acquired finite-lived intangible assets in conjunction with the acquisition of non-controlling interests in our business from our predecessor owners. Accordingly, we have reflected a full year s amortization of $219.0 million related to these acquired intangible assets. The estimated useful lives of the finite-lived intangibles range between three and ten years. We are amortizing the finite-lived intangibles over their estimated useful lives using the straight-line method.

(j) This adjustment reflects the allocation to the non-controlling interest holders of their share of our pro forma loss totaling $(818.0) million for the year ended December 31, 2007. The non-controlling interest is primarily related to the Blackstone Holdings Partnership Units held by the limited partners of the Blackstone Holdings partnerships. Such Blackstone Holdings Partnership Units represent 77.7% of all Blackstone Holdings Partnership Units outstanding from June 19, 2007 through December 31, 2007. The remaining Blackstone Holdings Partnership Units are owned by wholly-owned subsidiaries of The Blackstone Group L.P.

(k) We have historically operated as a partnership for U.S. federal income tax purposes and mainly as a corporate entity in non-U.S. jurisdictions. Accordingly, the tax provision shown on the 2007 consolidated and combined statement of income of $26.0 million primarily includes New York City unincorporated business tax and foreign corporate income taxes for the period from January 1, 2007 through June 18, 2007.

Following our initial public offering, the Blackstone Holdings partnerships and their subsidiaries continue to operate in the U.S. as partnerships and generally as corporate entities in non-U.S. jurisdictions. Accordingly, several entities continue to be subject to the New York City unincorporated business tax (UBT) and non-U.S. entities subject to corporate income taxes in jurisdictions in which they operate in. In addition, certain newly formed wholly-owned subsidiaries of The Blackstone Group L.P. are now subject to entity level corporate income taxes.

In calculating the pro forma income tax provision for the period presented, the following assumptions were made:

- The amount of net income (loss) before taxes attributed to the entities subject to corporate taxes was a loss of $(213.0) million for the year ended December 31, 2007 with the remainder attributed to the entities not subject to corporate income taxes. Net income (loss) was attributed to these entities based on income or losses of the subsidiaries of the entities.

- The net loss before taxes attributed to entities subject to corporate tax was adjusted to add back expenses of $293.9 million for the year ended December 31, 2007 which are not deductible for corporate income tax purposes. Such expenses relate primarily to compensation charges recognized for book purposes that will not be deductible for tax, principally charges associated with the senior managing directors unvested Blackstone Holdings Partnership Units and certain employee compensation charges.

- The resulting balances of $80.9 million for the year ended December 31, 2007 were then multiplied by a blended statutory tax rate of 45% and such amounts were added to the estimated non-U.S. jurisdiction tax provisions and non-creditable New York City unincorporated business tax provisions to arrive at the aggregate tax provision of $47.3 million for the year ended December 31, 2007. The blended statutory rate reflects statutory rate of 35% for federal taxes and the blended state rate (net of federal benefit) of 10%.

Determination of Earnings per Common Unit

For purposes of the pro forma net loss per common unit calculation, the Weighted-Average Common Units Outstanding, Basic and Diluted, are calculated in accordance with Note 11 of the historical financial statements included elsewhere in this report. The Partnership has utilized the weighted-average basic and diluted units outstanding for the period from June 19, 2007 through December 31, 2007 for the purposes of calculating its Pro Forma Net Loss per Common Unit.

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Basic and diluted pro forma net loss per common unit are calculated as follows:

	Year Ended December 31, 2007 Basic	Year Ended December 31, 2007 Diluted
	(Dollars in Thousands, Except Unit and Per Unit Data)	
Net Loss Available to Common Unit Holders	$ (335,514)	$ (335,514)
Weighted-Average Common Units Outstanding	259,979,606	259,979,606
Pro Forma Net Loss per Common Unit	$ (1.29)	$ (1.29)

For the year ended December 31, 2007, a total of 34,108,113 deferred restricted common units and 827,151,349 Blackstone Holdings Partnership Units were anti-dilutive and as such have been excluded from the calculation of pro forma diluted earnings per unit.

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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.

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 the current year with the prior years.

Our Business

Blackstone is one of the largest independent alternative asset managers 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:

Corporate 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. Through our corporate private equity funds we pursue transactions throughout the world, including leveraged buyout acquisitions of seasoned companies, transactions involving start-up businesses in established industries, turnarounds, minority investments, corporate partnerships and industry consolidations.

Real Estate. Our Real Estate segment is diversified geographically and across a variety of sectors. We launched our first real estate fund in 1994 and currently manage six general real estate funds and two internationally focused real estate funds. Our real estate funds have made significant investments in lodging, major urban office buildings, distribution and warehousing centers and a variety of real estate operating companies.

Marketable Alternative Asset Management. Established in 1990, our marketable alternative asset management segment is comprised of our management of funds of hedge funds, mezzanine funds and senior debt vehicles, proprietary hedge funds and publicly-traded closed-end mutual funds. These products are intended to provide investors with greater levels of current income and for certain products, a greater level of liquidity.

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

We generate our revenue from fees earned pursuant to contractual arrangements with funds, fund investors and fund portfolio companies (including management, transaction and monitoring fees), and from 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 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 strategic initiatives as well as overall market conditions. Our funds initially record fund investments at cost and then 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.

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Our most significant expense is compensation and benefits. Prior to our initial public offering, all compensation to our senior managing directors and selected other individuals engaged in our businesses had been accounted for as partnership distributions rather than as employee compensation and benefits expense. Following the IPO, we have included all payments for services rendered by our senior managing directors as employee compensation and benefits expense. Currently, some senior managing directors and certain other personnel share in profits based on their Blackstone Holdings Partnership Units as well as receive a portion of the carried interest income earned with respect to certain of the funds. Other employees receive cash compensation and own restricted deferred common units and phantom cash-settled awards.

Business Environment

Blackstone s businesses are materially affected by conditions in the financial markets and economic conditions in the United States, Western Europe, Asia and to some extent elsewhere in the world.

The first half of 2007 was characterized by rising global stock markets and unusually strong debt markets. Beginning in the last week of June 2007, the U.S. experienced considerable turbulence in the housing and sub-prime mortgage markets, which had a significant negative impact on other fixed income markets. Equity markets came under pressure in the latter part of 2007 as concerns of an economic slowdown were factored into portfolio company valuations. As a result of reduced liquidity and greater volatility, several commercial and investment banks and hedge funds significantly reduced the carrying value of some of their fixed income holdings, threatening general market liquidity. The U.S. and other governments injected meaningful liquidity into the financial system and have lowered benchmark lending rates in an attempt to avoid a liquidity crisis and stabilize economies.

Beginning in July 2007, deteriorating conditions in fixed income markets has deterred lenders from committing to new senior loans and high yield debt. Debt underwriting declined meaningfully in the second half of 2007 and the backlog resulting from pending private equity-led transactions reached record levels. This backlog, coupled with other poor-performing fixed income securities, has materially hindered lenders willingness to fund new, large-sized acquisitions. As a consequence of reduced borrowing ability, the volume of new private equity acquisitions declined significantly in the second half of 2007. Recently announced private equity-led acquisitions have mostly been smaller in size, with less leverage and less favorable terms for the debt provided, all of which has had a significant impact on several of our businesses. The duration of current conditions in the credit markets is unknown.

While it is unclear whether the U.S. economy is in a recession, economic indicators point to a slowdown. The slowdown of the U.S. economy could have negative implications for other global economies and markets. The duration of current economic conditions is unknown.

Significant Transactions

Reorganization

The Blackstone Group L.P. was formed as a Delaware limited partnership on March 12, 2007. The Blackstone Group L.P. is managed and operated by its general partner, Blackstone Group Management L.L.C., which is in turn wholly-owned by Blackstone s senior managing directors and controlled by our founders.

Blackstone s business was historically conducted through a large number of entities as to which there was no single holding entity but which were separately owned by its predecessor owners. In order to facilitate the initial public offering, as described in further detail below, the predecessor owners completed a reorganization (the Reorganization) as of the close of business on June 18, 2007 whereby, with certain limited exceptions, each of the operating entities of the predecessor organization and the intellectual property rights associated with the Blackstone name, were contributed to five newly-formed 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, Blackstone Holdings)) or sold to wholly-owned subsidiaries of The Blackstone Group L.P. (which in turn contributed them to Blackstone Holdings). The Blackstone Group L.P., through wholly-owned subsidiaries, is the sole general partner of each of the Blackstone Holdings partnerships.

The Reorganization was accounted for as an exchange of entities under common control for the interests in the Contributed Businesses which were contributed by the founders and the other senior managing directors (collectively, the Control Group) and as an acquisition of non-controlling interests using the purchase method of accounting for all the predecessor owners other than the Control Group pursuant to Statement of Financial Accounting Standard (SFAS) No. 141, *Business Combinations* (SFAS No. 141).

Blackstone also 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, exchange their Blackstone Holdings Partnership Units for our 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 five Blackstone Holdings partnerships to effect an exchange for a common unit in Blackstone.

Initial Public Offering

On June 27, 2007, The Blackstone Group L.P. completed the initial public offering (IPO) of its common units representing limited partner interests. Upon the completion of the IPO, public investors owned approximately 14.1% of Blackstone s equity. Concurrently with the IPO, The Blackstone Group L.P. completed the sale of non-voting common units, representing approximately 9.3% of Blackstone s equity, to Beijing Wonderful Investments, an investment vehicle established by the People s Republic of China with respect to its foreign exchange reserve. Beijing Wonderful Investments is restricted from purchasing additional common units in the future which would result in its equity interest in Blackstone exceeding 10%.

The Blackstone Group L.P. 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 (1) purchase interests in the Contributed Businesses from the predecessor owners (and contribute these interests to Blackstone Holdings in exchange for a number of newly-issued Blackstone Holdings Partnership Units) and (2) purchase a number of additional newly-issued Blackstone Holdings Partnership Units from Blackstone Holdings.

The net proceeds retained by Blackstone from the IPO, totaling approximately $2.93 billion, were used to repay $1.21 billion of indebtedness outstanding under Blackstone s revolving credit agreement, with the balance being invested and/or committed as general partner investments in Blackstone sponsored funds, including its corporate private equity funds, real estate funds, mezzanine funds, funds of hedge funds and proprietary hedge funds, and invested in temporary interest bearing investments.

Consolidation and Deconsolidation of Blackstone Funds

In accordance with accounting principles generally accepted in the United States of America (GAAP), a number of the Blackstone funds were historically consolidated into Blackstone s combined financial statements.

Concurrently with the Reorganization, the Contributed Businesses that act as a general partner of a consolidated Blackstone fund (with the exception of Blackstone s proprietary hedge funds and five 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, 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.

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Key Financial Measures and Indicators

Revenues

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

Management and Advisory Fees. Management and advisory fees consist of (1) fund management fees and (2) advisory fees.

(1) *Fund Management Fees*. Fund management fees are comprised of fees charged directly to funds, fund investors and fund portfolio companies (including management, transaction and monitoring fees). Such fees are based upon the contractual terms of investment advisory and related agreements and are recognized as earned over the specified contract period. Our investment advisory agreements generally require that the investment advisor share a portion of certain fees and expenses with the limited partners of the fund. These shared items (management fee reductions) reduce the management fees received from the limited partners.

(2) *Advisory Fees.* Advisory fees consist of advisory retainer and transaction based fee arrangements related to mergers, acquisitions, restructurings, divestitures and fund placement services for alternative investment funds. Advisory retainer fees are recognized when services are rendered. Transacti