AECOM
Form 10-Q
February 08, 2017
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2016

OR

o 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 0-52423

AECOM

(Exact name of registrant as specified in its charter)

Delaware	**61-1088522**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1999 Avenue of the Stars, Suite 2600
Los Angeles, California 90067

(Address of principal executive office and zip code)

(213) 593-8000

(Registrant s telephone number, including area code)

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

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

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. (Check one):

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

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

As of February 1, 2017, 155,315,517 shares of the registrant s common stock were outstanding.

AECOM

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AECOM

Consolidated Balance Sheets

(in thousands, except share data)

	December 31, 2016 (Unaudited)	September 30, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 560,513	$ 588,644
Cash in consolidated joint ventures	137,204	103,501
Total cash and cash equivalents	697,717	692,145
Accounts receivable net	4,538,396	4,531,460
Prepaid expenses and other current assets	707,738	730,101
Income taxes receivable	41,250	47,065
TOTAL CURRENT ASSETS	5,985,101	6,000,771
PROPERTY AND EQUIPMENT NET	634,916	644,992
DEFERRED TAX ASSETS NET	136,442	171,508
INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES	343,874	330,485
GOODWILL	5,784,423	5,823,843
INTANGIBLE ASSETS NET	449,785	479,439
OTHER NON-CURRENT ASSETS	174,455	218,898
TOTAL ASSETS	$ 13,508,996	$ 13,669,936
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Short-term debt	$ 14,785	$ 26,303
Accounts payable	1,967,051	1,910,915
Accrued expenses and other current liabilities	2,168,508	2,384,815
Income taxes payable	10,774	10,774
Billings in excess of costs on uncompleted contracts	660,266	631,928
Current portion of long-term debt	343,944	340,021
TOTAL CURRENT LIABILITIES	5,165,328	5,304,756
OTHER LONG-TERM LIABILITIES	358,755	403,364
DEFERRED TAX LIABILITY NET	12,887	13,097
PENSION BENEFIT OBLIGATIONS	660,797	694,073
LONG-TERM DEBT	3,751,342	3,702,157
TOTAL LIABILITIES	9,949,109	10,117,447
COMMITMENTS AND CONTINGENCIES (Note 14)		
AECOM STOCKHOLDERS EQUITY:		
	1,551	1,539

Common stock authorized, 300,000,000 shares of $0.01 par value as of December 31 and September 30, 2016; issued and outstanding 155,143,497 and 153,901,500 shares as of December 31 and September 30, 2016, respectively				
Additional paid-in capital		3,620,291		3,604,519
Accumulated other comprehensive loss		(912,858)		(857,582)
Retained earnings		669,429		618,445
TOTAL AECOM STOCKHOLDERS EQUITY		3,378,413		3,366,921
Noncontrolling interests		181,474		185,568
TOTAL STOCKHOLDERS EQUITY		3,559,887		3,552,489
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	13,508,996	$	13,669,936

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

AECOM

Consolidated Statements of Operations

(unaudited - in thousands, except per share data)

	Three Months Ended	
	December 31, 2016	**December 31, 2015**
Revenue	$ 4,358,349	$ 4,297,651
Cost of revenue	4,188,376	4,156,793
Gross profit	169,973	140,858
Equity in earnings of joint ventures	21,471	25,263
General and administrative expenses	(32,639)	(28,639)
Acquisition and integration expenses	(15,412)	(41,038)
Loss on disposal activities		(41,053)
Income from operations	143,393	55,391
Other income	860	3,042
Interest expense	(53,637)	(59,518)
Income (loss) before income tax expense	90,616	(1,085)
Income tax expense (benefit)	24,838	(682)
Net income (loss)	65,778	(403)
Noncontrolling interests in income of consolidated subsidiaries, net of tax	(18,599)	(19,964)
Net income (loss) attributable to AECOM	$ 47,179	$ (20,367)
Net income (loss) attributable to AECOM per share:		
Basic	$ 0.31	$ (0.13)
Diluted	$ 0.30	$ (0.13)
Weighted average shares outstanding:		
Basic	154,255	153,619
Diluted	157,993	153,619

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

AECOM

Consolidated Statements of Comprehensive Income (Loss)

(unaudited in thousands)

	Three Months Ended	
	December 31, 2016	**December 31, 2015**
Net income (loss)	$ 65,778	$ (403)
Other comprehensive income (loss), net of tax:		
Net unrealized gain on derivatives, net of tax	1,367	5,323
Foreign currency translation adjustments	(73,924)	(97,694)
Pension adjustments, net of tax	16,973	689
Other comprehensive loss, net of tax	(55,584)	(91,682)
Comprehensive income (loss), net of tax	10,194	(92,085)
Noncontrolling interests in comprehensive loss of consolidated subsidiaries, net of tax	(18,291)	(18,337)
Comprehensive loss attributable to AECOM, net of tax	$ (8,097)	$ (110,422)

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

AECOM

Consolidated Statements of Cash Flows

(unaudited - in thousands)

	Three Months Ended December 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 65,778	$ (403)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	66,916	111,018
Equity in earnings of unconsolidated joint ventures	(21,471)	(25,263)
Distribution of earnings from unconsolidated joint ventures	24,370	39,370
Non-cash stock compensation	21,337	21,500
Excess tax benefit from share-based payment		(3,324)
Foreign currency translation	(15,387)	(54,312)
Pension curtailment and settlement gains		(7,818)
Loss on disposal activities		41,053
Other	(3,077)	2,892
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	47,064	29,119
Prepaid expenses and other current and non-current assets	(14,728)	(6,075)
Accounts payable	55,460	53,522
Accrued expenses and other current liabilities	(144,301)	(140,765)
Billings in excess of costs on uncompleted contracts	26,019	18,068
Other long-term liabilities	(30,473)	(527)
Net cash provided by operating activities	77,507	78,055
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposal of businesses		37,567
Net investment in unconsolidated joint ventures	(18,133)	(7,724)
Proceeds from sales of investments	300	11,201
Payments for purchase of investments		(214)
Proceeds from disposal of property and equipment	2,557	21,940
Payments for capital expenditures	(23,584)	(22,783)
Net cash (used in) provided by investing activities	(38,860)	39,987
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings under credit agreements	1,634,781	1,222,663
Repayments of borrowings under credit agreements	(1,607,380)	(1,304,882)
Cash paid for debt and equity issuance costs		(1,178)
Proceeds from issuance of common stock	9,875	6,894
Proceeds from exercise of stock options	2,067	3,013
Payments to repurchase common stock	(17,494)	(17,343)
Excess tax benefit from share-based payment		3,324
Net distributions to noncontrolling interests	(21,938)	(37,785)
Other financing activities	(26,280)	(12,950)
Net cash used in financing activities	(26,369)	(138,244)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(6,706)	(5,647)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,572	(25,849)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	692,145	683,893
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 697,717	$ 658,044

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

AECOM

Notes to Consolidated Financial Statements

(unaudited)

1. Basis of Presentation

Effective January 5, 2015, the official name of the Company changed from AECOM Technology Corporation to AECOM. The accompanying consolidated financial statements of AECOM (the Company) are unaudited and, in the opinion of management, include all adjustments, including all normal recurring items necessary for a fair statement of the Company s financial position and results of operations for the periods presented. All inter-company balances and transactions are eliminated in consolidation.

The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Form 10-K for the fiscal year ended September 30, 2016 (the Annual Report). The accompanying unaudited consolidated financial statements and related notes have been prepared in accordance with generally accepted accounting principles (GAAP) in the U.S. for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Certain immaterial reclassifications were made to the prior year to conform to current year presentation.

The consolidated financial statements included in this report have been prepared consistently with the accounting policies described in the Annual Report and should be read together with the Annual Report.

The results of operations for the three months ended December 31, 2016 are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2017.

The Company reports its annual results of operations based on 52 or 53-week periods ending on the Friday nearest September 30. The Company reports its quarterly results of operations based on periods ending on the Friday nearest December 31, March 31, and June 30. For clarity of presentation, all periods are presented as if the periods ended on September 30, December 31, March 31, and June 30.

2. New Accounting Pronouncements and Changes in Accounting

In May 2014, the Financial Accounting Standards Board (FASB) issued new accounting guidance which amended the existing accounting standards for revenue recognition. The new accounting guidance establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company continues to evaluate the impact and method of the adoption of the new accounting guidance on its consolidated financial statements and expects to adopt the new guidance on October 1, 2018.

In February 2015, the FASB issued amended guidance to the consolidation standard which updates the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The amendment modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships, among other provisions. This amended guidance was effective for the Company s fiscal year beginning October 1, 2016. The adoption of this guidance did not have a material impact on the Company s financial statements.

In April 2015, the FASB issued new accounting guidance which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as an asset. The guidance requires retrospective application and represents a change in accounting principle. This guidance was effective for the Company s fiscal year beginning October 1, 2016, which resulted in the reclassifications of $54.0 million and $56.8 million of unamortized debt issuance costs at December 31 and September 30, 2016, respectively, from other non-current assets to long-term debt.

In April 2015, the FASB issued new accounting guidance which provides the use of a practical expedient that permits the entity to measure defined benefit plans assets and obligations using the month-end date that is closest to the entity s fiscal year-end date and apply that practical expedient consistently from year to year. This guidance was effective for the Company s fiscal year beginning October 1, 2016 and did not have a material impact on its consolidated financial statements.

Table of Contents

In February 2016, the FASB issued new accounting guidance which changes accounting for leases. The new guidance requires lessees to recognize the assets and liabilities arising from all leases, including those classified as operating leases under previous accounting guidance, on the balance sheet. It also requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations. The guidance will be effective for the Company s fiscal year beginning October 1, 2019 with early adoption permitted. The new guidance must be adopted using a modified retrospective transition approach and provides for certain practical expedients. The Company is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

In March 2016, the FASB issued new accounting guidance which simplifies the accounting for employee share-based payments. The new guidance requires all income tax effects of awards to be recognized in the statement of operations when the awards vest or are settled. It will also allow an employer to repurchase more of an employee s shares for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. The Company has elected early adoption of this standard in the first quarter of fiscal year 2017. The adoption of this guidance did not have a material impact on the Company s consolidated financial statements.

In June 2016, the FASB issued a new credit loss standard that changes the impairment model for most financial assets and certain other instruments. The new guidance will replace the current incurred loss approach with an expected loss model for instruments measured at amortized cost. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. The guidance will be effective for the Company s fiscal year starting October 1, 2020. The Company is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

In August 2016, the FASB issued new guidance clarifying how entities should classify certain cash receipts and cash payments on the statement of cash flows. The guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The guidance will be effective for the Company in its fiscal year beginning October 1, 2018, and early adoption is permitted. The Company is currently evaluating the impact that the new guidance will have on its consolidated statement of cash flows.

3. Business Acquisitions, Goodwill and Intangible Assets

The Company completed one acquisition during the year ended September 30, 2016 for total consideration of $5.5 million. The business combination did not meet the quantitative thresholds to require separate disclosures based on the Company s consolidated net assets, investments and net income. The acquisition was accounted for under the purchase method of accounting. As such, the purchase consideration was allocated to acquired tangible and intangible assets and liabilities based upon their fair values. The determination of fair values of assets and liabilities acquired requires the Company to make estimates and use valuation techniques when market value is not readily available. Transaction costs associated with business acquisitions are expensed as they are incurred.

On October 17, 2014, the Company completed the acquisition of the U.S. headquartered URS Corporation (URS), an international provider of engineering, construction, and technical services, by purchasing 100% of the outstanding shares of URS common stock. The Company paid total consideration of approximately $2.3 billion in cash and issued approximately $1.6 billion of AECOM common stock to the former stockholders and certain equity award holders of URS. In connection with the acquisition, the Company also assumed URS s senior notes totaling $0.4 billion, net of Company repayments. The Company repaid in full URS s $0.6 billion 2011 term loan and $0.1 billion of URS s revolving line of credit.

The Company acquired backlog and customer relationship intangible assets valued at $973.8 million representing the fair value of existing contracts and the underlying customer relationships, and have lives ranging from 1 to 11 years (weighted average lives of approximately 3 years) in connection with the URS acquisition. Acquired accrued expenses and other current liabilities include URS project liabilities and approximately $240 million related to estimated URS legal settlements and uninsured legal damages; see Note 14, Commitments and Contingencies, including legal matters related to former URS affiliates.

Amortization of intangible assets relating to URS, included in cost of revenue, was $20.9 million and $59.0 million during the three months ended December 31, 2016 and 2015, respectively. Additionally, included in equity in earnings of joint ventures and noncontrolling interests was intangible amortization expense of $2.0 million and ($2.1) million, respectively, during the three months ended December 31, 2016 and $9.7 million and ($5.7) million, respectively, during the three months ended December 31, 2015 related to joint venture fair value adjustments.

Billings in excess of costs on uncompleted contracts includes a margin fair value liability associated with long-term contracts acquired in connection with the acquisition of URS. This margin fair value liability was $149.1 million at the acquisition date and its carrying value was $13.3 million at December 31, 2016, and is recognized as revenue on a percentage-of-completion basis as the applicable projects progress. The majority of this liability was recognized over the first two years from the acquisition date. Revenue and the related income from operations related to the margin fair value liability recognized during the three months ended December 31, 2016 and 2015 was $1.6 million and $15.1 million, respectively.

Table of Contents

Acquisition and integration expenses, relating to the acquisition of URS, in the accompanying consolidated statements of operations comprised of the following (in millions):

	Three months ended Dec 31, 2016	Three months ended Dec 31, 2015
Severance and personnel costs	$ 11.5	$ 6.6
Professional service, real estate-related, and other expenses	3.9	34.4
Total	$ 15.4	$ 41.0

Included in severance and personnel costs for the three months ended December 31, 2016 and 2015 was $8.7 million and $6.6 million of severance expenses, respectively, of which $0 and $4.3 million was paid as of December 31, 2016 and 2015, respectively. All acquisition and integration expenses are classified within the Corporate segment, as presented in Note 15.

Interest expense in the consolidated statements of operations for the three months ended December 31, 2016 and 2015 included acquisition related financing expenses of $2.8 million and $4.1 million, respectively.

Loss on disposal activities of $41.0 million in the accompanying Statements of Operations for the three months ended December 31, 2015 included losses on the disposition of non-core energy related businesses, equipment and other assets acquired with URS and reported within the Construction Services segment. Net assets related to the loss on disposal activities were $99.6 million. Income from operations included losses incurred by non-core businesses of $7.1 million during the three months ended December 31, 2015.

The changes in the carrying value of goodwill by reportable segment for the three months ended December 31, 2016 were as follows:

	September 30, 2016	Post-Acquisition Adjustments	Foreign Exchange Impact	Disposed	December 31, 2016
			(in millions)		
Design and Consulting Services	$ 3,198.2	$	$ (22.1)	$	$ 3,176.1
Construction Services	915.2		(4.9)		910.3
Management Services	1,710.4		(12.4)		1,698.0
Total	$ 5,823.8	$	$ (39.4)	$	$ 5,784.4

The gross amounts and accumulated amortization of the Company s acquired identifiable intangible assets with finite useful lives as of December 31 and September 30, 2016, included in intangible assets net, in the accompanying consolidated balance sheets, were as follows:

	December 31, 2016			September 30, 2016			
	Gross Amount	Accumulated Amortization	Intangible Assets, Net	Gross Amount	Accumulated Amortization	Intangible Assets, Net	Amortization Period (years)
	(in millions)						
Backlog and customer relationships	$ 1,242.9	$ (793.1)	$ 449.8	$ 1,247.1	$ (767.7)	$ 479.4	1 11
Trademark / tradename	16.4	(16.4)		16.4	(16.4)		0.3 - 2
Total	$ 1,259.3	$ (809.5)	$ 449.8	$ 1,263.5	$ (784.1)	$ 479.4	

Table of Contents

Amortization expense of acquired intangible assets included within cost of revenue was $25.4 million and $65.1 million for the three months ended December 31, 2016 and 2015, respectively. The following table presents estimated amortization expense of existing intangible assets for the remainder of fiscal 2017 and for the succeeding years:

Fiscal Year		**(in millions)**
2017 (nine months remaining)	$	72.1
2018		81.5
2019		76.3
2020		64.4
2021		54.6
Thereafter		100.9
Total	$	449.8

4. Accounts Receivable Net

Net accounts receivable consisted of the following:

		December 31, 2016		**September 30, 2016**
		(in millions)		
Billed	$	2,200.5	$	2,267.6
Unbilled		1,941.8		1,890.2
Contract retentions		456.0		434.1
Total accounts receivable gross		4,598.3		4,591.9
Allowance for doubtful accounts		(59.9)		(60.4)
Total accounts receivable net	$	4,538.4	$	4,531.5

Billed accounts receivable represents amounts billed to clients that have yet to be collected. Unbilled accounts receivable represents contract revenue recognized but not yet billed pursuant to contract terms or accounts billed after the period end. Substantially all unbilled receivables as of December 31, 2016 and September 30, 2016 are expected to be billed and collected within twelve months. Contract retentions represent amounts invoiced to clients where payments have been withheld pending the completion of certain milestones, or other contractual conditions, or upon the completion of a project. These retention agreements vary from project to project and could be outstanding for several months or years.

Allowances for doubtful accounts have been determined through specific identification of amounts considered to be uncollectible and potential write-offs, plus a non-specific allowance for other amounts for which some potential loss has been determined to be probable based on current and past experience.

Other than the U.S. government, no single client accounted for more than 10% of the Company s outstanding receivables at December 31, 2016 and September 30, 2016.

The Company sold trade receivables to financial institutions, of which $375.1 million and $356.3 million were outstanding as of December 31, 2016 and September 30, 2016, respectively. The Company does not retain financial or legal obligations for these receivables that would result in material losses. The Company s ongoing involvement is limited to the remittance of customer payments to the financial institutions with respect to the sold trade receivables.

5. Joint Ventures and Variable Interest Entities

The Company s joint ventures provide architecture, engineering, program management, construction management and operations and maintenance services. Joint ventures, the combination of two or more partners, are generally formed for a specific project. Management of the joint venture is typically controlled by a joint venture executive committee, comprised of representatives from the joint venture partners. The joint venture executive committee normally provides management oversight and controls decisions which could have a significant impact on the joint venture.

Some of the Company s joint ventures have no employees and minimal operating expenses. For these joint ventures, the Company s employees perform work for the joint venture, which is then billed to a third-party customer by the joint venture. These joint ventures function as pass through entities to bill the third-party customer. For consolidated joint ventures of this type, the Company records the entire amount of the services performed and the costs associated with these services, including the services provided by the other joint venture partners, in the Company s result of operations. For certain of these joint ventures where a fee is added by an unconsolidated joint venture to client billings, the Company s portion of that fee is recorded in equity in earnings of joint ventures.

Table of Contents

The Company also has joint ventures that have their own employees and operating expenses, and to which the Company generally makes a capital contribution. The Company accounts for these joint ventures either as consolidated entities or equity method investments based on the criteria further discussed below.

The Company follows guidance on the consolidation of variable interest entities (VIEs) that requires companies to utilize a qualitative approach to determine whether it is the primary beneficiary of a VIE. The process for identifying the primary beneficiary of a VIE requires consideration of the factors that indicate a party has the power to direct the activities that most significantly impact the joint ventures economic performance, including powers granted to the joint venture s program manager, powers contained in the joint venture governing board and, to a certain extent, a company s economic interest in the joint venture. The Company analyzes its joint ventures and classifies them as either:

- a VIE that must be consolidated because the Company is the primary beneficiary or the joint venture is not a VIE and the Company holds the majority voting interest with no significant participative rights available to the other partners; or

- a VIE that does not require consolidation and is treated as an equity method investment because the Company is not the primary beneficiary or the joint venture is not a VIE and the Company does not hold the majority voting interest.

As part of the above analysis, if it is determined that the Company has the power to direct the activities that most significantly impact the joint venture s economic performance, the Company considers whether or not it has the obligation to absorb losses or rights to receive benefits of the VIE that could potentially be significant to the VIE.

Contractually required support provided to the Company s joint ventures is further discussed in Note 14.

Summary of unaudited financial information of the consolidated joint ventures is as follows:

	December 31, 2016	September 30, 2016
	(in millions)	
Current assets	$ 591.6	$ 684.1
Non-current assets	236.1	230.8
Total assets	$ 827.7	$ 914.9
Current liabilities	$ 386.3	$ 407.4
Non-current liabilities	12.4	12.4
Total liabilities	398.7	419.8
Total AECOM equity	255.6	318.0
Noncontrolling interests	173.4	177.1

Total owners equity		429.0		495.1
Total liabilities and owners equity	$	827.7	$	914.9

Total revenue of the consolidated joint ventures was $456.9 million and $485.2 million for the three months ended December 31, 2016 and 2015, respectively. The assets of the Company s consolidated joint ventures are restricted for use only by the particular joint venture and are not available for the general operations of the Company.

Table of Contents

Summary of unaudited financial information of the unconsolidated joint ventures is as follows:

	December 31, 2016	September 30, 2016
	(in millions)	
Current assets	$ 1,417.6	$ 1,407.0
Non-current assets	513.6	499.4
Total assets	$ 1,931.2	$ 1,906.4
Current liabilities	$ 1,021.2	$ 977.3
Non-current liabilities	162.3	146.2
Total liabilities	1,183.5	1,123.5
Joint ventures equity	747.7	782.9
Total liabilities and joint ventures equity	$ 1,931.2	$ 1,906.4
AECOM s investment in joint ventures	$ 343.9	$ 330.5

	Three Months Ended December 31, 2016	December 31, 2015
	(in millions)	
Revenue	$ 1,142.0	$ 1,228.1
Cost of revenue	1,085.8	1,169.2
Gross profit	$ 56.2	$ 58.9
Net income	$ 54.3	$ 48.9

Summary of AECOM s equity in earnings of unconsolidated joint ventures is as follows:

	Three Months Ended December 31, 2016	December 31, 2015
	(in millions)	
Pass through joint ventures	$ 7.5	$ 4.8
Other joint ventures	13.9	20.4
Total	$ 21.4	$ 25.2

6. Pension Benefit Obligations

In the U.S., the Company sponsors various qualified defined benefit pension plans. The legacy AECOM defined benefit plan covers substantially all permanent AECOM employees hired as of March 31, 1998. Benefits under these plans generally are based on the employee s years of creditable service and compensation. The Company adopted an amendment to freeze benefits under the URS Federal Services, Inc. Employees Retirement Plan during the three months ended December 31, 2015, which resulted in the curtailment gain listed below. All U.S. defined benefit plans are closed to new participants and have frozen accruals.

The Company also sponsors various non-qualified plans in the U.S.; all of these plans are frozen. Outside the U.S., the Company sponsors various pension plans, which are appropriate to the country in which the Company operates, some of which are government mandated.

Table of Contents

The following table details the components of net periodic cost for the Company s pension plans for the three months ended December 31, 2016 and 2015:

	Three Months Ended			
	December 31, 2016		December 31, 2015	
	U.S.	Int l	U.S.	Int l
	(in millions)			
Components of net periodic (benefit) cost:				
Service costs	$ 1.1	$ 0.3	$ 1.8	$ 0.3
Interest cost on projected benefit obligation	4.8	7.0	5.7	10.5
Expected return on plan assets	(7.8)	(10.2)	(7.8)	(12.8)
Amortization of prior service cost		(0.1)		(0.1)
Amortization of net loss	1.1	3.2	1.0	1.4
Curtailment gain recognized			(6.8)	
Settlement (gain) loss recognized			(1.0)	0.1
Net periodic (benefit) cost	$ (0.8)	$ 0.2	$ (7.1)	$ (0.6)

The total amounts of employer contributions paid for the three months ended December 31, 2016 were $2.6 million for U.S. plans and $5.7 million for non-U.S. plans. The expected remaining scheduled annual employer contributions for the fiscal year ending September 30, 2017 are $7.2 million for U.S. plans and $18.3 million for non-U.S. plans.

7. Debt

Debt consisted of the following:

	December 31, 2016	September 30, 2016
	(in millions)	
2014 Credit Agreement	$ 1,996.1	$ 1,954.9
2014 Senior Notes	1,600.0	1,600.0
URS Senior Notes	427.3	427.7
Other debt	140.6	142.7
Total debt	4,164.0	4,125.3
Less: Current portion of debt and short-term borrowings	(358.7)	(366.3)
Less: Unamortized debt issuance costs	(54.0)	(56.8)
Long-term debt	$ 3,751.3	$ 3,702.2

The following table presents, in millions, scheduled maturities of the Company s debt as of December 31, 2016:

Fiscal Year		
2017 (nine months remaining)	$	324.8
2018		128.6
2019		119.6
2020		114.2
2021		1,524.5
Thereafter		1,952.3
Total	$	4,164.0

2014 Credit Agreement

The Company entered into a credit agreement (Credit Agreement) on October 17, 2014, as amended, consisting of (i) a term loan A facility in an aggregate principal amount of $1.925 billion, (ii) a term loan B facility in an aggregate principal amount of $0.76 billion, and (iii) a revolving credit facility in an aggregate principal amount of $1.05 billion. These facilities under the Credit Agreement may be increased by an additional amount of up to $500 million. The Credit Agreement s term extends to September 29, 2021 with respect to the revolving credit facility and the term loan A facility and October 17, 2021 with respect to the term loan B facility. Some subsidiaries of the Company (Guarantors) have guaranteed the obligations of the borrowers under the Credit Agreement. The borrowers obligations under the Credit Agreement are secured by a lien on substantially all of the assets of the Company and the Guarantors pursuant to a security and pledge agreement (Security Agreement). The collateral under the Security Agreement is subject to release upon fulfillment of certain conditions specified in the Credit Agreement and Security Agreement.

The Credit Agreement contains covenants that limit the Company s ability and certain of its subsidiaries to, among other things: (i) create, incur, assume, or suffer to exist liens; (ii) incur or guarantee indebtedness; (iii) pay dividends or repurchase stock; (iv) enter into transactions with affiliates; (v) consummate asset sales, acquisitions or mergers; (vi) enter into certain types of burdensome agreements; or (vii) make investments.

On July 1, 2015, the Credit Agreement was amended to revise the definition of Consolidated EBITDA to increase the allowance for acquisition and integration expenses related to the acquisition of URS.

On December 22, 2015, the Credit Agreement was amended to further revise the definition of Consolidated EBITDA by further increasing the allowance for acquisition and integration expenses related to the acquisition of URS and to allow for an internal corporate restructuring primarily involving its international subsidiaries.

On September 29, 2016, the Credit Agreement and the Security Agreement were amended to (1) lower the applicable interest rate margins for the term loan A and the revolving credit facilities, and lower the applicable letter of credit fees and commitment fees to the revised consolidated leverage levels; (2) extend the term of the term loan A and the revolving credit facility to September 29, 2021; (3) add a new delayed draw term loan A facility tranche in the amount of $185.0 million; (4) replace the then existing $500 million performance letter of credit facility with a $500 million basket to enter into secured letters of credit outside the Credit Agreement; and (5) revise certain covenants, including the Maximum Consolidated Leverage Ratio so that the step down from a 5.00 to a 4.75 leverage ratio is effective as of March 31, 2017 as well as the investment basket for its AECOM Capital business.

Under the Credit Agreement, the Company is subject to a maximum consolidated leverage ratio and minimum consolidated interest coverage ratio at the end of each fiscal quarter. The Company s Consolidated Leverage Ratio was 4.4 at December 31, 2016. The Company s Consolidated Interest Coverage Ratio was 4.6 at December 31, 2016. As of December 31, 2016, the Company was in compliance with the covenants of the Credit Agreement.

At December 31, 2016 and September 30, 2016, outstanding standby letters of credit totaled $51.4 million and $92.3 million, respectively, under the Company s revolving credit facilities. As of December 31, 2016 and September 30, 2016, the Company had $862.1 million and $888.4 million, respectively, available under its revolving credit facility.

2014 Senior Notes

On October 6, 2014, the Company completed a private placement offering of $800,000,000 aggregate principal amount of its 5.750% Senior Notes due 2022 (2022 Notes) and $800,000,000 aggregate principal amount of its 5.875% Senior Notes due 2024 (the 2024 Notes and, together with the 2022 Notes, the 2014 Senior Notes or Notes).

As of December 31, 2016, the estimated fair value of its 2014 Senior Notes was approximately $842.0 million for the 2022 Notes and $848.0 million for the 2024 Notes. The fair value of the Notes as of December 31, 2016 was derived by taking the mid-point of the trading prices from an observable market input (Level 2) in the secondary bond market and multiplying it by the outstanding balance of its Notes.

At any time prior to October 15, 2017, the Company may redeem all or part of the 2022 Notes, at a redemption price equal to 100% of their principal amount, plus a make whole premium as of the redemption date, and accrued and unpaid interest (subject to the rights of holders of record on the relevant record date to receive interest due on the relevant interest payment date). In addition, at any time prior to October 15, 2017, the Company may redeem up to 35% of the original aggregate principal amount of the 2022 Notes with the proceeds of one or more equity offerings, at a redemption price equal to 105.750%, plus accrued and unpaid interest. Furthermore, at any time on or after October 15, 2017, the Company may redeem the 2022 Notes, in whole or in part, at once or over time, at the specified redemption prices plus accrued and unpaid interest thereon to the redemption date. At any time prior to July 15, 2024, the Company may redeem on one or more occasions all or part of the 2024 Notes at a redemption price equal to the sum of (i) 100% of the principal amount thereof, plus (ii) a make-whole premium as of the date of the redemption, plus any accrued and unpaid interest to the date of redemption. In addition, on or after July 15, 2024, the 2024 Notes may be redeemed at a redemption price of 100% of the principal amount thereof, plus accrued and unpaid interest to the date of redemption.

The indenture pursuant to which the 2014 Senior Notes were issued contains customary events of default, including, among other things, payment default, exchange default, failure to provide certain notices thereunder and certain provisions related to bankruptcy events. The indenture also contains customary negative covenants.

In connection with the offering of the Notes, the Company and the Guarantors entered into a Registration Rights Agreement, dated as of October 6, 2014 to exchange the Notes for registered notes having terms substantially identical in all material respects (except certain transfer restrictions, registration rights and additional interest provisions relating to the Notes will not apply to the registered notes). The Company filed a registration statement on Form S-4 with the SEC on July 6, 2015 that was declared effective by the SEC on September 29, 2015. On November 2, 2015, the Company completed its exchange offer which exchanged the Notes for the registered notes, as well as all related guarantees.

Table of Contents

The Company was in compliance with the covenants relating to the Notes as of December 31, 2016.

URS Senior Notes

In connection with the URS acquisition, the Company assumed URS s 3.85% Senior Notes due 2017 (2017 URS Senior Notes) and its 5.00% Senior Notes due 2022 (2022 URS Senior Notes), totaling $1.0 billion (URS Senior Notes). The URS acquisition triggered change in control provisions in the URS Senior Notes that allowed the holders of the URS Senior Notes to redeem their URS Senior Notes at a cash price equal to 101% of the principal amount and, accordingly, the Company redeemed $572.3 million of the URS Senior Notes on October 24, 2014. The URS Senior Notes are general unsecured senior obligations of AECOM Global II, LLC (as successor in interest to URS) and URS Fox US LP and are fully and unconditionally guaranteed on a joint-and-several basis by certain former URS domestic subsidiary guarantors.

As of December 31, 2016, the estimated fair value of the URS Senior Notes was approximately $179.2 million for the 2017 URS Senior Notes and $251.0 million for the 2022 URS Senior Notes. The carrying value of the URS Senior Notes on the Company s Consolidated Balance Sheets as of December 31, 2016 was $179.7 million for the 2017 URS Senior Notes and $247.6 million for the 2022 URS Senior Notes. The fair value of the URS Senior Notes as of December 31, 2016 was derived by taking the mid-point of the trading prices from an observable market input (Level 2) in the secondary bond market and multiplying it by the outstanding balance of the URS Senior Notes.

As of December 31, 2016, the Company was in compliance with the covenants relating to the URS Senior Notes.

Other Debt

Other debt consists primarily of obligations under capital leases and loans, and unsecured credit facilities. The Company s unsecured credit facilities are primarily used for standby letters of credit issued for payment of performance guarantees. At December 31, 2016 and September 30, 2016, these outstanding standby letters of credit totaled $413.5 million and $382.2 million, respectively. As of December 31, 2016, the Company had $534.9 million available under these unsecured credit facilities.

Effective Interest Rate

The Company s average effective interest rate on its total debt, including the effects of the interest rate swap agreements, during the three months ended December 31, 2016 and 2015 was 4.2% and 4.2%, respectively.

8. Derivative Financial Instruments and Fair Value Measurements

The Company uses certain interest rate derivative contracts to hedge interest rate exposures on the Company s variable rate debt. The Company enters into foreign currency derivative contracts with financial institutions to reduce the risk that its cash flows and earnings will be adversely affected by foreign currency exchange rate fluctuations. The Company s hedging program is not designated for trading or speculative purposes.

The Company recognizes derivative instruments as either assets or liabilities on the accompanying consolidated balance sheets at fair value. The Company records changes in the fair value (i.e., gains or losses) of the derivatives that have been designated as accounting hedges in the accompanying consolidated statements of operations as cost of revenue, interest expense or to accumulated other comprehensive loss in the accompanying consolidated balance sheets.

Cash Flow Hedges

The Company uses interest rate swap agreements designated as cash flow hedges to fix the variable interest rates on portions of the Company s debt. The Company also uses foreign currency contracts designated as cash flow hedges to hedge forecasted revenue transactions denominated in currencies other than the U.S. dollar. The Company initially reports any gain on the effective portion of a cash flow hedge as a component of accumulated other comprehensive loss. Depending on the type of cash flow hedge, the gain is subsequently reclassified to either interest expense when the interest expense on the variable rate debt is recognized, or to cost of revenue when the hedged revenues are recorded. If the hedged transaction becomes probable of not occurring, any gain or loss related to interest rate swap agreements or foreign currency contracts would be recognized in other income (expense). Further, the Company excludes the change in the time value of the foreign currency contracts from the assessment of hedge effectiveness. The Company records the premium paid or time value of a contract on the date of purchase as an asset. Thereafter, the Company recognizes any change to this time value in cost of revenue.

Table of Contents

The notional principal, fixed rates and related expiration dates of the Company s outstanding interest rate swap agreements were as follows:

December 31, 2016			
Notional Amount (in millions)		Fixed Rate	Expiration Date
$	300.0	1.63%	June 2018
	300.0	1.54%	September 2018

September 30, 2016			
Notional Amount (in millions)		Fixed Rate	Expiration Date
$	300.0	1.63%	June 2018
	300.0	1.54%	September 2018

The notional principal of outstanding foreign currency forward contracts to purchase Australian dollars (AUD) was AUD 44.1 million (or $32.9 million) and AUD 58.6 million (or $43.4 million) at December 31, 2016 and September 30, 2016, respectively.

Other Foreign Currency Forward Contracts

The Company uses foreign currency forward contracts which are not designated as accounting hedges to hedge intercompany transactions and other monetary assets or liabilities denominated in currencies other than the functional currency of a subsidiary. Gains and losses on these contracts were not material for the three months ended December 31, 2016 and 2015.

Fair Value Measurements

The Company s non-pension financial assets and liabilities recorded at fair values relate to derivative instruments and were not material at December 31, 2016 or 2015.

See Note 13 for accumulated balances and reporting period activities of derivatives related to reclassifications out of accumulated other comprehensive income or loss for the three months ended December 31, 2016 and 2015. Amounts recognized in accumulated other comprehensive loss from the Company s foreign currency contracts were immaterial for all periods presented. Amounts reclassified from accumulated other comprehensive loss into income from the foreign currency contracts were immaterial for all periods presented. Additionally, there were no losses recognized in income due to amounts excluded from effectiveness testing from the Company s interest rate swap agreements.

During the year ended September 30, 2015, the Company entered into a contingent consideration arrangement in connection with a business acquisition. Under the arrangement, the Company agreed to pay cash to the sellers if certain financial performance thresholds are achieved in the future. The fair value of the contingent consideration liability, net of amounts paid, as of December 31, 2016 and September 30, 2016 was $22 million and $39 million, respectively, which decreased due to payments during the three months ended December 31, 2016. This liability is a Level 3 fair value measurement recorded within other accrued liabilities, and was valued based on estimated future net cash flows. After the initial recording of this liability as a part of purchase accounting, there were no material subsequent changes in fair value through December 31, 2016. Any future changes in the fair value of this contingent consideration liability will be recognized in earnings during the applicable period.

9. Share-based Payments

The fair value of the Company s employee stock option awards is estimated on the date of grant. The expected term of awards granted represents the period of time the awards are expected to be outstanding. The risk-free interest rate is based on U.S. Treasury bond rates with maturities equal to the expected term of the option on the grant date. The Company uses historical data as a basis to estimate the probability of forfeitures.

Table of Contents

Stock option activity for the three months ended December 31 was as follows:

	2016			2015		
	Shares of stock under options (in millions)	Weighted average exercise price		Shares of stock under options (in millions)	Weighted average exercise price	
Outstanding at September 30	0.9	$	30.36	1.3	$	28.26
Options granted						
Options exercised	(0.1)		25.46	(0.2)		23.94
Options forfeited or expired						
Outstanding at December 31	0.8		30.86	1.1		28.92
Vested and expected to vest in the future as of December 31	0.8	$	30.86	1.1	$	28.92

The Company grants stock units to employees under its Performance Earnings Program (PEP), whereby units are earned and issued dependent upon meeting established performance or market objectives and vest over a three-year service period. Additionally, the Company issues restricted stock units to employees which are earned based on service conditions. The grant date fair value of PEP awards and restricted stock unit awards is that day s closing market price of the Company s common stock. The weighted average grant date fair value of PEP awards were $38.16 and $29.92 during the three months ended December 31, 2016 and 2015, respectively. The weighted average grant date fair value of restricted stock unit awards were $38.08 and $29.92 during the three months ended December 31, 2016 and 2015, respectively. Total compensation expense related to share-based payments including stock options was $21.3 million and $21.5 million during the three months ended December 31, 2016 and 2015, respectively. Unrecognized compensation expense related to total share-based payments outstanding as of December 31, 2016 and September 30, 2016 was $149.8 million and $91.8 million, respectively, to be recognized on a straight-line basis over the awards respective vesting periods which are generally three years.

10. Income Taxes

The Company s effective tax rate from continuing operations was 27.4% and 62.9% for the three months ended December 31, 2016 and 2015, respectively. The most significant items contributing to the difference between the statutory U.S. federal income tax rate of 35% and the Company s effective tax rate for the three month period ended December 31, 2016 were a $4.1 million benefit of the effect of the favorable tax impacts of changes in the geographical mix of income and a benefit related to non-controlling interests partially offset by an increase in valuation allowances regarding the realizability of certain current year foreign losses. These items are expected to have a continuing impact on the effective tax rate for the remainder of the fiscal year.

The Company is utilizing the annual effective tax rate method under ASC 740 to compute its interim tax provision. The Company s effective tax rate fluctuates from quarter to quarter due to various factors including the change in the mix of global income and expenses, outcomes of administrative audits, changes in the assessment of valuation allowances due to management s consideration of new positive or negative evidence during the quarter, and changes in enacted tax laws and their interpretations which upon enactment include possible tax reform contemplated in the United States and other jurisdictions around the world arising from the result of the base erosion and profit shifting project undertaken by the Organisation for Economic Co-operation Development which, if finalized and adopted, could have a material impact on the Company s income tax expense and deferred tax balances.

The Company believes the outcomes which are reasonably possible within the next twelve months, including lapses in statutes of limitations, will not result in a material change in the liability for uncertain tax positions.

Generally, the Company does not provide for U.S. taxes or foreign withholding taxes on gross book-tax differences in its non-U.S. subsidiaries because such basis differences of approximately $1.6 billion are able to and intended to be reinvested indefinitely. If these basis differences were distributed, foreign tax credits could become available under current law to partially or fully reduce the resulting U.S. income tax liability. There may also be additional U.S. or foreign income tax liability upon repatriation, although the calculation of such additional taxes is not practicable. The Company has a deferred tax liability in the amount of $113.2 million relating to certain foreign subsidiaries for which the undistributed earnings are not intended to be reinvested indefinitely.

11. Earnings Per Share

Basic earnings per share (EPS) excludes dilution and is computed by dividing net income attributable to AECOM by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income attributable to AECOM by the weighted average number of common shares outstanding and potential common shares for the period. The Company includes as potential common shares the weighted average dilutive effects of equity awards using the treasury stock method. For the three months ended December 31, 2016, equity awards excluded from the calculation of potential common shares were not significant. The computation of diluted loss per share for the three months ended December 31, 2015 excluded 1.2 million of potential common shares due to their antidilutive effect.

Table of Contents

The following table sets forth a reconciliation of the denominators for basic and diluted earnings per share:

	Three Months Ended December 31, 2016	Three Months Ended December 31, 2015
	(in millions)	
Denominator for basic earnings per share	154.3	153.6
Potential common shares	3.7	
Denominator for diluted earnings per share	158.0	153.6

12. Other Financial Information

Accrued expenses and other current liabilities consist of the following:

		December 31, 2016		September 30, 2016
		(in millions)		
Accrued salaries and benefits	$	887.5	$	964.9
Accrued contract costs		991.6		1,009.8
Other accrued expenses		289.4		410.1
	$	2,168.5	$	2,384.8

Accrued contract costs above include balances related to professional liability accruals of $574.5 million and $611.0 million as of December 31, 2016 and September 30, 2016, respectively. The remaining accrued contract costs primarily relate to costs for services provided by subcontractors and other non-employees. Liabilities recorded related to accrued contract losses were not material as of December 31, 2016 and September 30, 2016. The Company did not have material revisions to estimates for contracts where revenue is recognized using the percentage-of-completion method during the three months ended December 31, 2016.

During the twelve months ended September 30, 2016, the Company recorded revenue related to the expected accelerated recovery of a pension related entitlement from the federal government of approximately $50 million, which is included in accounts receivable-net at December 31, 2016. The actual amount of reimbursement may vary from the Company s expectation.

13. Reclassifications out of Accumulated Other Comprehensive Loss

The accumulated balances and reporting period activities for the three months ended December 31, 2016 and 2015 related to reclassifications out of accumulated other comprehensive loss are summarized as follows (in millions):

	Pension Related Adjustments	Foreign Currency Translation Adjustments	Loss on Derivative Instruments	Accumulated Other Comprehensive Loss
Balances at September 30, 2016	$ (368.9)	$ (483.7)	$ (5.0)	$ (857.6)
Other comprehensive (loss) income before reclassification	13.7	(73.5)	0.7	(59.1)
Amounts reclassified from accumulated other comprehensive loss:				
Actuarial losses, net of tax	3.2			3.2
Cash flow hedge losses, net of tax			0.6	0.6
Balances at December 31, 2016	$ (352.0)	$ (557.2)	$ (3.7)	$ (912.9)

Table of Contents

	Pension Related Adjustments	Foreign Currency Translation Adjustments	Loss on Derivative Instruments	Accumulated Other Comprehensive Loss
Balances at September 30, 2015	$ (204.0)	$ (420.1)	$ (11.0)	$ (635.1)
Other comprehensive income (loss) before reclassification	(1.0)	(96.1)	4.0	(93.1)
Amounts reclassified from accumulated other comprehensive loss:				
Actuarial losses, net of tax	1.7			1.7
Cash flow hedge losses, net of tax			1.3	1.3
Balances at December 31, 2015	$ (203.3)	$ (516.2)	$ (5.7)	$ (725.2)

14. Commitments and Contingencies

The Company records amounts representing its probable estimated liabilities relating to claims, guarantees, litigation, audits and investigations. The Company relies in part on qualified actuaries to assist it in determining the level of reserves to establish for insurance-related claims that are known and have been asserted against it, and for insurance-related claims that are believed to have been incurred based on actuarial analysis, but have not yet been reported to the Company s claims administrators as of the respective balance sheet dates. The Company includes any adjustments to such insurance reserves in its consolidated results of operations. The Company s reasonably possible loss disclosures are presented on a gross basis prior to the consideration of insurance recoveries. The Company does not record gain contingencies until they are realized. In the ordinary course of business, the Company may not be aware that it or its affiliates are under investigation and may not be aware of whether or not a known investigation has been concluded.

In the ordinary course of business, the Company may enter into various arrangements providing financial or performance assurance to clients, lenders, or partners. Such arrangements include standby letters of credit, surety bonds, and corporate guarantees to support the creditworthiness or the project execution commitments of its affiliates, partnerships and joint ventures. Performance arrangements typically have various expiration dates ranging from the completion of the project contract and extending beyond contract completion in certain circumstances such as for warranties. The Company may also guarantee that a project, when complete, will achieve specified performance standards. If the project subsequently fails to meet guaranteed performance standards, the Company may incur additional costs, pay liquidated damages or be held responsible for the costs incurred by the client to achieve the required performance standards. The potential payment amount of an outstanding performance arrangement is typically the remaining cost of work to be performed by or on behalf of third parties. Generally, under joint venture arrangements, if a partner is financially unable to complete its share of the contract, the other partner(s) may be required to complete those activities.

At December 31, 2016 and September 30, 2016, the Company was contingently liable in the amount of approximately $464.9 million and $474.5 million, respectively, in issued standby letters of credit and $3.6 billion and $3.3 billion, respectively, in issued surety bonds primarily to support project execution.

In the ordinary course of business, the Company enters into various agreements providing financial or performance assurances to clients on behalf of certain unconsolidated partnerships, joint ventures and other jointly executed contracts. These agreements are entered into primarily to support the project execution commitments of these entities.

In addition, in connection with the investment activities of AECOM Capital, the Company provides guarantees of certain obligations, including guarantees for completion of projects, repayment of debt, environmental indemnity obligations and acts of willful misconduct.

DOE Deactivation, Demolition, and Removal Project

Washington Group International, an Ohio company (WGI Ohio), an affiliate of URS, executed a cost-reimbursable task order with the Department of Energy (DOE) in 2007 to provide deactivation, demolition and removal services at a New York State project site that, during 2010, experienced contamination and performance issues and remains uncompleted. In February 2011, WGI Ohio and the DOE executed a Task Order Modification that changed some cost-reimbursable contract provisions to at-risk. The Task Order Modification, including subsequent amendments, requires the DOE to pay all project costs up to $106 million, requires WGI Ohio and the DOE to equally share in all project costs incurred from $106 million to $146 million, and requires WGI Ohio to pay all project costs exceeding $146 million.

Due to unanticipated requirements and permitting delays by federal and state agencies, as well as delays and related ground stabilization activities caused by Hurricane Irene in 2011, WGI Ohio has been required to perform work outside the scope of the Task Order Modification. In December 2014, WGI Ohio submitted claims against the DOE pursuant to the Contracts Disputes Acts seeking recovery of $103 million, including additional fees on changed work scope.

Table of Contents

Due to significant delays and uncertainties about responsibilities for the scope of remaining work, final project completion costs and other associated costs may exceed $100 million over the contracted amounts. In addition, WGI Ohio assets and liabilities, including the value of the above costs and claims, were also measured at their fair value on October 17, 2014, the date AECOM acquired WGI Ohio s parent company, see Note 3, which has been reevaluated to account for developments pertaining to this matter.

WGI Ohio can provide no certainty that it will recover the DOE claims and fees submitted in December 2014, as well as any other project costs after December 2014 that WGI Ohio may be obligated to incur including the remaining project completion costs, which could have a material adverse effect on the Company s results of operations.

DOE Hanford Nuclear Reservation

URS Energy and Construction, Washington River Protection Solutions LLC and Washington Closure Hanford LLC (collectively the URS Affiliates) perform services under multiple contracts (including under the Waste Treatment Plant contract, the Tank Farm contract and the River Corridor contract) at the DOE s Hanford nuclear reservation that have been subject to various government investigations or litigation matters:

- Waste Treatment Plant government investigation and litigation: The federal government has conducted an investigation into the Company s affiliate, URS Energy & Construction, a subcontractor on the Waste Treatment Plant, regarding contractual compliance and various technical issues in the design, development and construction of the Waste Treatment Plant. On November 23, 2016, a qui tam civil lawsuit entitled *United States ex rel. Brunson, Busche, and Tamosaitis v. Bechtel National, Inc., Bechtel Corp., URS Corp., and URS Energy & Construction* was unsealed against Bechtel and URS Energy & Construction in the U.S. District Court for the Eastern District of Washington alleging false statements and claims related to the design, development and construction of the Waste Treatment Plant from January 2001 until June 2013, a period which occurred before AECOM s acquisition of URS Corporation and its affiliates in October 17, 2014. URS Energy & Construction is a subcontractor to Bechtel, the prime contractor of the Waste Treatment Plant contract. On November 22, 2016, Bechtel and URS Energy & Construction settled with the federal government to fully resolve the dispute without admitting liability, with URS Energy & Construction agreeing to pay $57.5 million (plus accrued interest and the relators attorneys fees). As a result of this settlement, the Company recorded a net benefit of approximately $35 million, which is reflected as a reduction in cost of revenue.

- Tank Farms government investigation: The federal government conducted an investigation of the Company s joint venture, Washington River Protection Solutions LLC, regarding the failure to comply with time keeping and internal audit requirements. On January 23, 2017, Washington River Protection Solutions LLC settled this matter without admitting liability for $5.3 million, which did not have a material impact to the financial statements.

- River Corridor litigation: The federal government has partially intervened with a relator in a qui tam complaint filed in the Eastern District of Washington in December 2013 against the Company s joint venture, Washington Closure Hanford LLC, alleging that its contracting procedures under the Small Business Act violated the

False Claims Act. On October 2015, Washington Closure Hanford LLC s motion to dismiss the claim was partially denied. Prior to the commencement of discovery, the matter was stayed pending the United States Supreme Court s decision in *Universal Health Services v. United States ex rel. Escobar,* which was rendered in June 2016. The matter resumed in November of 2016, and is now in discovery.

The URS Affiliates periodically reevaluate the estimated fair value of liabilities assumed from URS Corporation, including the legal related liabilities described above and in Note 3, to account for developments related to the Hanford matters. Washington Closure Hanford LLC disputes the River Corridor matter and intends to continue to defend this ongoing matter vigorously. Washington Closure Hanford LLC cannot provide assurances that it will be successful in its defense efforts. The potential range of loss and any difference from the current accrual cannot be reasonably estimated at this time, primarily because the matter involves complex and unique regulatory issues; the matter contains multiple parties; the matter involves conflicts of law between local, state and federal regulations; there is substantial uncertainty regarding any alleged damages; and the matter is in an intermediary stage of litigation.

Securities Litigation Matter

On September 1, 2016, an AECOM stockholder, filed a securities class action complaint in the United States District Court for the Central District of California alleging that the Company and its senior executives made materially false and misleading statements in violation of the federal securities laws. The Company believes the complaint is without merit and intends to vigorously defend against it. While no assurance can be given as to the ultimate outcome of this action, the Company believes that the final resolution of this action will not have a material adverse effect on its consolidated financial position, results of operations, cash flows or ability to conduct business.

Table of Contents

World Bank Review - Asia

The World Bank has conducted inspections of the accounts and records of two of our affiliates in connection with World Bank-financed contracts awarded to those affiliates in Asia. The affiliates have provided information and cooperation to the World Bank and are engaged in discussions with the World Bank to resolve issues arising out of the inspections. No assurance can be given as to the outcome of this matter, and it could result in sanctions against our affiliates.

15. Reportable Segments

The Company s operations are organized into three reportable segments: Design and Consulting Services (DCS), Construction Services (CS), and Management Services (MS). The Company s DCS reportable segment delivers planning, consulting, architectural, environmental, and engineering design services to commercial and government clients worldwide. The Company s CS reportable segment provides construction services primarily in the Americas. The Company s MS reportable segment provides program and facilities management and maintenance, training, logistics, consulting, and technical assistance and systems integration services, primarily for agencies of the U.S. government. These reportable segments are organized by the types of services provided, the differing specialized needs of the respective clients, and how the Company manages its business. The Company has aggregated various operating segments into its reportable segments based on their similar characteristics, including similar long term financial performance, the nature of services provided, internal processes for delivering those services, and types of customers.

During the first quarter of fiscal year 2017, an operation and maintenance related entity previously reported within the CS segment was realigned within the MS segment to reflect present management oversight. Accordingly, approximately $33 million of revenue and $32 million of cost of revenue was reclassified for the quarter ended December 31, 2015 to conform to the current period presentation.

The following tables set forth summarized financial information concerning the Company s reportable segments:

Reportable Segments:	**Design and Consulting Services**	**Construction Services**	**Management Services (in millions)**	**Corporate**	**Total**
Three Months Ended December 31, 2016:					
Revenue	$ 1,840.8	$ 1,750.2	$ 767.3	$	$ 4,358.3
Gross profit	95.2	13.8	61.0		170.0
Equity in earnings of joint ventures	4.1	4.3	13.0		21.4
General and administrative expenses				(32.6)	(32.6)
Acquisition and integration expenses				(15.4)	(15.4)
Operating income	99.3	18.1	74.0	(48.0)	143.4
Gross profit as a % of revenue	5.2%	0.8%	7.9%		3.9%

Three Months Ended December 31, 2015:					
Revenue	$ 1,862.1	$ 1,678.6	$ 757.0	$	$ 4,297.7
Gross profit	79.3	11.4	50.2		140.9
Equity in earnings of joint ventures	3.0	2.6	19.6		25.2
General and administrative expenses				(28.7)	(28.7)
Acquisition and integration expenses				(41.0)	(41.0)
Loss on disposal activities		(41.0)			(41.0)
Operating income	82.3	(27.0)	69.8	(69.7)	55.4
Gross profit as a % of revenue	4.3%	0.7%	6.6%		3.3%

Reportable Segments:					
Total assets					
December 31, 2016	$ 6,646.1	$ 3,516.1	$ 2,631.9	$ 714.9	$ 13,509.0
September 30, 2016	6,655.7	3,556.2	2,692.7	765.3	13,669.9

Table of Contents

16. Condensed Consolidating Financial Information

As discussed in Note 7, on October 6, 2014, AECOM issued $800.0 million aggregate principal amount of its 2022 Notes and $800.0 million aggregate principal amount of its 2024 Notes in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act). AECOM filed a Registration Statement on Form S-4 relating to the offer to exchange the Notes for new 5.75% Senior Notes due 2022 and 5.875% Senior Notes due 2024 that was declared effective by the SEC on September 29, 2015. The Notes are fully and unconditionally guaranteed on a joint and several basis by certain of AECOM s directly and indirectly 100% owned subsidiaries (the Subsidiary Guarantors). Other than customary restrictions imposed by applicable statutes, there are no restrictions on the ability of the Subsidiary Guarantors to transfer funds to AECOM in the form of cash dividends, loans or advances.

In connection with the registration of the exchange offer, AECOM became subject to the requirements of Rule 3-10 of Regulation S-X regarding financial statements of guarantors and issuers of guaranteed securities registered or being registered with the Securities and Exchange Commission. The following condensed consolidating financial information, which is presented for AECOM, the Subsidiary Guarantors on a combined basis and AECOM s non-guarantor subsidiaries on a combined basis, is provided to satisfy the disclosure requirements of Rule 3-10 of Regulation S-X.

Table of Contents

Condensed Consolidating Balance Sheets

(unaudited in millions)

December 31, 2016

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
ASSETS					
CURRENT ASSETS:					
Total cash and cash equivalents	$ 22.0	$ 159.5	$ 516.2	$	$ 697.7
Accounts receivable net		2,081.9	2,456.5		4,538.4
Intercompany receivable	737.9	105.0	135.5	(978.4)	
Prepaid expenses and other current assets	77.4	346.3	284.0		707.7
Income taxes receivable	12.0		18.7	10.6	41.3
TOTAL CURRENT ASSETS	849.3	2,692.7	3,410.9	(967.8)	5,985.1
PROPERTY AND EQUIPMENT NET	170.1	241.4	223.4		634.9
DEFERRED TAX ASSETS NET	282.8		112.4	(258.8)	136.4
INVESTMENTS IN CONSOLIDATED SUBSIDIARIES	5,976.3	1,289.2	58.1	(7,323.6)	
INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES	0.7	52.7	290.5		0.30

$
0.19

Diluted Net Income (Loss) Per Share Attributable to Evercore Partners Inc. Common Shareholders

Numerator:

Net income from continuing operations attributable to Evercore Partners Inc. common shareholders
$
10,568

$
6,457

Noncontrolling interest related to the assumed exchange of LP Units for Class A Shares
(a)

(a)

Associated corporate taxes related to the assumed elimination of Noncontrolling Interest described above
(a)

(a)

Diluted net income from continuing operations attributable to Evercore Partners Inc. common shareholders
10,568

6,457

Net income (loss) from discontinued operations attributable to Evercore Partners Inc. common shareholders
—

(509
)
Diluted net income attributable to Evercore Partners Inc. common shareholders
$
10,568

$
5,948

Denominator:

Weighted average shares of Class A common stock outstanding, including vested RSUs
34,667

31,861

Assumed exchange of LP Units for Class A Shares
(a)

(a)

Additional shares of the Company's common stock assumed to be issued pursuant to non-vested RSUs and deferred consideration, as calculated using the Treasury Stock Method
3,473

3,529

Shares that are contingently issuable	201	—
Assumed conversion of Warrants issued	3,357	2,343
Diluted weighted average shares of Class A common stock outstanding	41,698	37,733
Diluted net income per share from continuing operations attributable to Evercore Partners Inc. common shareholders	$ 0.25	$ 0.17
Diluted net income (loss) per share from discontinued operations attributable to Evercore Partners Inc. common shareholders	—	(0.01)
Diluted net income per share attributable to Evercore Partners Inc. common shareholders	$ 0.25	$ 0.16

(a) The Company has outstanding LP Units in its subsidiary, Evercore LP, which give the holders the right to receive Class A Shares upon exchange on a one for one basis. During the three months ended March 31, 2014 and 2013, the LP Units were antidilutive and consequently the effect of their exchange into Class A Shares has been excluded from the calculation of diluted net income (loss) per share attributable to Evercore Partners Inc. common shareholders. The units that would have been included in the denominator of the computation of diluted net income (loss) per share attributable to Evercore Partners Inc. common shareholders if the effect would have been dilutive were 5,085 and 6,799 for the three months ended March 31, 2014 and 2013, respectively. The adjustment to the numerator, Diluted net income attributable to Class A common shareholders, if the effect would have been dilutive, would have been $1,589 and $1,247 for the three months ended March 31, 2014 and 2013, respectively. In computing this adjustment, the Company assumes that all vested LP

Units, and all unvested LP Units after applying the treasury stock method, are converted into Class A Shares, that all earnings attributable to those shares are attributed to Evercore Partners Inc. and, that it has adopted a conventional corporate tax structure and is taxed as a C Corporation in the U.S. at prevailing corporate tax rates. The Company does not anticipate that the LP Units will result in a dilutive computation in future periods.

The shares of Class B common stock have no right to receive dividends or a distribution on liquidation or winding up of the Company. The shares of Class B common stock do not share in the earnings of the Company and no earnings are allocable to such class. Accordingly, basic and diluted net income per share of Class B common stock have not been presented.

Note 14 – Share-Based and Other Deferred Compensation

During the three months ended March 31, 2014, the Company granted employees 1,798 Service-based Awards. These awards had grant date fair values from $54.29 to $58.67 per share. During the three months ended March 31, 2014, 2,039 Service-based Awards vested and 91 Service-based Awards were forfeited.

During 2011, the Company launched a deferred compensation program providing participants the ability to elect to receive a portion of their deferred compensation in cash, which is indexed to a notional investment portfolio and vests ratably over four years and requires payment upon vesting. Compensation expense related to this deferred compensation program was $894 and $992 for the three months ended March 31, 2014 and 2013, respectively.

Compensation expense related to Service-based Awards, excluding compensation expense related to the amortization of LP Units, was $22,244 and $20,593 for the three months ended March 31, 2014 and 2013, respectively.

Compensation expense related to the amortization of these LP Units was $5,610 for the three months ended March 31, 2013. Compensation expense related to acquisition-related Awards and deferred cash consideration was $2,241 and $932, respectively, for the three months ended March 31, 2014, and $3,608 and $1,049, respectively, for the three months ended March 31, 2013.

During the third quarter of 2013, the Board of Directors of the Company approved the Long-term Incentive Plan, which provides for incentive compensation awards to Advisory Senior Managing Directors, excluding executive officers of the Company, who exceed defined benchmark results over a four-year performance period beginning January 1, 2013. These awards will be paid, in cash or Class A Shares, at the Company's discretion, in the two years following the performance period, to Senior Managing Directors employed by the Company at the time of payment. These awards are subject to retirement eligibility requirements. The Company periodically assesses the probability of the benchmarks being achieved and expenses the probable payout over the requisite service period of the award.

Periodically, the Company provides new and existing employees with cash payments in the form of loans and/or other cash awards which are subject to ratable vesting terms with service requirements ranging from one to five years. Generally, the terms of these awards include a requirement of either full or partial repayment of these awards based on the terms of their employment agreements with the Company. In circumstances where the employee meets the Company's minimum credit standards, the Company amortizes these awards to compensation expense over the relevant service period which is generally the period they are subject to forfeiture. Compensation expense related to these awards was $2,647 and $1,667 for the three months ended March 31, 2014 and 2013, respectively. The remaining unamortized amount of these awards was $13,378 as of March 31, 2014.

Note 15 – Commitments and Contingencies

For a complete discussion of the Company’s commitments, refer to the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

Operating Leases – The Company leases office space under non-cancelable lease agreements, which expire on various dates through 2023. The Company reflects lease expense over the lease terms on a straight-line basis. Occupancy lease agreements, in addition to base rentals, generally are subject to escalation provisions based on certain costs incurred by the landlord. Occupancy and Equipment Rental on the Unaudited Condensed Consolidated Statements of Operations includes occupancy rental expense relating to operating leases of $6,384 and $5,910 for the three months ended March 31, 2014 and 2013, respectively.

During the first quarter of 2014, the Company entered into lease agreements which expire on various dates through 2023 with annual base rental payments of approximately $2,000.

Other Commitments – As of March 31, 2014, the Company has unfunded commitments for capital contributions of $9,880 to private equity funds. These commitments will be funded as required through the end of each private equity fund's investment period, subject to certain conditions. Such commitments are satisfied in cash and are generally required to be made as investment opportunities are consummated by the private equity funds.

The Company also has additional commitments related to its redeemable noncontrolling interests. See Note 12 for further information.

In addition, the Company enters into commitments to pay contingent consideration related to certain of its acquisitions. At March 31, 2014, the Company had one remaining commitment for contingent consideration, related to its acquisition of Protego in 2006. Under the terms of the acquisition agreement, the Company is obligated to pay the partners that sold Protego 90% of the return proceeds and performance fees received from Protego's investment in the general partner of the Discovery Fund. During the first quarter of 2014, the Company received a distribution from Discovery Americas Associated L.P., the general partner of the Discovery Fund. Accordingly, as of March 31, 2014, the Company recorded Goodwill of $817 pursuant to this agreement. The carrying value of the Company's investment in the Discovery Fund is $3,222 at March 31, 2014. See Note 8 for further information.

In 2013, Evercore Partners Services East L.L.C. ("East"), a wholly-owned subsidiary of the Company, obtained a line of credit from First Republic Bank in an aggregate principal amount of up to $25,000, to be used for working capital and other corporate activities. This facility is secured by (i) cash and cash equivalents of East held in a designated account with First Republic Bank, (ii) certain of East's intercompany receivables and (iii) third party accounts receivable of EGL. Drawings under the facility bear interest at the prime rate. The facility matures on June 27, 2014, and may be renewed or extended. The Company drew down $25,000 on this facility on April 22, 2014.

In April 2014, the Company entered into a commitment to purchase 3 units, or 22%, of the aggregate amount of the outstanding EWM Class A units held by members of EWM for Class A Shares and LP Units of the Company, for a fair value of $7,100. This transaction is expected to settle in May 2014 and will increase the Company's ownership in EWM to 62% immediately following this transaction.

Contingencies

In the normal course of business, from time to time the Company and its affiliates are involved in judicial or regulatory proceedings, arbitration or mediation concerning matters arising in connection with the conduct of its businesses, including contractual and employment matters. In addition, Mexican, United Kingdom, Hong Kong, Canadian and United States government agencies and self-regulatory organizations, as well as state securities commissions in the United States, conduct periodic examinations and initiate administrative proceedings regarding the Company's business, including, among other matters, accounting and operational matters, that can result in censure, fine, the issuance of cease-and-desist orders or the suspension or expulsion of a broker-dealer, investment advisor, or its directors, officers or employees. In view of the inherent difficulty of determining whether any loss in connection with such matters is probable and whether the amount of such loss can be reasonably estimated, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, the Company cannot estimate the amount of such loss or range of loss, if any, related to such matters, how or if such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, fine, penalty or other relief, if any, might be. Subject to the foregoing, the Company believes, based on current knowledge and after consultation with counsel, that it is not currently party to any material pending proceedings, individually or in the aggregate, the resolution of which would have a material effect on the Company. Provisions for losses are established in accordance with ASC 450, "Contingencies" when warranted. Once established, such provisions are adjusted when there is more information available or when an event occurs requiring a change.

Note 16 – Regulatory Authorities

EGL is a U.S. registered broker-dealer and is subject to the net capital requirements of Rule 15c3-1 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Beginning in the second quarter of 2013, the Company made the election to compute its minimum net capital requirement in accordance with the Alternative Net Capital Requirement, as permitted by Rule 15c3-1. Under the Alternative Net Capital Requirement, EGL's minimum net capital requirement is $250. EGL’s regulatory net capital as of March 31, 2014 and December 31, 2013 was $37,140 and $30,480, respectively, which exceeded the minimum net capital requirement by $36,890 and $30,230, respectively. Certain other non-U.S. subsidiaries are subject to various securities and banking regulations and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. These subsidiaries are in excess of their local capital adequacy requirements at March 31, 2014.

ETC, which is limited to fiduciary activities, is regulated by the Office of the Comptroller of the Currency ("OCC") and is a member bank of the Federal Reserve System. The Company, Evercore LP and ETC are subject to written agreements with the OCC that, among other things, require the Company and Evercore LP to (1) maintain at least $5,000 in Tier 1 capital in ETC (or such other amount as the OCC may require), (2) maintain liquid assets in ETC in an amount at least equal to the greater of $3,500 or 90 days coverage of ETC’s operating expenses and (3) provide at least $10,000 of certain collateral held in a segregated account at a third-party depository institution. The collateral is included in Assets Segregated for Bank Regulatory Requirements on the Unaudited Condensed Consolidated Statements of Financial Condition. The Company was in compliance with the aforementioned agreements as of March 31, 2014.

Note 17 – Income Taxes

The Company’s Provision for Income Taxes was $7,563 and $7,735 for the three months ended March 31, 2014 and 2013, respectively. The effective tax rate was 36% and 45% for the three months ended March 31, 2014 and 2013, respectively. The effective tax rate for 2014 and 2013 reflects the effect of certain nondeductible expenses, including the vesting of LP Units in 2013, as well as the noncontrolling interest associated with LP Units and other adjustments. The Company reported a decrease in deferred tax assets of $535 associated with changes in Unrealized Gain (Loss) on Marketable Securities and a decrease of $136 associated with changes in Foreign Currency Translation Adjustment Gain (Loss), in Accumulated Other Comprehensive Income (Loss) for the three months ended March 31, 2014. The Company reported a decrease in deferred tax assets of $278 associated with changes in Unrealized Gain (Loss) on Marketable Securities and an increase of $292 associated with changes in Foreign Currency Translation Adjustment Gain (Loss), in Accumulated Other Comprehensive Income (Loss) for the three months ended March 31, 2013.

As of March 31, 2014, the Company had unrecognized tax benefits of $623, $474 of which, if recognized, would affect the effective tax rate. The Company does not anticipate a significant change in unrecognized tax positions as a result of the settlement of income tax audits for examining the Company's income tax returns during the upcoming year.

The Company classifies interest relating to tax matters and tax penalties as a component of income tax expense in its Unaudited Condensed Consolidated Statements of Operations. Related to the unrecognized tax benefits, the Company recognized $17 of interest and penalties during the three months ended March 31, 2014. The Company has $232 accrued for the payment of interest and penalties as of March 31, 2014.

Note 18 – Segment Operating Results

Business Segments – The Company’s business results are categorized into the following two segments: Investment Banking and Investment Management. Investment Banking includes providing advice to clients on significant mergers, acquisitions, divestitures and other strategic corporate transactions, as well as services related to securities underwriting, private fund placement services and commissions for agency-based equity trading services and equity research. Investment Management includes advising third-party investors in the Institutional Asset Management, Wealth Management and Private Equity sectors. On December 3, 2013, the Company sold its investment in Pan and the results are presented within Discontinued Operations. The following segment information reflects the Company's results from its continuing operations.

The Company’s segment information for the three months ended March 31, 2014 and 2013 is prepared using the following methodology:

•

Revenue, expenses and income (loss) from equity method investments directly associated with each segment are included in determining pre-tax income.

- Expenses not directly associated with specific segments are allocated based on the most relevant measures applicable, including headcount, square footage and other performance and time-based factors.
- Segment assets are based on those directly associated with each segment, or for certain assets shared across segments; those assets are allocated based on the most relevant measures applicable, including headcount and other factors.
- Investment gains and losses, interest income and interest expense are allocated between the segments based on the segment in which the underlying asset or liability is held.

Table of Contents
EVERCORE PARTNERS INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(dollars and share / unit amounts in thousands, except per share amounts, unless otherwise noted)

Each segment's Operating Expenses include: a) employee compensation and benefits expenses that are incurred directly in support of the segment and b) non-compensation expenses, which include expenses for premises and occupancy, professional fees, travel and entertainment, communications and information services, equipment and indirect support costs (including compensation and other operating expenses related thereto) for administrative services. Such administrative services include, but are not limited to, accounting, tax, legal, facilities management and senior management activities. Other Expenses include: a) amortization costs associated with the modification and vesting of LP Units and certain other awards, b) the amortization of intangible assets associated with certain acquisitions and c) compensation charges associated with deferred consideration, retention awards and related compensation for Lexicon employees.
The Company evaluates segment results based on net revenues and pre-tax income, both including and excluding the impact of the Other Expenses.
No clients accounted for more than 10% of the Company's consolidated Net Revenues for the three months ended March 31, 2014.
The following information presents each segment's contribution.

	For the Three Months Ended March 31,	
	2014	2013
Investment Banking		
Net Revenues (1)	$127,851	$131,596
Operating Expenses	105,532	105,066
Other Expenses (2)	3,214	9,855
Operating Income	19,105	16,675
Income (Loss) from Equity Method Investments	(310)	170
Pre-Tax Income from Continuing Operations	$18,795	$16,845
Identifiable Segment Assets	$590,956	$526,549
Investment Management		
Net Revenues (1)	$21,262	$21,035
Operating Expenses	19,571	20,710
Other Expenses (2)	82	750
Operating Income (Loss)	1,609	(425)
Income from Equity Method Investments	551	586
Pre-Tax Income from Continuing Operations	$2,160	$161
Identifiable Segment Assets	$453,961	$449,940
Total		
Net Revenues (1)	$149,113	$152,631
Operating Expenses	125,103	125,776
Other Expenses (2)	3,296	10,605
Operating Income	20,714	16,250
Income from Equity Method Investments	241	756
Pre-Tax Income from Continuing Operations	$20,955	$17,006
Identifiable Segment Assets	$1,044,917	$976,489

EVERCORE PARTNERS INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(dollars and share / unit amounts in thousands, except per share amounts, unless otherwise noted)

(1) Net revenues include Other Revenue, net, allocated to the segments as follows:

	For the Three Months Ended March 31,	
	2014	2013
Investment Banking (A)	$(653)	$213
Investment Management (B)	(653)	(402)
Total Other Revenue, net	$(1,306)	$(189)

(A) Investment Banking Other Revenue, net, includes interest expense on the Senior Notes of $1,105 and $1,088 for the three months ended March 31, 2014 and 2013, respectively.

(B) Investment Management Other Revenue, net, includes interest expense on the Senior Notes of $932 and $919 for the three months ended March 31, 2014 and 2013, respectively.

(2) Other Expenses are as follows:

	For the Three Months Ended March 31,	
	2014	2013
Investment Banking		
Amortization of LP Units and Certain Other Awards	$—	$4,909
Acquisition Related Compensation Charges	3,214	4,946
Total Investment Banking	3,214	9,855
Investment Management		
Amortization of LP Units and Certain Other Awards	—	668
Intangible Asset Amortization	82	82
Total Investment Management	82	750
Total Other Expenses	$3,296	$10,605

Geographic Information – The Company manages its business based on the profitability of the enterprise as a whole. The Company’s revenues were derived from clients and private equity funds located and managed in the following geographical areas:

	For the Three Months Ended March 31,	
	2014	2013
Net Revenues: (1)		
United States	$107,927	$90,856
Europe and Other	36,788	39,369
Latin America	5,704	22,595
Total	$150,419	$152,820

(1) Excludes Other Revenue and Interest Expense.
The substantial majority of the Company’s long-lived assets are located in the United States and the United Kingdom.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with Evercore Partners Inc.’s unaudited condensed consolidated financial statements and the related notes included elsewhere in this Form 10-Q.

Forward-Looking Statements

This report contains or incorporates by reference forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act, which reflect our current views with respect to, among other things, our operations and financial performance. In some cases, you can identify these forward-looking statements by the use of words such as “outlook”, “believes”, “expects”, “potential”, “continues”, “may”, “should”, “seeks”, “approximately”, “predicts”, “intends”, “plans”, “estimates”, “anticipates” or the negative version of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties.

Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these forward-looking statements. All statements other than statements of historical fact are forward-looking statements and are based on various underlying assumptions and expectations and are subject to known and unknown risks, uncertainties and assumptions, and may include projections of our future financial performance based on our growth strategies and anticipated trends in our business. We believe these factors include, but are not limited to, those described under “Risk Factors” discussed in the Annual Report on Form 10-K for the year ended December 31, 2013. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included or incorporated by reference in this report. We undertake no obligation to publicly update or review any forward-looking statement. We operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for our management to predict all risks and uncertainties, nor can management assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Key Financial Measures

Revenue

Total revenues reflect revenues from our Investment Banking and Investment Management business segments that include fees for services, transaction-related client reimbursements plus other revenue. Net revenues reflect total revenues less interest expense related to repurchase agreements and the Senior Notes.

Investment Banking. Our Investment Banking business earns fees from our clients for providing advice on mergers, acquisitions, divestitures, leveraged buyouts, restructurings and similar corporate finance matters, and from underwriting and private placement activities, as well as commissions from our sales and trading activities. The amount and timing of the fees paid vary by the type of engagement. In general, advisory fees are paid at the time we sign an engagement letter, during the course of the engagement or when an engagement is completed. The majority of our investment banking revenue consists of advisory fees that are dependent on the successful completion of a transaction. A transaction can fail to be completed for many reasons, including failure of parties to agree upon final terms with the counterparty, to secure necessary board or shareholder approvals, to secure necessary financing or to achieve necessary regulatory approvals. In the case of bankruptcy engagements, fees are subject to approval of the court. Underwriting revenues are recognized when the offering has been deemed to be completed, placement fees are generally recognized at the time of the client’s acceptance of capital or capital commitments and commissions are recorded on a trade-date basis or, in the case of payments under commission sharing arrangements, on the date earned. Revenue trends in our advisory business generally are correlated to the volume of merger and acquisition ("M&A") activity and/or restructuring activity, which tends to be counter-cyclical to M&A. However, deviations from this trend can occur in any given year or quarter for a number of reasons. For example, changes in our market share or the ability of our clients to close certain large transactions can cause our revenue results to diverge from the level of overall M&A or restructuring activity.

Investment Management. Our Investment Management business includes operations related to the management of the Institutional Asset Management, Wealth Management and Private Equity businesses. Revenue sources primarily include management fees, which include fees earned from portfolio companies, fiduciary and consulting fees, performance fees (including carried interest) and gains (or losses) on our investments.

Table of Contents

Management fees for third party clients generally represent a percentage of assets under management ("AUM"). Fiduciary and consulting fees, which are generally a function of the size and complexity of each engagement, are individually negotiated. Management fees from private equity operations are generally a percentage of committed capital or invested capital at rates agreed with the investment funds we manage or with the individual client. Performance fees from private equity funds are earned when specified benchmarks are exceeded. In certain circumstances, such fees are subject to “claw-back” provisions. Portfolio company fees include monitoring, director and transaction fees associated with services provided to the portfolio companies of the private equity funds we manage. Gains and losses include both realized and unrealized gains and losses on principal investments, including those arising from our equity interest in investment partnerships.

Transaction-Related Client Reimbursements. In both our Investment Banking and Investment Management segments, we make various transaction-related expenditures, such as travel and professional fees, on behalf of our clients. Pursuant to the engagement letters with our advisory clients or the contracts with the limited partners in the private equity funds we manage, these expenditures may be reimbursable. We define these expenses as transaction-related expenses and record such expenditures as incurred and record revenue when it is determined that clients have an obligation to reimburse us for such transaction-related expenses. Client expense reimbursements are recorded as revenue on the Unaudited Condensed Consolidated Statements of Operations on the later of the date an engagement letter is executed or the date we pay or accrue the expense.

Other Revenue and Interest Expense. Other Revenue and Interest Expense is derived primarily from investing customer funds in financing transactions. These transactions are principally repurchases and resales of Mexican government and government agency securities. Revenue and expenses associated with these transactions are recognized over the term of the repurchase or resale transaction. Other Revenue includes income earned on marketable securities, cash and cash equivalents and assets segregated for regulatory purposes, as well as adjustments to amounts due pursuant to our tax receivable agreements, subsequent to its initial establishment, related to changes in state and local tax rates. Interest Expense includes interest expense associated with the Senior Notes and other financing arrangements.

Operating Expenses

Employee Compensation and Benefits Expense. We include all payments for services rendered by our employees, as well as profits interests in our businesses that have been accounted for as compensation, in employee compensation and benefits expense.

We maintain compensation programs, including base salary, cash, deferred cash and equity bonus awards and benefits programs and manage compensation to estimates of competitive levels based on market conditions and performance. Our level of compensation reflects our plan to maintain competitive compensation levels to retain key personnel, and it reflects the impact of newly-hired senior professionals, including related grants of equity awards which are generally valued at their grant date.

Increasing the number of high-caliber, experienced senior level employees is critical to our growth efforts. In our advisory businesses, these hires generally do not begin to generate significant revenue in the year they are hired.

Our annual compensation program includes share-based compensation awards and deferred cash awards as a component of the annual bonus awards for certain employees. These awards are generally subject to annual vesting requirements over a four-year period beginning at the date of grant, which occurs in the first quarter of each year; accordingly, the expense is generally amortized over the stated vesting period. With respect to the annual awards granted in February 2012 and thereafter, the Company adopted new retirement eligibility criteria, which stipulates that if an employee has at least five years of continuous service, is at least 55 years of age and has a combined age and years of service of at least 65 years, the employee is eligible for retirement (prior year’s awards required combined years of service and age of at least 70 years). Retirement eligibility allows for continued vesting of awards after employees depart from the Company, provided they give the minimum advance notice, which is generally one year. As a consequence of these changes, a greater number of employees will become retirement eligible and the related requisite service period over which we will expense these awards will be shorter than the stated vesting period.

Non-Compensation Expenses. The balance of our operating expenses includes costs for occupancy and equipment rental, professional fees, travel and related expenses, communications and information technology services, depreciation and amortization, acquisition and transition costs and other operating expenses. We refer to all of these expenses as non-compensation expenses.

Table of Contents

Other Expenses

Other Expenses include: a) amortization costs associated with the modification and vesting of LP Units and certain other awards, b) the amortization of intangible assets associated with certain acquisitions and c) compensation charges associated with deferred consideration, retention awards and related compensation for Lexicon employees.

Income from Equity Method Investments

Our share of the income (loss) from our equity interests in G5 Evercore, ABS and Pan (consolidated on March 15, 2013 and sold on December 3, 2013) are included within Income from Equity Method Investments, as a component of Income Before Income Taxes, on the Unaudited Condensed Consolidated Statements of Operations.

Provision for Income Taxes

We account for income taxes in accordance with ASC 740, "Income Taxes" ("ASC 740"), which requires the recognition of tax benefits or expenses on temporary differences between the financial reporting and tax basis of our assets and liabilities.

Discontinued Operations

We completed the sale of Pan in December 2013. Accordingly, the historical results of Pan have been included within Discontinued Operations on the Unaudited Condensed Consolidated Statements of Operations.

Noncontrolling Interest

We record noncontrolling interest relating to the ownership interests of our current and former Senior Managing Directors, their estate planning vehicles and Trilantic (through October 2013) in Evercore LP, as well as the portions of our operating subsidiaries not owned by Evercore. As described in Note 12 to our unaudited condensed consolidated financial statements herein, Evercore Partners Inc. is the sole general partner of Evercore LP and has a majority economic interest in Evercore LP. As a result, Evercore Partners Inc. consolidates Evercore LP and records a noncontrolling interest for the economic interest in Evercore LP held by the limited partners.

We generally allocate net income or loss to noncontrolling interests held at Evercore LP and at the operating entity level, where required, by multiplying the vested equity ownership percentage of the noncontrolling interest holders for the period by the net income or loss of the entity to which the noncontrolling interest relates. In circumstances where the governing documents of the entity to which the noncontrolling interest relates require special allocations of profits or losses to the controlling and noncontrolling interest holders, then the net income or loss of these entities will be allocated based on these special allocations.

Results of Operations

The following is a discussion of our results from continuing operations for the three months ended March 31, 2014 and 2013. For a more detailed discussion of the factors that affected the revenue and operating expenses of our Investment Banking and Investment Management business segments in these periods, see the discussion in "Business Segments" below.

We operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties, nor can we assess the impact of all potentially applicable factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

	For the Three Months Ended March 31,		
	2014	2013	Change
	(dollars in thousands, except per share data)		
Revenues			
Investment Banking Revenue	$128,504	$131,383	(2%)
Investment Management Revenue	21,915	21,437	2%
Other Revenue	2,069	3,104	(33%)
Total Revenues	152,488	155,924	(2%)
Interest Expense	3,375	3,293	2%
Net Revenues	149,113	152,631	(2%)
Expenses			
Operating Expenses	125,103	125,776	(1%)
Other Expenses	3,296	10,605	(69%)
Total Expenses	128,399	136,381	(6%)
Income Before Income from Equity Method Investments and Income Taxes	20,714	16,250	27%
Income from Equity Method Investments	241	756	(68%)
Income Before Income Taxes	20,955	17,006	23%
Provision for Income Taxes	7,563	7,735	(2%)
Net Income from Continuing Operations	13,392	9,271	44%
Discontinued Operations			
Income (Loss) from Discontinued Operations	—	(1,306)	NM
Provision (Benefit) for Income Taxes	—	(413)	NM
Net Income (Loss) from Discontinued Operations	—	(893)	NM
Net Income	13,392	8,378	60%
Net Income Attributable to Noncontrolling Interest	2,824	2,409	17%
Net Income Attributable to Evercore Partners Inc.	$10,568	$5,969	77%
Diluted Net Income (Loss) Per Share Attributable to Evercore Partners Inc. Common Shareholders			
From Continuing Operations	$0.25	$0.17	47%
From Discontinued Operations	—	(0.01)	NM
Net Income Per Share Attributable to Evercore Partners Inc. Common Shareholders	$0.25	$0.16	56%

As of March 31, 2014 and 2013 we employed approximately 1,000 and 900 people, respectively, worldwide.

Three Months Ended March 31, 2014 versus March 31, 2013

Net Revenues were $149.1 million for the three months ended March 31, 2014, a decrease of $3.5 million, or 2%, versus Net Revenues of $152.6 million for the three months ended March 31, 2013. Investment Banking Revenue decreased 2% and Investment Management Revenue increased 2% compared to the three months ended March 31, 2013. See the segment discussion below for further information. Other Revenue for the three months ended March 31, 2014 was lower than for the three months ended March 31, 2013 primarily as a result of lower gains on our Marketable Securities portfolios. Net Revenues include interest expense on our Senior Notes.

Total Operating Expenses were $125.1 million for the three months ended March 31, 2014, as compared to $125.8 million for the three months ended March 31, 2013, a decrease of $0.7 million, or 1%. Employee Compensation and Benefits Expense, as a component of Operating Expenses, was $88.2 million for the three months ended March 31, 2014, a decrease of $3.3 million, or 4%, versus expense of $91.5 million for the three months ended March 31, 2013. The decrease was primarily due to lower discretionary incentive compensation. Non-compensation expenses as a component of Operating Expenses were $36.9 million for the three months ended March 31, 2014, an increase of $2.6 million, or 8%, over non-compensation operating expenses of $34.3 million for the three months ended March 31,

2013. Non-compensation operating expenses increased compared to the three months ended March 31, 2013 primarily as a result of the expansion of our existing businesses.

Total Other Expenses of $3.3 million for the three months ended March 31, 2014 included acquisition related compensation costs of $3.2 million and amortization of intangibles of $0.1 million. Total Other Expenses of $10.6 million for the three months ended March 31, 2013 included compensation costs associated with the vesting of LP Units and certain other awards of $5.6 million, acquisition related compensation costs of $4.9 million and amortization of intangibles of $0.1 million.
As a result of the factors noted above, Employee Compensation and Benefits Expense as a percentage of Net Revenues was 61% for the three months ended March 31, 2014, compared to 67% for the three months ended March 31, 2013.

Income from Equity Method Investments was $0.2 million for the three months ended March 31, 2014, as compared to $0.8 million for the three months ended March 31, 2013. The decrease was primarily a result of a decrease in earnings from
G5 Evercore.

The provision for income taxes for the three months ended March 31, 2014 was $7.6 million, which reflected an effective tax rate of 36%. The provision was impacted by the noncontrolling interest associated with LP Units, state, local and foreign taxes and other adjustments. The provision for income taxes for the three months ended March 31, 2013 was $7.7 million, which reflected an effective tax rate of 45%. The provision was impacted by the vesting of LP Units, which were fully vested as of December 31, 2013, as well as the noncontrolling interest associated with LP Units and the release of valuation allowances for certain deferred tax assets.

Noncontrolling Interest was $2.8 million for the three months ended March 31, 2014 compared to $2.4 million for the three months ended March 31, 2013 (which includes noncontrolling interest related to discontinued operations of ($0.4) million).
Impairment of Assets
During the first quarter of 2014, there were no material changes in the facts and assumptions related to the November 30, 2013 impairment assessment that would have caused the Company to reach a different conclusion. As such, the Company considered the criteria required by ASC 350, “Intangibles - Goodwill and Other”, and ASC 360, “Property, Plant, and Equipment”, and concluded that there were no triggering events during the first quarter of 2014 that would have required a Step 1 impairment assessment.

Business Segments

The following data presents revenue, expenses and contributions from our equity method investments included within continuing operations, by business segment.

Investment Banking

The following table summarizes the operating results of the Investment Banking segment.

	For the Three Months Ended March 31,			
	2014	2013	Change	
	(dollars in thousands)			
Revenues				
Investment Banking Revenue:				
Advisory Revenue	$116,452	$113,505	3	%
Commission Revenue	8,256	7,046	17	%
Underwriting Revenue	3,796	10,832	(65	%)
Total Investment Banking Revenue (1)	128,504	131,383	(2	%)
Other Revenue, net (2)	(653)	213	NM	
Net Revenues	127,851	131,596	(3	%)
Expenses				
Operating Expenses	105,532	105,066	—	%
Other Expenses	3,214	9,855	(67	%)
Total Expenses	108,746	114,921	(5	%)
Operating Income (3)	19,105	16,675	15	%
Income (Loss) from Equity Method Investments	(310)	170	NM	
Pre-Tax Income from Continuing Operations	$18,795	$16,845	12	%

(1) Includes client related expenses of $2.5 million for the three months ended March 31, 2014 and 2013.

(2) Includes interest expense on the Senior Notes of $1.1 million for the three months ended March 31, 2014 and 2013.

(3) Includes Noncontrolling Interest of ($0.9) million and $0.4 million for the three months ended March 31, 2014 and 2013, respectively.

For the three months ended March 31, 2014, the level of North American announced and completed M&A activity increased 29% and 34%, respectively, compared to the three months ended March 31, 2013, while the level of Global announced and completed M&A activity for the three months ended March 31, 2014 increased 38% and decreased (2%), respectively, compared to the three months ended March 31, 2013:

	For the Three Months Ended March 31,			
	2014	2013	Change	
Industry Statistics ($ in billions) *				
Value of North American M&A Deals Announced	$313	$243	29	%
Value of North American M&A Deals Completed	$346	$259	34	%
Value of Global M&A Deals Announced	$673	$486	38	%
Value of Global M&A Deals Completed	$533	$544	(2	%)
Evercore Statistics **				
Total Number of Fee Paying Advisory Clients	116	115	1	%
Investment Banking Fees of at Least $1 million from Advisory Clients	32	26	23	%

* Source: Thomson Reuters April 10, 2014

** Includes revenue generating clients only

32

Investment Banking Results of Operations

Three Months Ended March 31, 2014 versus March 31, 2013

Net Investment Banking Revenues were $127.9 million for the three months ended March 31, 2014 compared to $131.6 million for the three months ended March 31, 2013, which represented a decrease of 3%. We earned advisory fees from 116 clients for the three months ended March 31, 2014 compared to 115 for the three months ended March 31, 2013, representing a 1% increase. We had 32 fees in excess of $1.0 million for the three months ended March 31, 2014, compared to 26 for the three months ended March 31, 2013, representing a 23% increase. The decrease in revenues from the three months ended March 31, 2013 primarily reflects a decrease in the number of underwriting transactions during the three months ended March 31, 2014 in our U.S. and Mexico businesses. Commission Revenue for the three months ended March 31, 2014 was higher than for the three months ended March 31, 2013 primarily as a result of increased volume in our U.S. business.

Operating Expenses were $105.5 million for the three months ended March 31, 2014, flat compared to $105.1 million for the three months ended March 31, 2013. Employee Compensation and Benefits Expense, as a component of Operating Expenses, was $75.5 million for the three months ended March 31, 2014, as compared to $78.0 million for the three months ended March 31, 2013, a decrease of $2.5 million, or 3%. The decrease was primarily due to lower discretionary incentive compensation, consistent with the overall decrease in revenues. Non-compensation expenses, as a component of Operating Expenses, were $30.0 million for the three months ended March 31, 2014, as compared to $27.1 million for the three months ended March 31, 2013, an increase of $2.9 million, or 11%. Non-compensation operating expenses increased from the prior year primarily driven by growth in the business. The increase in Investment Banking headcount has also led directly and indirectly to cost increases relating to travel, professional and regulatory fees.

Other Expenses of $3.2 million for the three months ended March 31, 2014 were related to acquisition related compensation costs. Other Expenses of $9.9 million for the three months ended March 31, 2013 included compensation costs associated with the vesting of LP Units and certain other awards of $4.9 million and acquisition related compensation costs of $4.9 million.

Investment Management

The following table summarizes the operating results of the Investment Management segment.

	For the Three Months Ended March 31,		
	2014	2013	Change
	(dollars in thousands)		
Revenues			
Investment Advisory and Management Fees:			
Wealth Management	$7,167	$6,549	9 %
Institutional Asset Management	11,141	10,415	7 %
Private Equity	2,025	2,191	(8 %)
Total Investment Advisory and Management Fees	20,333	19,155	6 %
Realized and Unrealized Gains (Losses):			
Institutional Asset Management	1,643	1,805	(9 %)
Private Equity	(61)	477	NM
Total Realized and Unrealized Gains	1,582	2,282	(31 %)
Investment Management Revenue (1)	21,915	21,437	2 %
Other Revenue, net (2)	(653)	(402)	(62 %)
Net Investment Management Revenues	21,262	21,035	1 %
Expenses			
Operating Expenses	19,571	20,710	(5 %)
Other Expenses	82	750	(89 %)
Total Expenses	19,653	21,460	(8 %)
Operating Income (Loss) (3)	1,609	(425)	NM
Income from Equity Method Investments (4)	551	586	(6 %)
Pre-Tax Income from Continuing Operations	$2,160	$161	NM

(1) Includes transaction-related client reimbursements of $0.01 million and $0.04 million for the three months ended March 31, 2014 and 2013, respectively.

(2) Includes interest expense on the Senior Notes of $0.9 million for the three months ended March 31, 2014 and 2013.

(3) Includes Noncontrolling Interest of $1.4 million and $0.1 million for the three months ended March 31, 2014 and 2013, respectively.

(4) Equity in G5 Evercore, ABS and Pan is classified as Income from Equity Method Investments. The Company's investment in Pan was consolidated during the first quarter of 2013.

Investment Management Results of Operations

Our Wealth Management business includes the results of EWM. Our Institutional Asset Management business includes the results of ETC, ECB and Atalanta Sosnoff. Fee-based revenues from EWM, Atalanta Sosnoff and ECB are primarily earned on a percentage of AUM, while ETC primarily earns fees from negotiated trust services and fiduciary consulting arrangements.

In 2013, the Company held a fourth and final closing on EMCP III, a private equity fund focused on middle market investments in Mexico. See Note 8 of our unaudited condensed consolidated financial statements for further information.

ECP II earns management fees of 1% of invested capital through December 21, 2013, the technical termination of the fund. No management fees were earned by the Company in 2013. We earn management fees on EMCP II and EMCP III of 2.0% per annum of committed capital during its investment period, and 2.0% per annum on net funded capital thereafter. In addition, the general partner of the private equity funds earns carried interest of 20% based on the fund’s performance, provided it exceeds preferred return hurdles to its limited partners. We own 8%-9% of the carried interest earned by the general partner of ECP II. A significant portion of any gains recognized related to ECP II, EMCP II and EMCP III, and any carried interest recognized by them, are distributed to certain of our private equity professionals.

34

In the event the funds perform below certain thresholds we may be obligated to repay certain carried interest previously distributed. As of March 31, 2014, we had $2.7 million of previously received carried interest that may be subject to repayment.
We made investments accounted for under the equity method of accounting in G5 Evercore and ABS during the fourth quarters of 2010 and 2011, respectively, the results of which are included within Income from Equity Method Investments.
Assets Under Management

AUM for our Investment Management business of $13.9 billion at March 31, 2014 increased from $13.6 billion at December 31, 2013. The amounts of AUM presented in the table below reflect the assets for which we charge a management fee. These assets reflect the fair value of assets managed on behalf of Institutional Asset Management and Wealth Management clients, and the amount of either the invested or committed capital of the Private Equity funds. As defined in ASC 820, "Fair Value Measurements and Disclosures" ("ASC 820"), valuations performed for Level I investments are based on quoted prices obtained from active markets generated by third parties and Level II investments are valued through the use of models based on either direct or indirect observable inputs in the use of models or other valuation methodologies performed by third parties to determine fair value. For both the Level I and Level II investments, we obtain both active quotes from nationally recognized exchanges and third-party pricing services to determine market or fair value quotes, respectively. Wealth Management maintained 63% of Level I investments and 37% of Level II investments as of March 31, 2014 and December 31, 2013 and Institutional Asset Management maintained 90% and 91% of Level I investments and 10% and 9% of Level II investments as of March 31, 2014 and December 31, 2013, respectively. As noted above, Private Equity AUM is not presented at fair value, but reported at either invested or committed capital in line with fee arrangements.

The fees that we receive for providing investment advisory and management services are primarily driven by the level and composition of AUM. Accordingly, client flows, market movements, foreign currency fluctuations and changes in our product mix will impact the level of management fees we receive from our investment management businesses. Fees vary with the type of assets managed and the channel in which they are managed, with higher fees earned on equity assets, alternative investment funds, such as hedge funds and private equity funds, and lower fees earned on fixed income and cash management products. Clients will increase or reduce the aggregate amount of AUM that we manage for a number of reasons, including changes in the level of assets that they have available for investment purposes, their overall asset allocation strategy, our relative performance versus competitors offering similar investment products and the quality of our service. The fees we earn are also impacted by our investment performance, as the appreciation or depreciation in the value of the assets that we manage directly impacts our fees. The following table summarizes AUM activity for the three months ended March 31, 2014:

	Wealth Management	Institutional Asset Management	Private Equity	Total
	(dollars in millions)			
Balance at December 31, 2013	$4,874	$8,374	$385	$13,633
Inflows	269	442	—	711
Outflows	(98)	(445)	(11)	(554)
Market Appreciation (Depreciation)	109	(19)	—	90
Balance at March 31, 2014	$5,154	$8,352	$374	$13,880
Unconsolidated Affiliates - Balance at March 31, 2014:				
G5 Evercore	$2,270	$—	$—	$2,270
ABS	$—	$4,607	$—	$4,607

The following table represents the composition of our AUM for Wealth Management and Institutional Asset Management as of March 31, 2014:

	Wealth Management		Institutional Asset Management	
Equities	54	%	67	%
Fixed Income	35	%	29	%
Liquidity (1)	8	%	3	%
Alternatives	3	%	1	%
Total	100	%	100	%

(1) Includes cash and cash equivalents and U.S. Treasury securities.

Our Wealth Management business serves individuals, families and related institutions delivering customized investment management, financial planning, and trust and custody services. Investment portfolios are tailored to meet the investment objectives of individual clients and reflect a blend of equity, fixed income and other products. Fees charged to clients reflect the composition of the assets managed and the services provided. Investment performance in the Wealth Management businesses is measured against appropriate indices based on the AUM, most frequently the S&P 500 and a composite fixed income index principally reflecting BarCap and MSCI indices.

For the three months ended March 31, 2014, AUM for Wealth Management increased 6%, reflecting a 4% increase due to flows and a 2% increase due to market appreciation. Wealth Management outperformed the S&P 500 on a 1 and 3 year basis by 9% and 2%, respectively, during the period and tracked the fixed income composite. For the period, the S&P 500 was up 2%, while the fixed income composite increased by 1%.

Our Institutional Asset Management business reflects assets managed by Atalanta Sosnoff and ECB. Atalanta Sosnoff manages large-capitalization U.S. equity and balanced products, while, ECB primarily manages Mexican Government and Corporate fixed income securities. ECB also manages equity products.

Atalanta Sosnoff principally utilizes the S&P 500 Index as a benchmark in reviewing their performance and managing their investment decisions, while ECB utilizes the IPC Index, which is a capitalization weighted index of leading equities traded on the Mexican Stock Exchange and the Cetes 28 Index, which is an index of Treasury Bills issued by the Mexican Government.

For the three months ended March 31, 2014, AUM for Institutional Asset Management was flat, reflecting inflows being offset from outflows and slight market depreciation. This principally reflects Atalanta Sosnoff lagging the index by 3%, as well as ECB outperforming the indices in all strategies. While AUM for Atalanta Sosnoff decreased, as their three year performance continued to lag the benchmark and equity, AUM for ECB increased, reflecting strong investment performance and the continued marketing efforts to expand the market share of the business.

Our Private Equity business includes the assets of funds which our Private Equity professionals manage. These funds include ECP II, Discovery Americas I, L.P., EMCP II and EMCP III. AUM for Private Equity decreased 3% for the three months ended March 31, 2014 from outflows related to the continued wind-down of the U.S. Private Equity business.

AUM from our unconsolidated affiliates increased from December 31, 2013 primarily related to positive performance in ABS.

Three Months Ended March 31, 2014 versus March 31, 2013

Net Investment Management Revenues were $21.3 million for the three months ended March 31, 2014, compared to $21.0 million for the three months ended March 31, 2013. Investment Advisory and Management Fees earned from the management of client portfolios and other investment advisory services increased 6% from the three months ended March 31, 2013, primarily reflecting an increase in AUM in Wealth Management and in Institutional Asset Management. Fee-based revenues included $0.03 million of revenues from performance fees during the three months ended March 31, 2014 compared to $0.09 million during the three months ended March 31, 2013. Realized and Unrealized Gains decreased from the prior year primarily resulting from losses in our private equity funds, which were principally driven by realized and unrealized losses on portfolio companies in Mexico. Income (Loss) from Equity Method Investments decreased from the three months ended March 31, 2013 primarily as a result of a decrease in earnings from our investment in G5 Evercore.

36

Operating Expenses were $19.6 million for the three months ended March 31, 2014, as compared to $20.7 million for the three months ended March 31, 2013, a decrease of $1.1 million, or 5%. Employee Compensation and Benefits Expense, as a component of Operating Expenses, was $12.6 million for the three months ended March 31, 2014, as compared to $13.5 million for the three months ended March 31, 2013, a decrease of $0.9 million, or 7%. The decrease was due primarily to lower discretionary incentive compensation. Non-compensation expenses, as a component of Operating Expenses, were $6.9 million for the three months ended March 31, 2014, as compared to $7.2 million for the three months ended March 31, 2013, a decrease of $0.3 million, or 4%.

Other Expenses of $0.1 million for the three months ended March 31, 2014 were related to amortization of intangibles. Other Expenses of $0.8 million for the three months ended March 31, 2013 included compensation costs associated with the vesting of LP Units and certain other awards of $0.7 million and amortization of intangibles of $0.1 million.

Cash Flows

Our operating cash flows are primarily influenced by the timing and receipt of investment banking and investment management fees, and the payment of operating expenses, including bonuses to our employees and interest expense on our Senior Notes. Investment Banking advisory fees are generally collected within 90 days of billing. However, placement fees may be collected within 180 days of billing, with certain fees being collected in a period exceeding one year. Management fees from our private equity investment management activities are generally billed in advance but collected at the end of a half year period from billing. Fees from our Wealth Management and Institutional Asset Management businesses are generally billed and collected within 90 days. We traditionally pay a substantial portion of incentive compensation to personnel in the Investment Banking business and to executive officers during the first three months of each calendar year with respect to the prior year’s results. Our investing and financing cash flows are primarily influenced by activities to deploy capital to fund investments and acquisitions, raise capital through the issuance of stock or debt, repurchase of outstanding Class A shares, and/or noncontrolling interest in Evercore LP, as well as our other subsidiaries, payment of dividends and other periodic distributions to our stakeholders. We generally make dividend payments and other distributions on a quarterly basis. A summary of our operating, investing and financing cash flows is as follows:

	For the Three Months Ended March 31,	
	2014	2013
	(dollars in thousands)	
Cash Provided By (Used In)		
Operating activities:		
Net income	$13,392	$8,378
Non-cash charges	47,164	34,799
Other operating activities	(176,993)	(128,045)
Operating activities	(116,437)	(84,868)
Investing activities	954	1,783
Financing activities	(58,496)	(38,609)
Effect of exchange rate changes	(410)	(703)
Net Increase (Decrease) in Cash and Cash Equivalents	(174,389)	(122,397)
Cash and Cash Equivalents		
Beginning of Period	298,453	259,431
End of Period	$124,064	$137,034

Three Months Ended March 31, 2014. Cash and Cash Equivalents were $124.1 million at March 31, 2014, a decrease of $174.4 million versus Cash and Cash Equivalents of $298.5 million at December 31, 2013. Operating activities resulted in a net outflow of $116.4 million, primarily related to the payment of 2013 bonus awards. Cash of $1.0 million was provided by investing activities primarily related to net proceeds from maturities and sales of our marketable securities. Financing activities during the period used cash of $58.5 million, primarily for the payment of dividends and distributions to noncontrolling interest holders, as well as treasury stock and noncontrolling interest purchases.

Three Months Ended March 31, 2013. Cash and Cash Equivalents were $137.0 million at March 31, 2013, a decrease of $122.4 million versus Cash and Cash Equivalents of $259.4 million at December 31, 2012. Operating activities resulted in a net outflow of $84.9 million, primarily related to the payment of 2012 bonus awards. Cash of $1.8 million was provided by investing activities primarily related to net proceeds from maturities and sales of our marketable securities, partially offset by investments purchased and purchases of furniture, equipment and leasehold improvements. Financing activities during the period used cash of $38.6 million, primarily for the payment of dividends, distributions to Partners and treasury stock purchases.

Liquidity and Capital Resources

General

Our current assets include Cash and Cash Equivalents, Marketable Securities and Accounts Receivable relating to Investment Banking and Investment Management revenues. Our current liabilities include accrued expenses and accrued employee compensation. We traditionally have made payments for employee bonus awards and year-end distributions to partners in the first quarter of the year with respect to the prior year’s results. Cash distributions related to partnership tax allocations are made to the partners of Evercore LP in accordance with our corporate estimated payment calendar; these payments are made prior to the end of each calendar quarter. In addition, dividends on Class A Shares are paid when and if declared by the Board of Directors, which is generally quarterly.

We regularly monitor our liquidity position, including cash, other significant working capital, current assets and liabilities, long-term liabilities, lease commitments and related fixed assets, principal investment commitments related to our Investment Management business, dividends on Class A Shares, partnership distributions and other capital transactions, as well as other matters relating to liquidity and compliance with regulatory requirements. Our liquidity is highly dependent on our revenue stream from our operations, principally from our Investment Banking business, which is a function of closing transactions and earning success fees, the timing and realization of which is irregular and dependent upon factors that are not subject to our control. Our revenue stream funds the payment of our expenses, including annual bonus payments, a portion of which are guaranteed, interest expense on our Senior Notes and income taxes. Payments made for income taxes may be reduced by deductions taken for the increase in tax basis of our investment in Evercore LP. These tax deductions, when realized, require payment under our long-term liability, Amounts Due Pursuant to Tax Receivable Agreements. We intend to fund these payments from cash and cash equivalents on hand, principally derived from cash flows from operations. These tax deductions, when realized, will result in cash otherwise required to satisfy tax obligations becoming available for other purposes. Our Management Committee meets regularly to monitor our liquidity and cash positions against our short and long-term obligations, as well as our capital requirements and commitments. The result of this review contributes to management’s recommendation to the Board of Directors as to the level of quarterly dividend payments, if any.

As a financial services firm, our businesses are materially affected by conditions in the global financial markets and economic conditions throughout the world. Revenue generated by our advisory activities is related to the number and value of the transactions in which we are involved. During periods of unfavorable market or economic conditions, the number and value of M&A transactions generally decrease, and they generally increase during periods of favorable market or economic conditions. Restructuring activity generally is counter-cyclical to M&A activity. In addition, during periods of unfavorable market conditions our Investment Management business may be impacted by reduced equity valuations and generate relatively lower revenue because fees we receive typically are in part based on the market value of underlying publicly-traded securities. Our profitability 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 and in an amount sufficient to match any decreases in revenue relating to changes in market and economic conditions. Reduced equity valuations resulting from future adverse economic events and/or market conditions may impact our performance and may result in future net redemptions of AUM from our clients, which would generally result in lower revenues and cash flows. For a further discussion of risks related to our business, refer to “Risk Factors” in our Form 10-K for the year ended December 31, 2013.

We periodically repurchase Class A Shares and/or LP Units into Treasury in order to reduce the dilutive effect of equity awards granted. In addition, we may from time to time, purchase noncontrolling interests in subsidiaries.

In October 2013 our Board of Directors authorized the repurchase of additional Class A Shares and/or LP Units so that going forward Evercore will be able to repurchase an aggregate of 5 million Class A Shares and/or LP Units for up to $250.0 million. Under this share repurchase program, shares may be repurchased from time to time in open market transactions, in privately-negotiated transactions or otherwise. The timing and the actual amount of shares repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. This program may be suspended or discontinued at any time and does not have a specified expiration date. During the three months ended March 31, 2014, we repurchased 213,339 shares for $11.5 million pursuant to our repurchase program.

Table of Contents

In addition, periodically, we buy shares into treasury from our employees in order to allow them to satisfy their minimum tax requirements for share deliveries under our share equity plan. During the three months ended March 31, 2014, we repurchased 936,272 shares for $50.4 million primarily related to minimum tax withholding requirements of share deliveries.

On August 21, 2008, we entered into a Purchase Agreement with Mizuho pursuant to which Mizuho purchased from us $120.0 million principal amount of Senior Notes and Warrants to purchase 5,454,545 Class A Shares at $22.00 per share expiring in 2020. The holder of the Senior Notes may require us to purchase, for cash, all or any portion of the holder's Senior Notes upon a change of control of the Company for a price equal to the aggregate accreted amount of such Senior Notes, (the "Accreted Amount"), plus accrued and unpaid interest. Senior Notes held by Mizuho will be redeemable at the Accreted Amount at our option at any time within 90 days following the date on which Mizuho notifies us that it is terminating their Strategic Alliance Agreement. Senior Notes held by any holder other than Mizuho will be redeemable at the Accreted Amount (plus accrued and unpaid interest) at our option at any time. In the event of a default under the indenture, the trustee or holders of 33 1/3% of the Senior Notes may declare that the Accreted Amount is immediately due and payable.

Pursuant to the agreement, Mizuho may transfer (A) the Senior Notes (i) with the Company's consent, (ii) to a permitted transferee, or (iii) to the extent that such transfer does not result in any holder or group of affiliated holders directly or indirectly owning more than 15% of the aggregate principal amount of the Senior Notes, and (B) the Warrants (i) with the Company's consent, (ii) to a permitted transferee, (iii) pursuant to a tender or exchange offer, or a merger or sale transaction involving the Company that has been recommended by the Company's Board of Directors, or (iv) to the extent that such transfer is made pursuant to a widely distributed public offering or does not result in any holder or group of affiliated holders directly or indirectly owning more than 2% of the Company's voting securities and the total shares of Class A common stock transferred, together with any shares of Class A common stock (on an as-converted basis) transferred during the preceding 12 months, is less than 25% of the Company's outstanding Class A common stock. The Company has a right of first offer on any proposed transfer by Mizuho of the Warrants, Common Stock purchased in the open market or acquired by exercise of the Warrants and associated Common Stock issued as dividends.

The exercise price for the Warrants is payable, at the option of the holder of the Warrants, either in cash or by tender of Senior Notes at the Accreted Amount, at any point in time.

Pursuant to the Purchase Agreement with Mizuho, Evercore is subject to certain nonfinancial covenants. As of March 31, 2014, we were in compliance with all of these covenants.

We have made certain capital commitments, with respect to our investment activities, as well as commitments related to redeemable noncontrolling interest and contingent consideration from our acquisitions, which are included in the Contractual Obligations section below.

In 2013, we established a $25.0 million line of credit with First Republic Bank for funding working capital and other corporate activities. This facility is secured with certain of our Accounts Receivable outstanding from the date of the agreement and/or restricted cash included in Other Assets on the Unaudited Condensed Consolidated Statements of Financial Condition. The interest rate on this facility is the U.S. prime rate. The Company drew down $25.0 million on this facility on April 22, 2014.

ECB maintains a line of credit with BBVA Bancomer to fund its trading activities on an intra-day and overnight basis. The intra-day facility is approximately $11.5 million and is secured with trading securities when used on an overnight basis. No interest is charged on the intra-day facility. The overnight facility is charged the Inter-Bank Balance Interest Rate plus 10 basis points and is secured with trading securities. There have been no significant monies drawn on ECB's line of credit since August 10, 2006. The line of credit is renewable annually.

Pursuant to deferred compensation and deferred consideration arrangements, we are obligated to make cash payments in future periods. For further information see Note 14 to our unaudited condensed consolidated financial statements.

Certain of our subsidiaries are regulated entities and are subject to capital requirements. For further information see Note 16 to our unaudited condensed consolidated financial statements.

Collateralized Financing Activity at ECB

ECB enters into repurchase agreements with clients seeking overnight money market returns whereby ECB transfers to the clients Mexican government securities in exchange for cash and concurrently agrees to repurchase the securities at a future date for an amount equal to the cash exchanged plus a stipulated premium or interest factor. ECB deploys the cash received

Table of Contents

from, and acquires the securities deliverable to, clients under these repurchase arrangements by purchasing securities in the open market or by entering into reverse repurchase agreements with unrelated third parties. We account for these repurchase and reverse repurchase agreements as collateralized financing transactions. We record a liability on our Unaudited Condensed Consolidated Statements of Financial Condition in relation to repurchase transactions executed with clients as Securities Sold Under Agreements to Repurchase. We record as assets on our Unaudited Condensed Consolidated Statements of Financial Condition, Financial Instruments Owned and Pledged as Collateral at Fair Value (where we have acquired the securities deliverable to clients under these repurchase arrangements by purchasing securities in the open market) and Securities Purchased Under Agreements to Resell (where we have acquired the securities deliverable to clients under these repurchase agreements by entering into reverse repurchase agreements with unrelated third parties). These Mexican government securities included in Financial Instruments Owned and Pledged as Collateral at Fair Value on the Unaudited Condensed Consolidated Statements of Financial Condition have an estimated average time to maturity of approximately 1.9 years, as of March 31, 2014, and are pledged as collateral against repurchase agreements, which are collateralized financing agreements. Generally, collateral is posted equal to the contract value at inception and is subject to market changes. These repurchase agreements are primarily with institutional customer accounts managed by ECB, generally mature within one business day and permit the counterparty to pledge the securities. Increases and decreases in asset and liability levels related to these transactions are a function of growth in ECB's AUM, as well as clients' investment allocations requiring positioning in repurchase transactions.

ECB has procedures in place to monitor the daily risk limits for positions taken, as well as the credit risk based on the collateral pledged under these agreements against their contract value from inception to maturity date. The daily risk measure is Value at Risk ("VaR"), which is a statistical measure, at a 98% confidence level, of the potential daily losses from adverse market movements in an ordinary market environment based on a historical simulation using the prior year's historical data. ECB's Risk Management Committee (the "Committee") has established a policy to maintain VaR at levels below 0.1% of the value of the portfolio. If at any point in time the threshold is exceeded, ECB personnel are alerted by an automated interface with ECB's trading systems and begin to make adjustments in the portfolio in order to mitigate the risk and bring the portfolio in compliance. Concurrently, ECB personnel must notify the Committee of the variance and the actions taken to reduce the exposure to loss.

In addition to monitoring VaR, ECB periodically performs discrete stress tests ("Stress Tests") to assure that the level of potential losses that would arise from extreme market movements that may not be anticipated by VaR measures are within acceptable levels. The table below includes a key stress test monitored by the Committee, noted as the sensitivity to a 100 basis point change in interest rates. This analysis assists ECB in understanding the impact of an extreme move in rates, assuring the Collateralized Financing portfolio is structured to maintain risk at an acceptable level, even in extreme circumstances.

The Committee meets monthly to analyze the overall market risk exposure based on positions taken, as well as the credit risk, based on the collateral pledged under these agreements against the contract value from inception to maturity date. In these meetings the Committee evaluates risk from an operating perspective, VaR, and an exceptional perspective, Stress Tests, to determine the appropriate level of risk limits in the current environment.

We periodically assess the collectability or credit quality related to securities purchased under agreements to resell.

As of March 31, 2014 and December 31, 2013, a summary of ECB's assets, liabilities and risk measures related to its collateralized financing activities is as follows:

Table of Contents

	March 31, 2014		December 31, 2013	
	Amount	Market Value of Collateral Received or (Pledged)	Amount	Market Value of Collateral Received or (Pledged)
	(dollars in thousands)			
Assets				
Financial Instruments Owned and Pledged as Collateral at Fair Value	$58,183		$56,311	
Securities Purchased Under Agreements to Resell	20,560	$ 20,574	19,134	$ 19,112
Total Assets	78,743		75,445	
Liabilities				
Securities Sold Under Agreements to Repurchase	(78,831)	$ (78,903)	(75,563)	$ (75,708)
Net Liabilities	$(88)		$(118)	
Risk Measures				
VaR	$3		$7	
Stress Test:				
Portfolio sensitivity to a 100 basis point increase in the interest rate	$(39)		$(35)	
Portfolio sensitivity to a 100 basis point decrease in the interest rate	$39		$35	

Contractual Obligations

For a complete discussion of our contractual obligations, refer to the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

As of March 31, 2014, we were unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authority per ASC 740, hence, unrecognized tax benefits have been excluded from this disclosure.

We had total commitments (not reflected on our Unaudited Condensed Consolidated Statements of Financial Condition) relating to future capital contributions to private equity funds of $9.9 million as of March 31, 2014 and December 31, 2013. We expect to fund these commitments with cash flows from operations. We may be required to fund these commitments at any time through June 2022, depending on the timing and level of investments by our private equity funds.

We also have commitments related to our redeemable noncontrolling interests. The value of our redeemable noncontrolling interests, which principally includes noncontrolling interests held by the principals of EWM and Atalanta Sosnoff, increased from $36.8 million as of December 31, 2013 to $38.9 million as of March 31, 2014, as recorded on our Unaudited Condensed Consolidated Statements of Financial Condition. The increase resulted primarily from a $2.1 million increase related to noncontrolling interests held by the principals of EWM. In April 2014, the Company entered into a commitment to purchase 3,332 units, or 22%, of the aggregate amount of the outstanding EWM Class A units held by members of EWM for Class A Shares and LP Units of the Company, for a fair value of $7.1 million. This transaction is expected to settle in May 2014 and will increase the Company's ownership in EWM to 62% immediately following this transaction. See Note 12 to our unaudited condensed consolidated financial statements for further information.

Off-Balance Sheet Arrangements

We do not invest in any off-balance sheet vehicles that provide liquidity, capital resources, market or credit risk support, or engage in any leasing activities that expose us to any liability that is not reflected in our unaudited condensed consolidated financial statements.

Market Risk and Credit Risk
We, in general, are not a capital-intensive organization and as such, are not subject to significant market or credit risks. Nevertheless, we have established procedures to assess both the market and credit risk, as well as specific investment risk, exchange rate risk and credit risk related to receivables.
Market and Investment Risk
Institutional Asset Management
We invest in funds managed by EWM and G5 Evercore. These funds principally hold readily-marketable investment securities. As of March 31, 2014, the fair value of our investments with these products, based on closing prices, was $13.1 million.
We estimate that a hypothetical 10% adverse change in the market value of the investments would have resulted in a decrease in pre-tax income of approximately $1.3 million for the three months ended March 31, 2014.
See "-Liquidity and Capital Resources" above for a discussion of collateralized financing transactions at ECB.
Private Equity Funds
Through our principal investments in our private equity funds and our ability to earn carried interest from these funds, we face exposure to changes in the estimated fair value of the companies in which these funds invest. Our professionals devote considerable time and resources to work closely with the portfolio company's management to assist in designing a business strategy, allocating capital and other resources and evaluating expansion or acquisition opportunities. On a quarterly basis, we perform a comprehensive analysis and valuation of all of the portfolio companies. Our analysis includes reviewing the current market conditions and valuations of each portfolio company. Valuations and analysis regarding our investments in CSI Capital and Trilantic are performed by their respective professionals, and thus we are not involved in determining the fair value for the portfolio companies of such funds.
We estimate that a hypothetical 10% adverse change in the value of the private equity funds would have resulted in a decrease in pre-tax income of approximately $2.1 million for the three months ended March 31, 2014.
Exchange Rate Risk
We have foreign operations, through our subsidiaries and affiliates, primarily in Mexico and the United Kingdom, as well as provide services to clients in other jurisdictions, which creates foreign exchange rate risk. We have not entered into any transactions to hedge our exposure to these foreign exchange fluctuations through the use of derivative instruments or otherwise. An appreciation or depreciation of any of these currencies relative to the U.S. dollar would result in an adverse or beneficial impact to our financial results. A significant portion of our Latin American revenues have been, and will continue to be, derived from contracts denominated in Mexican pesos and Evercore Partners Limited's ("Evercore Europe") revenue and expenses are denominated primarily in British pounds sterling and euro. Historically, the value of these foreign currencies has fluctuated relative to the U.S. dollar. For the three months ended March 31, 2014, the net impact of the fluctuation of foreign currencies recorded in Other Comprehensive Income within the Unaudited Condensed Consolidated Statement of Comprehensive Income was $0.2 million. It is currently not our intention to hedge our foreign currency exposure, and we will reevaluate this policy from time to time.
Credit Risks
We maintain cash and cash equivalents with financial institutions with high credit ratings. At times, we may maintain deposits in federally insured financial institutions in excess of federally insured ("FDIC") limits. However, we believe that we are not exposed to significant credit risk due to the financial position of the depository institution in which those deposits are held.
Accounts Receivable consists primarily of advisory fees and expense reimbursements billed to our clients. Receivables are reported net of any allowance for doubtful accounts. We maintain an allowance for bad debts to provide coverage for probable losses from our customer receivables and derive the estimate through specific identification for the allowance for doubtful accounts and an assessment of the client's creditworthiness. As of March 31, 2014 and December 31, 2013, total receivables amounted to $89.3 million and $83.3 million, respectively, net of an allowance. The Investment Banking and Investment Management receivables collection periods generally are within 90 days of invoice, with the exception of placement fees, which are generally collected within 180 days of

invoice. The collection period for restructuring transactions and private

equity fee receivables may exceed 90 days. We recorded minimal bad debt expense for each of the three months ended March 31, 2014 and 2013.
With respect to our Marketable Securities portfolio, which is comprised primarily of highly-rated corporate and municipal bonds, mutual funds and securities investments, we manage our credit risk exposure by limiting concentration risk and maintaining investment grade credit quality. As of March 31, 2014, we had Marketable Securities of $42.6 million, of which 60% were corporate and municipal securities, primarily with S&P ratings ranging from AAA to BB+.

Critical Accounting Policies and Estimates
The unaudited condensed consolidated financial statements included in this report are prepared in conformity with U.S. GAAP, which requires management to make estimates and assumptions regarding future events that affect the amounts reported in our unaudited condensed consolidated financial statements and their notes, including reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. We base these estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ materially from those estimates. For a complete discussion of our critical accounting policies and estimates, refer to our Annual Report on Form 10-K for the year ended December 31, 2013.
Recently Issued Accounting Standards
ASU 2013-05 – In March 2013, the FASB issued ASU No. 2013-05, “Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity” (“ASU 2013-05”). ASU 2013-05 provides amendments to ASC No. 830, “Foreign Currency Matters”, which are intended to resolve diversity in practice by clarifying the guidance for the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The amendments also clarify the guidance for the release of the cumulative translation adjustment into net income for business combinations achieved in stages involving a foreign entity. The amendments in this update are effective prospectively during interim and annual periods beginning after December 15, 2013, with early adoption permitted. The adoption of ASU 2013-05 did not have a material impact on the Company’s financial condition, results of operations and cash flows, or disclosures thereto.
ASU 2013-08 – In June 2013, the FASB issued ASU No. 2013-08, “Amendments to the Scope, Measurement, and Disclosure Requirements” (“ASU 2013-08”). ASU 2013-08 provides amendments to ASC No. 946, "Financial Services - Investment Companies", and clarifies the approach to be used for determining whether an entity is an investment company and provides new measurement and disclosure requirements. The amendments in this update are effective prospectively during interim and annual periods beginning after December 15, 2013, with early adoption prohibited. The adoption of ASU 2013-08 did not have a material impact on the Company’s financial condition, results of operations and cash flows, or disclosures thereto.
ASU 2013-11 – In July 2013, the FASB issued ASU No. 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists” (“ASU 2013-11”). ASU 2013-11 provides amendments to ASC No. 740, “Income Taxes”, which clarify the guidance for the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments require that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. If a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The amendments in this update are effective prospectively during interim and

annual periods beginning after December 15, 2013, with early adoption permitted. The adoption of ASU 2013-11 did not have a material impact on the Company’s financial condition, results of operations and cash flows, or disclosures thereto.

ASU 2014-08 – In April 2014, the FASB issued ASU No. 2014-08, “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity” (“ASU 2014-08”). ASU 2014-08 provides amendments to ASC No. 205, “Presentation of Financial Statements”, and ASC No. 360, "Property, Plant, and Equipment", which change the requirements for reporting discontinued operations. The amendments in this update improve the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results. The amendments also require expanded disclosures for discontinued operations and also require an entity to disclose the pretax profit or loss (or change in net assets for a not-for-profit entity) of an individually significant component of an entity that does not qualify for discontinued operations reporting. The amendments in this update are effective prospectively during interim and annual periods beginning after December 15, 2014, with early adoption permitted. The Company is currently assessing the impact of the adoption of this update on the Company's financial condition, results of operations and cash flows, or disclosures thereto.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Market Risk and Credit Risk." We do not believe we face any material interest rate risk, foreign currency exchange risk, equity price risk or other market risk except as disclosed in Item 2 " – Market Risk and Credit Risk" above.

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this report. Based upon that evaluation and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective to accomplish their objectives at the reasonable assurance level.

Changes in Internal Controls over Financial Reporting

We have not made any changes during the three months ended March 31, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act).

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

General

In the normal course of business, from time to time the Company and its affiliates are involved in judicial or regulatory proceedings, arbitration or mediation concerning matters arising in connection with the conduct of its businesses, including contractual and employment matters. In addition, Mexican, United Kingdom, Hong Kong, Canadian and United States government agencies and self-regulatory organizations, as well as state securities commissions in the United States, conduct periodic examinations and initiate administrative proceedings regarding the Company's business, including, among other matters, accounting and operational matters, that can result in censure, fine, the issuance of cease-and-desist orders or the suspension or expulsion of a broker-dealer, investment advisor, or its directors, officers or employees. In view of the inherent difficulty of determining whether any loss in connection with such matters is probable and whether the amount of such loss can be reasonably estimated, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, the Company cannot estimate the amount of such loss or range of loss, if any, related to such matters, how or if such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, fine, penalty or other relief, if any, might be. Subject to the foregoing, the Company believes, based on current knowledge and after consultation with counsel, that it is not currently party to any material pending proceedings, individually or in the aggregate, the resolution of which would have a material effect on the Company. Provisions for losses are established in accordance with Accounting Standards Codification ("ASC") 450, "Contingencies" when warranted. Once established, such provisions are adjusted when there is more information available or when an event occurs requiring a change.

Item 1A. Risk Factors

There have not been any material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales

None

Issuer Purchases of Equity Securities

2014	Total Number of Shares (or Units) Purchased(1)	Average Price Paid Per Share	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs(2)	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs(2)
January 1 to January 31	29,539	$59.51	—	5,000,000
February 1 to February 28	1,052,584	53.61	172,739	4,827,261
March 1 to March 31	67,488	54.75	40,600	4,786,661
Total	1,149,611	$53.83	213,339	4,786,661

(1) These include treasury transactions arising from net settlement of equity awards to satisfy minimum tax obligations.

(2)

In October 2013, Evercore's Board authorized the repurchase of additional Class A Shares and/or LP so that going forward Evercore will be able to repurchase an aggregate of 5 million Class A Shares and/or LP Units for up to $250.0 million. Under this share repurchase program, shares may be repurchased from time to time in open market transactions, in privately-negotiated transactions or otherwise. The timing and the actual amount of shares repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. This program may be suspended or discontinued at any time and does not have a specified expiration date.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

47

Table of Contents

Item 6. Exhibits and Financial Statement Schedules

Exhibit Number	Description
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) (filed herewith)
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) (filed herewith)
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101	The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, are formatted in XBRL (eXtensible Business Reporting Language); (i) Condensed Consolidated Statements of Financial Condition as of March 31, 2014 and December 31, 2013, (ii) Condensed Consolidated Statements of Operations for the three months ended March 31, 2014 and 2013, (iii) Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2014 and 2013, (iv) Condensed Consolidated Statements of Changes In Equity for the three months ended March 31, 2014 and 2013, (v) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2014 and 2013, and (vi) Notes to Condensed Consolidated Financial Statements (filed herewith)

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 8, 2014

Evercore Partners Inc.

By:	/s/ RALPH SCHLOSSTEIN
Name:	Ralph Schlosstein
Title:	Chief Executive Officer and Director
By:	/S/ ROBERT B. WALSH
Name:	Robert B. Walsh
Title:	Chief Financial Officer

Table of Contents

Exhibit Index

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