Evercore Partners Inc.
Form 10-Q
November 07, 2012
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

(Mark One)

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

**For the quarterly period ended September 30, 2012**

**OR**

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

**For the transition period from to**

**001-32975**

**(Commission File Number)**

# EVERCORE PARTNERS INC.

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **20-4748747** |
| **(State or Other Jurisdiction of Incorporation or Organization)** | **(I.R.S. Employer Identification No.)** |

**55 East 52 nd Street**

**38th floor**

**New York, New York 10055**

**(Address of principal executive offices)**

**Registrant s telephone number: (212) 857-3100**

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

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

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

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

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

The number of shares of the registrant s Class A common stock, par value $0.01 per share, outstanding as of October 31, 2012 was 29,280,213. The number of shares of the registrant s Class B common stock, par value $0.01 per share, outstanding as of October 31, 2012 was 45 (excluding 55 shares of Class B common stock held by a subsidiary of the registrant).

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*In this report, references to Evercore , the Company , we , us , our refer to Evercore Partners Inc., a Delaware corporation, and its consolidated subsidiaries. Unless the context otherwise requires, references to (1) Evercore Partners Inc. refer solely to Evercore Partners Inc., and not to any of its consolidated subsidiaries and (2) Evercore LP refer solely to Evercore LP, a Delaware limited partnership, and not to any of its consolidated subsidiaries. References to the IPO refer to our initial public offering on August 10, 2006 of 4,542,500 shares of our Class A common stock, including shares issued to the underwriters of the IPO pursuant to their election to exercise in full their overallotment option.*



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## PART I. FINANCIAL INFORMATION

### Item 1. Condensed Consolidated Financial Statements (Unaudited)

**Condensed Consolidated Financial Statements (Unaudited)**

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**EVERCORE PARTNERS INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

**(UNAUDITED)**

(dollars in thousands, except share data)

| | September 30, 2012 | December 31, 2011 |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash and Cash Equivalents | $ 162,341 | $ 182,905 |
| Marketable Securities | 42,838 | 81,288 |
| Financial Instruments Owned and Pledged as Collateral at Fair Value | 139,209 | 127,178 |
| Securities Purchased Under Agreements to Resell | 973 | 2,146 |
| Accounts Receivable (net of allowances of $2,035 and $1,964 at September 30, 2012 and December 31, 2011, respectively) | 72,666 | 52,060 |
| Receivable from Employees and Related Parties | 5,539 | 7,793 |
| Deferred Tax Assets - Current | 8,930 | 8,621 |
| Other Current Assets | 17,733 | 23,869 |
| Total Current Assets | 450,229 | 485,860 |
| Investments | 110,168 | 108,930 |
| Deferred Tax Assets - Non-Current | 202,337 | 186,689 |
| Furniture, Equipment and Leasehold Improvements (net of accumulated depreciation and amortization of $18,447 and $13,490 at September 30, 2012 and December 31, 2011, respectively) | 28,949 | 21,437 |
| Goodwill | 182,227 | 177,849 |
| Intangible Assets (net of accumulated amortization of $34,360 and $25,701 at September 30, 2012 and December 31, 2011, respectively) | 32,491 | 40,909 |
| Assets Segregated for Bank Regulatory Requirements | 10,200 | 10,200 |
| Other Assets | 12,163 | 11,718 |
| Total Assets | $ 1,028,764 | $ 1,043,592 |
| **Liabilities and Equity** | | |
| Current Liabilities | | |
| Accrued Compensation and Benefits | $ 83,544 | $ 125,869 |
| Accounts Payable and Accrued Expenses | 16,278 | 17,849 |
| Securities Sold Under Agreements to Repurchase | 140,443 | 129,577 |
| Payable to Employees and Related Parties | 10,259 | 12,647 |
| Taxes Payable | 5,138 | 5,159 |
| Other Current Liabilities | 10,252 | 11,796 |
| Total Current Liabilities | 265,914 | 302,897 |
| Notes Payable | 100,933 | 99,664 |
| Amounts Due Pursuant to Tax Receivable Agreements | 151,335 | 137,448 |
| Other Long-term Liabilities | 16,515 | 15,490 |
| Total Liabilities | 534,697 | 555,499 |
| Commitments and Contingencies (Note 16) | | |
| Redeemable Noncontrolling Interest | 24,034 | 22,267 |
| Equity | | |
| Evercore Partners Inc. Stockholders Equity | | |
| Common Stock | | |
| Class A, par value $0.01 per share (1,000,000,000 shares authorized, 34,448,133 and 31,014,265 issued at September 30, 2012 and December 31, 2011, respectively, and 29,041,661 and 27,941,307 outstanding at September 30, 2012 and December 31, 2011, respectively) | 345 | 310 |

| | | |
|---|---|---|
| Class B, par value $0.01 per share (1,000,000 shares authorized, 45 and 47 issued and outstanding at September 30, 2012 and December 31, 2011, respectively) | | |
| Additional Paid-In-Capital | 645,554 | 575,122 |
| Accumulated Other Comprehensive Income (Loss) | (9,604) | (12,058) |
| Retained Earnings (Deficit) | (88,137) | (76,703) |
| Treasury Stock at Cost (5,406,472 and 3,072,958 shares at September 30, 2012 and December 31, 2011, respectively) | (138,384) | (79,007) |
| Total Evercore Partners Inc. Stockholders Equity | 409,774 | 407,664 |
| Noncontrolling Interest | 60,259 | 58,162 |
| Total Equity | 470,033 | 465,826 |
| Total Liabilities and Equity | $ 1,028,764 | $ 1,043,592 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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**EVERCORE PARTNERS INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**(UNAUDITED)**

(dollars and share amounts in thousands, except per share data)

| | For the Three Months Ended September 30, 2012 | For the Three Months Ended September 30, 2011 | For the Nine Months Ended September 30, 2012 | For the Nine Months Ended September 30, 2011 |
|---|---|---|---|---|
| **Revenues** | | | | |
| Investment Banking Revenue | $ 133,850 | $ 139,995 | $ 372,771 | $ 337,743 |
| Investment Management Revenue | 20,434 | 24,723 | 60,234 | 78,154 |
| Other Revenue, Including Interest | 2,760 | 3,036 | 6,649 | 11,002 |
| Total Revenues | 157,044 | 167,754 | 439,654 | 426,899 |
| Interest Expense | 4,015 | 4,573 | 11,330 | 15,416 |
| Net Revenues | 153,029 | 163,181 | 428,324 | 411,483 |
| **Expenses** | | | | |
| Employee Compensation and Benefits | 101,364 | 113,634 | 296,381 | 282,800 |
| Occupancy and Equipment Rental | 8,882 | 5,976 | 26,273 | 16,767 |
| Professional Fees | 10,752 | 9,395 | 26,080 | 25,404 |
| Travel and Related Expenses | 6,802 | 5,856 | 21,183 | 15,785 |
| Communications and Information Services | 2,915 | 1,574 | 8,731 | 5,548 |
| Depreciation and Amortization | 3,828 | 4,886 | 12,870 | 10,882 |
| Special Charges | | 2,626 | 662 | 2,626 |
| Acquisition and Transition Costs | | 1,178 | 148 | 2,312 |
| Other Operating Expenses | 4,241 | 4,614 | 12,699 | 12,538 |
| Total Expenses | 138,784 | 149,739 | 405,027 | 374,662 |
| **Income Before Income from Equity Method Investments and Income Taxes** | 14,245 | 13,442 | 23,297 | 36,821 |
| Income from Equity Method Investments | 415 | 195 | 3,519 | 664 |
| **Income Before Income Taxes** | 14,660 | 13,637 | 26,816 | 37,485 |
| Provision for Income Taxes | 7,187 | 11,144 | 12,322 | 21,644 |
| **Net Income from Continuing Operations** | 7,473 | 2,493 | 14,494 | 15,841 |
| **Discontinued Operations** | | | | |
| Income (Loss) from Discontinued Operations | | (1,718) | | (2,755) |
| Provision (Benefit) for Income Taxes | | (518) | | (783) |
| **Net Income (Loss) from Discontinued Operations** | | (1,200) | | (1,972) |
| **Net Income** | 7,473 | 1,293 | 14,494 | 13,869 |
| Net Income (Loss) Attributable to Noncontrolling Interest | 2,172 | (466) | 4,627 | 6,261 |
| **Net Income Attributable to Evercore Partners Inc.** | $ 5,301 | $ 1,759 | $ 9,867 | $ 7,608 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Net Income (Loss) Attributable to Evercore Partners Inc. Common Shareholders:** | | | | | | | | |
| From Continuing Operations | $ | 5,280 | $ | 1,936 | $ | 9,804 | $ | 7,858 |
| From Discontinued Operations | | | | (198) | | | | (313) |
| Net Income Attributable to Evercore Partners Inc. | $ | 5,280 | $ | 1,738 | $ | 9,804 | $ | 7,545 |
| **Weighted Average Shares of Class A Common Stock Outstanding** | | | | | | | | |
| Basic | | 28,841 | | 28,967 | | 29,063 | | 25,146 |
| Diluted | | 31,440 | | 31,235 | | 31,973 | | 28,534 |
| **Basic Net Income (Loss) Per Share Attributable to Evercore Partners Inc. Common Shareholders:** | | | | | | | | |
| From Continuing Operations | $ | 0.18 | $ | 0.06 | $ | 0.34 | $ | 0.31 |
| From Discontinued Operations | | | | | | | | (0.01) |
| Net Income Attributable to Evercore Partners Inc. | $ | 0.18 | $ | 0.06 | $ | 0.34 | $ | 0.30 |
| **Diluted Net Income (Loss) Per Share Attributable to Evercore Partners Inc. Common Shareholders:** | | | | | | | | |
| From Continuing Operations | $ | 0.17 | $ | 0.06 | $ | 0.31 | $ | 0.27 |
| From Discontinued Operations | | | | | | | | (0.01) |
| Net Income Attributable to Evercore Partners Inc. | $ | 0.17 | $ | 0.06 | $ | 0.31 | $ | 0.26 |
| Dividends Declared per Share of Class A Common Stock | $ | 0.20 | $ | 0.18 | $ | 0.60 | $ | 0.54 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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**EVERCORE PARTNERS INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(UNAUDITED)**

(dollars in thousands)

| | For the Three Months Ended September 30, 2012 | For the Three Months Ended September 30, 2011 | For the Nine Months Ended September 30, 2012 | For the Nine Months Ended September 30, 2011 |
|---|---|---|---|---|
| Net Income | $ 7,473 | $ 1,293 | $ 14,494 | $ 13,869 |
| Other Comprehensive Income (Loss), net of tax: | | | | |
| Unrealized Gain (Loss) on Marketable Securities, net | 442 | (2,654) | 440 | (1,991) |
| Foreign Currency Translation Adjustment Gain (Loss) | 3,039 | (8,978) | 3,047 | (6,586) |
| Other Comprehensive Income (Loss) | 3,481 | (11,632) | 3,487 | (8,577) |
| Comprehensive Income (Loss) | 10,954 | (10,339) | 17,981 | 5,292 |
| Comprehensive Income (Loss) Attributable to Noncontrolling Interest | 3,266 | (3,744) | 5,660 | 4,471 |
| Comprehensive Income (Loss) Attributable to Evercore Partners Inc. | $ 7,688 | $ (6,595) | $ 12,321 | $ 821 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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**EVERCORE PARTNERS INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**(UNAUDITED)**

(dollars in thousands, except share data)

| | For the Nine Months Ended September 30, 2012 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Class A Common Stock | | Additional Paid-In | Accumulated Other Comprehensive Income | Retained Earnings | Treasury Stock | | Noncontrolling | Total |
| | Shares | Dollars | Capital | (Loss) | (Deficit) | Shares | Dollars | Interest | Equity |
| **Balance at December 31, 2011** | 31,014,265 | $ 310 | $ 575,122 | $ (12,058) | $ (76,703) | (3,072,958) | $ (79,007) | $ 58,162 | $ 465,826 |
| Net Income | | | | | 9,867 | | | 4,627 | 14,494 |
| Other Comprehensive Income | | | | 2,454 | | | | 1,033 | 3,487 |
| Treasury Stock Purchases | | | | | | (2,553,462) | (65,018) | | (65,018) |
| Evercore LP Units Purchased or Converted into Class A Common Stock | 1,677,513 | 17 | 9,715 | | | | | (7,264) | 2,468 |
| Stock-based Compensation Awards | 1,756,355 | 18 | 58,275 | | | | | 16,019 | 74,312 |
| Shares Issued as Consideration for Acquisitions and Investments | | | (76) | | | 219,948 | 5,641 | | 5,565 |
| Dividends and Equivalents | | | 3,598 | | (21,301) | | | | (17,703) |
| Noncontrolling Interest (Note 13) | | | (1,080) | | | | | (12,318) | (13,398) |
| **Balance at September 30, 2012** | 34,448,133 | $ 345 | $ 645,554 | $ (9,604) | $ (88,137) | (5,406,472) | $ (138,384) | $ 60,259 | $ 470,033 |

| | For the Nine Months Ended September 30, 2011 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Class A Common Stock | | Additional Paid-In | Accumulated Other Comprehensive Income | Retained Earnings | Treasury Stock | | Noncontrolling | Total |
| | Shares | Dollars | Capital | (Loss) | (Deficit) | Shares | Dollars | Interest | Equity |
| **Balance at December 31, 2010** | 21,497,691 | $ 215 | $ 400,719 | $ (4,193) | $ (61,504) | (1,514,045) | $ (34,538) | $ 66,542 | $ 367,241 |
| Net Income | | | | | 7,608 | | | 6,261 | 13,869 |
| Other Comprehensive Income (Loss) | | | | (6,787) | | | | (1,790) | (8,577) |
| Treasury Stock Purchases | | | | | | (1,221,248) | (35,094) | | (35,094) |
| Proceeds from Equity Offering, Net of Direct Expenses | 5,364,991 | 54 | 167,880 | | | | | | 167,934 |
| Evercore LP Units Purchased or Converted into Class A Common Stock | 352,487 | 3 | (75,146) | | | | | (11,990) | (87,133) |
| Stock-based Compensation Awards | 2,917,832 | 29 | 51,479 | | | | | 15,808 | 67,316 |
| Shares Issued as Consideration for Acquisitions and Investments | | | | | | 27,867 | 636 | | 636 |
| Dividends and Equivalents | | | 1,866 | | (15,457) | | | | (13,591) |
| Noncontrolling Interest (Note 13) | | | 3,587 | | | | | (15,650) | (12,063) |
| **Balance at September 30, 2011** | 30,133,001 | $ 301 | $ 550,385 | $ (10,980) | $ (69,353) | (2,707,426) | $ (68,996) | $ 59,181 | $ 460,538 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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**EVERCORE PARTNERS INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(UNAUDITED)**

(dollars in thousands)

| | For the Nine Months Ended September 30, 2012 | 2011 |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Net Income | $ 14,494 | $ 13,869 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | |
| Net Realized and Unrealized (Gains) Losses on Investments, Marketable Securities and Contingent Consideration | (1,611) | (6,517) |
| Equity-Based and Other Deferred Compensation | 86,950 | 67,985 |
| Depreciation, Amortization and Accretion | 14,202 | 13,129 |
| Bad Debt Expense | 566 | 953 |
| Deferred Taxes | (1,109) | 9,516 |
| Decrease (Increase) in Operating Assets: | | |
| Marketable Securities | 553 | 449 |
| Financial Instruments Owned and Pledged as Collateral at Fair Value | (856) | (60,466) |
| Securities Purchased Under Agreements to Resell | 1,321 | 67,087 |
| Accounts Receivable | (19,995) | (10,866) |
| Receivable from Employees and Related Parties | 2,254 | (3,365) |
| Other Assets | 5,221 | 4,642 |
| (Decrease) Increase in Operating Liabilities: | | |
| Accrued Compensation and Benefits | (49,418) | 22,654 |
| Accounts Payable and Accrued Expenses | (1,185) | 1,204 |
| Securities Sold Under Agreements to Repurchase | (478) | (6,478) |
| Payables to Employees and Related Parties | (2,388) | (1,383) |
| Taxes Payable | (886) | (2,285) |
| Deferred Revenue | 3,478 | |
| Other Liabilities | (4,072) | (73) |
| Net Cash Provided by Operating Activities | 47,041 | 110,055 |
| **Cash Flows From Investing Activities** | | |
| Investments Purchased | (1,214) | (670) |
| Distributions of Private Equity Investments | 906 | 1,430 |
| Marketable Securities: | | |
| Proceeds from Sales and Maturities | 60,642 | 69,618 |
| Purchases | (22,618) | (42,524) |
| Cash Paid for Acquisitions, net of cash acquired | | (30,397) |
| Change in Restricted Cash | 2,393 | |
| Purchase of Furniture, Equipment and Leasehold Improvements | (11,874) | (2,588) |
| Net Cash Provided by (Used in) Investing Activities | 28,235 | (5,131) |
| **Cash Flows From Financing Activities** | | |
| Payments for Settlement of Debt and Capital Lease Obligations | | (8,335) |
| Issuance of Noncontrolling Interests | 296 | 1,009 |
| Distributions to Noncontrolling Interests Evercore LP Limited Partners | (11,984) | (16,656) |
| Cash Paid for Deferred and Contingent Consideration | (3,000) | (5,140) |
| Proceeds from Equity Offering, Net of Direct Expenses | | 168,140 |
| Purchase of Evercore LP Units and Treasury Stock | (65,159) | (130,231) |
| Dividends Class A Stockholders | (17,703) | (13,591) |
| Other | 787 | 5,127 |

| | | | | |
|---|---|---|---|---|
| Net Cash (Used in) Provided by Financing Activities | | (96,763) | | 323 |
| **Effect of Exchange Rate Changes on Cash** | | 923 | | (2,658) |
| **Net (Decrease) Increase in Cash and Cash Equivalents** | | (20,564) | | 102,589 |
| **Cash and Cash Equivalents-Beginning of Period** | | 182,905 | | 141,337 |
| **Cash and Cash Equivalents-End of Period** | $ | 162,341 | $ | 243,926 |
| **SUPPLEMENTAL CASH FLOW DISCLOSURE** | | | | |
| Payments for Interest | $ | 11,694 | $ | 15,883 |
| Payments for Income Taxes | $ | 8,565 | $ | 13,749 |
| Furniture, Equipment and Leasehold Improvements Accrued | $ | 397 | $ | |
| Decrease in Fair Value of Redeemable Noncontrolling Interest | $ | 1,303 | $ | 3,650 |
| Dividend Equivalents Issued | $ | 3,598 | $ | 1,866 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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**EVERCORE PARTNERS INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED**

**FINANCIAL STATEMENTS**

(dollars and share amounts in thousands, except per share amounts, unless otherwise noted)

**Note 1 Organization**

Evercore Partners Inc. and subsidiaries (the Company ) is an investment banking and investment management firm, incorporated in Delaware on July 21, 2005 and headquartered in New York, New York. The Company is a holding company which owns a controlling interest in Evercore LP, a Delaware limited partnership ( Evercore LP ). Subsequent to the Company s initial public offering ( IPO ), the Company became the sole general partner of Evercore LP. The Company operates from its offices in the United States, the United Kingdom, Mexico, Hong Kong, Canada and, through its affiliate Evercore G5 Holdings S.A. ( G5 ), in Brazil.

The Investment Banking business includes the advisory business through which the Company provides advice to clients on significant mergers, acquisitions, divestitures and other strategic corporate transactions, with a particular focus on advising prominent multinational corporations and substantial private equity firms on large, complex transactions. The Company also provides restructuring advice to companies in financial transition, as well as to creditors, shareholders and potential acquirers. In addition, the Company provides its clients with capital markets advice, underwrites securities offerings and raises funds for financial sponsors. The Investment Banking business also includes the Institutional Equities business through which the Company offers equity research and agency-based equity securities trading for institutional investors.

The Investment Management business includes the institutional asset management business through which the Company manages financial assets for sophisticated institutional investors and provides independent fiduciary services to corporate employee benefit plans, the wealth management business through which the Company provides wealth management services for high net-worth individuals and the private equity business through which the Company, directly and through affiliates, manages private equity funds.

**Note 2 Significant Accounting Policies**

For a complete discussion of the Company s accounting policies, refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

***Basis of Presentation*** The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with the instructions to Form 10-Q. As permitted by the rules and regulations of the United States Securities and Exchange Commission, the unaudited condensed consolidated financial statements contain certain condensed financial information and exclude certain footnote disclosures normally included in audited consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ). The accompanying condensed consolidated financial statements are unaudited and are prepared in accordance with U.S. GAAP. In the opinion of the Company s management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, including normal recurring accruals, necessary to fairly present the accompanying unaudited condensed consolidated financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company s annual report on Form 10-K for the year ended December 31, 2011. The December 31, 2011 Unaudited Condensed Consolidated Statement of Financial Condition data was derived from audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2012.

The unaudited condensed consolidated financial statements of the Company are comprised of the consolidation of Evercore LP and Evercore LP s wholly-owned and majority-owned direct and indirect subsidiaries, including Evercore Group L.L.C. ( EGL ), a registered broker-dealer in the U.S. The Company s policy is to consolidate all subsidiaries in which it has a controlling financial interest, as well as any variable interest entities ( VIEs ) where the Company is deemed to be the primary beneficiary, when it has the power to make the decisions that most significantly affect the economic performance of the VIE and has the obligation to absorb significant losses or the right to receive benefits that could potentially be significant to the VIE, except for certain VIEs that qualify for accounting purposes as investment companies. Generally, the Company would consolidate those entities when it absorbs a majority of the expected losses or a majority of the expected residual returns, or both, of the entities. All intercompany balances and transactions with the Company s subsidiaries have been eliminated upon consolidation.

***Reclassifications*** Certain balances for prior periods were reclassified to conform to their current presentation.

*Discontinued Operations* In October 2011, Evercore Asset Management L.L.C. ( EAM ) announced its plan to wind down its business. Management and the Company made this decision because EAM was unable to attain sufficient scale to be a viable business due to several factors including the ongoing effects of the financial crisis. The wind down of EAM s business was completed by December 31, 2011. Accordingly, the historical results of EAM have been reclassified to Discontinued Operations on the Unaudited Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2011.

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**EVERCORE PARTNERS INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED**

**FINANCIAL STATEMENTS (Continued)**

(dollars and share amounts in thousands, except per share amounts, unless otherwise noted)

**Note 3 Recent Accounting Pronouncements**

*ASU 2011-11* In December 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2011-11, *Disclosures about Offsetting Assets and Liabilities* ( ASU 2011-11 ). ASU 2011-11 provides amendments to Accounting Standards Codification ( ASC ) No. 210, *Balance Sheet* , which are intended to enhance disclosures required by U.S. GAAP by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45. This information will enable users of an entity s financial statements to evaluate the effect or potential effect of netting arrangements on an entity s financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this update. The amendments in this update are effective retrospectively for interim and annual periods beginning after January 1, 2013. The Company is currently assessing the impact of the adoption of this update on the Company s consolidated financial condition, results of operations and cash flows.

**Note 4 Special Charges, Acquisition and Transition Costs and Intangible Asset Amortization**

***Special Charges*** The Company has recognized costs of $662 for the nine months ended September 30, 2012, as Special Charges incurred in connection with exiting facilities in the UK, and $2,626 for the three and nine months ended September 30, 2011, as Special Charges incurred in connection with the exiting of a lease commitment for office space of $731 and an introducing fee in connection with the acquisition of The Lexicon Partnership LLP ( Lexicon ) of $1,895.

***Acquisition and Transition Costs*** The Company has recognized as an expense $148 for the nine months ended September 30, 2012 and $1,178 and $2,312 for the three and nine months ended September 30, 2011, respectively, as Acquisition and Transition Costs incurred in connection with acquisitions and other ongoing business development initiatives. These costs are primarily comprised of professional fees for legal and other services.

***Intangible Asset Amortization*** Expense associated with the amortization of intangible assets for Investment Banking was $593 and $3,636 for the three and nine months ended September 30, 2012, respectively, and $2,208 and $3,558 for the three and nine months ended September 30, 2011, respectively, included within Depreciation and Amortization expense on the Unaudited Condensed Consolidated Statements of Operations. Expense associated with the amortization of intangible assets for Investment Management was $1,674 and $5,023 for the three and nine months ended September 30, 2012, respectively, and $1,670 and $5,010 for the three and nine months ended September 30, 2011, respectively, included within Depreciation and Amortization expense on the Unaudited Condensed Consolidated Statements of Operations.

**Note 5 Related Parties**

Investment Management Revenue includes income from related parties earned from the Company s private equity funds for portfolio company fees, management fees, expense reimbursements and realized and unrealized gains and losses of private equity fund investments. Total Investment Management revenues from related parties amounted to $1,601 and $3,588 for the three and nine months ended September 30, 2012, respectively, and $3,002 and $5,378 for the three and nine months ended September 30, 2011, respectively.

Other Assets on the Unaudited Condensed Consolidated Statement of Financial Condition as of September 30, 2012, includes $1,936 of receivables from certain employees as part of compensation arrangements.

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(dollars and share amounts in thousands, except per share amounts, unless otherwise noted)

**Note 6 Marketable Securities**

The amortized cost and estimated fair value of the Company s Marketable Securities as of September 30, 2012 and December 31, 2011 were as follows:

| | September 30, 2012 | | | | December 31, 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| **Available-for-Sale** | | | | | | | | |
| Debt Securities: | | | | | | | | |
| Corporate Bonds | $ | $ | $ | $ | $ 1,008 | $ | $ 2 | $ 1,006 |
| Municipal Bonds | | | | | 9,544 | 9 | | 9,553 |
| Other Debt Securities | | | | | 2,000 | | | 2,000 |
| Seed Capital Investments | 9,963 | 1,160 | 17 | 11,106 | 10,905 | 812 | 27 | 11,690 |
| Total Available-for-Sale | 9,963 | 1,160 | 17 | 11,106 | 23,457 | 821 | 29 | 24,249 |
| **Debt Securities Carried by EGL** | 20,399 | 252 | | 20,651 | 47,583 | 518 | | 48,101 |
| **Mutual Funds** | 10,650 | 544 | 113 | 11,081 | 9,350 | 191 | 603 | 8,938 |
| Total | $ 41,012 | $ 1,956 | $ 130 | $ 42,838 | $ 80,390 | $ 1,530 | $ 632 | $ 81,288 |

Scheduled maturities of the Company s available-for-sale debt securities as of September 30, 2012 and December 31, 2011 were as follows:

| | September 30, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due within one year | $ 805 | $ 806 | $ 8,699 | $ 8,703 |
| Due after one year through five years | 1,094 | 1,111 | 3,853 | 3,856 |
| Due after five years through 10 years | 283 | 295 | | |
| Total | $ 2,182 | $ 2,212 | $ 12,552 | $ 12,559 |

***Debt Securities***

The Company invests in corporate and municipal bonds and other debt securities, which are classified as available-for-sale securities within Marketable Securities on the Unaudited Condensed Consolidated Statements of Financial Condition. Unrealized gains and losses for these securities are included in Accumulated Other Comprehensive Income and realized gains and losses are included in earnings. The Company had realized gains of $0 and $2 for the three and nine months ended September 30, 2012, respectively, and $11 and $86 for the three and nine months ended September 30, 2011, respectively.

***Seed Capital Investments***

Seed Capital Investments include equity and debt securities, which are classified as available-for-sale securities within Marketable Securities on the Unaudited Condensed Consolidated Statements of Financial Condition. These securities are stated at quoted market value with unrealized gains and losses included in Accumulated Other Comprehensive Income and realized gains and losses included in earnings. The Company had realized gains (losses) of ($11) and ($29) for the three and nine months ended September 30, 2012, respectively, and $61 and $521 for the three and nine months ended September 30, 2011, respectively.

***Debt Securities Carried by EGL***

EGL invests in a fixed income portfolio consisting primarily of municipal bonds. These securities are carried at fair value, with changes in fair value recorded in Other Revenue, Including Interest, on the Unaudited Condensed Consolidated Statements of Operations, as required for broker-dealers in securities. The Company had net realized and unrealized gains (losses) of ($147) and ($553) for the three and nine months ended September 30, 2012, respectively, and ($44) and ($448) for the three and nine months ended September 30, 2011, respectively.

***Mutual Funds***

During the first quarter of 2011, the Company began to invest in a portfolio of mutual funds as an economic hedge against the Company s deferred compensation program. See Note 15 for further information. These securities are carried at fair value, with changes in fair value recorded in Other Revenue, Including Interest, on the Unaudited Condensed Consolidated Statements of Operations. The Company had net realized and unrealized gains (losses) of $494 and $948 for the three and nine months ended September 30, 2012, respectively, and ($740) and ($590) for the three and nine months ended September 30, 2011, respectively.

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(dollars and share amounts in thousands, except per share amounts, unless otherwise noted)

**Note 7 Financial Instruments Owned and Pledged as Collateral at Fair Value, Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase**

The Company, through Evercore Casa de Bolsa, S.A. de C.V. ( ECB , formerly Protego Casa de Bolsa, S.A. de C.V.), 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 from, and acquires the securities deliverable to, clients under these repurchase arrangements by purchasing securities in the open market, which the Company reflects as Financial Instruments Owned and Pledged as Collateral at Fair Value on the Unaudited Condensed Consolidated Statements of Financial Condition, or by entering into reverse repurchase agreements with unrelated third parties. The Company accounts for these repurchase and reverse repurchase agreements as collateralized financing transactions, which are carried at their contract amounts, which approximate fair value given that the contracts generally mature the following business day. The Company records a liability on its Unaudited Condensed Consolidated Statements of Financial Condition in relation to repurchase transactions executed with clients as Securities Sold Under Agreements to Repurchase. The Company records as assets on its Unaudited Condensed Consolidated Statements of Financial Condition, Financial Instruments Owned and Pledged as Collateral at Fair Value (where the Company has 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 the Company has acquired the securities deliverable to clients under these repurchase agreements by entering into reverse repurchase agreements with unrelated third parties). These Mexican government securities have an estimated average time to maturity of approximately 2.8 years, as of September 30, 2012, and are pledged as collateral against repurchase 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 and permit the counterparty to pledge the securities.

As of September 30, 2012 and December 31, 2011, a summary of the Company s assets, liabilities and collateral received or pledged related to these transactions was as follows:

| | September 30, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| | Asset (Liability) Balance | Market Value of Collateral Received or (Pledged) | Asset (Liability) Balance | Market Value of Collateral Received or (Pledged) |
| **Assets** | | | | |
| Financial Instruments Owned and Pledged as Collateral at Fair Value | $ 139,209 | | $ 127,178 | |
| Securities Purchased Under Agreements to Resell | 973 | $ 975 | 2,146 | $ 2,143 |
| Total Assets | $ 140,182 | | $ 129,324 | |
| **Liabilities** | | | | |
| Securities Sold Under Agreements to Repurchase | $ (140,443) | $ (140,650) | $ (129,577) | $ (129,809) |

**Note 8 Investments**

The Company s investments reported on the Unaudited Condensed Consolidated Statements of Financial Condition consist of investments in private equity partnerships and other investments in unconsolidated affiliated companies. The Company s investments are relatively high-risk and illiquid assets. Realized and unrealized gains and losses on our private equity investments are included within Investment Management Revenue. The Company s share of earnings (losses) on its investments in G5, ABS Investment Management, LLC ( ABS ) and Evercore Pan-Asset Capital Management ( Pan ) are included within Income from Equity Method Investments on the Unaudited Condensed Consolidated Statements of

Operations.

***Investments in Private Equity***

The Company s investments in private equity partnerships include investments in Evercore Capital Partners II L.P. and its affiliated entities ( ECP II ), Discovery Americas I, L.P. (the Discovery Fund ), Evercore Mexico Capital Partners II ( EMCP II ), Evercore Mexico Capital Partners III ( EMCP III ), CSI Capital, L.P. ( CSI Capital ) and Trilantic Capital Partners Associates IV L.P. ( Trilantic IV ). Portfolio holdings of the private equity funds are carried at fair value. Accordingly, the Company reflects its pro rata share of the unrealized gains and losses occurring from changes in fair value. Additionally, the Company reflects its pro rata share of realized gains, losses and carried interest associated with any investment realizations.

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**EVERCORE PARTNERS INC.**

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(dollars and share amounts in thousands, except per share amounts, unless otherwise noted)

In June 2012, the Company held an initial closing on EMCP III, a private equity fund focused on middle market investments in Mexico. The initial closing subscribed capital commitments of $59,200, which included a capital commitment of $2,000 by the Company.

A summary of the Company s investments in private equity funds as of September 30, 2012 and December 31, 2011 was as follows:

| | September 30, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| ECP II | $ | 4,357 | $ | 5,037 |
| Discovery Fund | | 2,594 | | 2,393 |
| EMCP II | | 11,123 | | 9,674 |
| EMCP III | | 749 | | |
| CSI Capital | | 2,259 | | 3,496 |
| Trilantic IV | | 5,401 | | 4,551 |
| Total Private Equity Funds | $ | 26,483 | $ | 25,151 |

Net realized and unrealized gains (losses) on private equity fund investments, including performance fees, were $423 and ($185) for the three and nine months ended September 30, 2012, respectively, and $1,728 and $6,548 for the three and nine months ended September 30, 2011, respectively. In the event the funds perform poorly, the Company may be obligated to repay certain carried interest previously distributed. As of September 30, 2012, the Company had $2,701 of previously received carried interest that may be subject to repayment.

*Trilantic Capital Partners*

During the first quarter of 2010, the Company made an investment in Trilantic Capital Partners ( Trilantic ). See Note 13 for further information. This investment had a balance of $15,015 and $15,549 as of September 30, 2012 and December 31, 2011, respectively.

***Equity Method Investments***

A summary of the Company s other equity method investments as of September 30, 2012 and December 31, 2011 was as follows:

| | September 30, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| G5 | $ | 19,498 | $ | 20,595 |
| ABS | | 46,398 | | 45,104 |
| Pan | | 2,774 | | 2,531 |
| Total | $ | 68,670 | $ | 68,230 |

*G5*

During the fourth quarter of 2010, the Company made an equity method investment in G5. At September 30, 2012, the Company s economic ownership interest in G5 was 50%. This investment resulted in earnings (losses) of ($300) and $970 for the three and nine months ended

September 30, 2012, respectively, and $256 and $1,010 for the three and nine months ended September 30, 2011, respectively, included within Income from Equity Method Investments on the Unaudited Condensed Consolidated Statements of Operations.

*ABS*

During the fourth quarter of 2011, the Company made an equity method investment in ABS. At September 30, 2012, the Company s economic ownership interest in ABS was 44%. This investment resulted in earnings of $796 and $2,418 for the three and nine months ended September 30, 2012, respectively, included within Income from Equity Method Investments on the Unaudited Condensed Consolidated Statement of Operations.

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*Pan*

In 2008, the Company made an equity method investment in Pan and maintains a 50% interest at September 30, 2012. This investment resulted in earnings (losses) of ($81) and $131 for the three and nine months ended September 30, 2012, respectively, and ($61) and ($346) for the three and nine months ended September 30, 2011, respectively, included within Income from Equity Method Investments on the Unaudited Condensed Consolidated Statements of Operations.

*Other*

The Company allocates the purchase price of its equity method investments, in part, to the inherent finite-lived identifiable intangible assets of the investees. The Company s share of the earnings of the investees has been reduced by the amortization of these identifiable intangible assets inherent in the investments of $649 and $2,045 for the three and nine months ended September 30, 2012, respectively, and $236 and $708 for the three and nine months ended September 30, 2011, respectively.

**Note 9 Fair Value Measurements**

ASC 820, *Fair Value Measurements and Disclosures* ( ASC 820 ), among other matters, requires enhanced disclosures about investments that are measured and reported at fair value. ASC 820 establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily-available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include listed equities and listed derivatives. As required by ASC 820, the Company does not adjust the quoted price for these investments, even in situations where the Company holds a large position and a sale could reasonably impact the quoted price.

Level II Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. The estimated fair values of these securities are based on quoted market prices provided by external pricing services.

Level III Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

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(dollars and share amounts in thousands, except per share amounts, unless otherwise noted)

The following table presents the categorization of investments and certain other assets and liabilities measured at fair value on a recurring basis as of September 30, 2012 and December 31, 2011:

| | September 30, 2012 | | | |
|---|---|---|---|---|
| | **Level I** | **Level II** | **Level III** | **Total** |
| Corporate Bonds, Municipal Bonds and Other Debt Securities (1) | $ | $ 38,445 | $ | $ 38,445 |
| Seed Capital Investments | 8,894 | 2,212 | | 11,106 |
| Mutual Funds | 11,081 | | | 11,081 |
| Financial Instruments Owned and Pledged as Collateral at Fair Value | 139,209 | | | 139,209 |
| Total Assets Measured At Fair Value | $ 159,184 | $ 40,657 | $ | $ 199,841 |

| | December 31, 2011 | | | |
|---|---|---|---|---|
| | **Level I** | **Level II** | **Level III** | **Total** |
| Corporate Bonds, Municipal Bonds and Other Debt Securities (1) | $ | $ 106,951 | $ | $ 106,951 |
| Seed Capital Investments | 9,150 | 2,540 | | 11,690 |
| Mutual Funds | 8,938 | | | 8,938 |
| Financial Instruments Owned and Pledged as Collateral at Fair Value | 127,178 | | | 127,178 |
| Total Assets Measured At Fair Value | $ 145,266 | $ 109,491 | $ | $ 254,757 |

(1) Includes $17,794 and $46,291 of municipal bonds and commercial paper classified within Cash and Cash Equivalents on the Unaudited Condensed Consolidated Statements of Financial Condition as of September 30, 2012 and December 31, 2011, respectively.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The Company had no transfers between fair value levels during the three and nine months ended September 30, 2012 or the year ended December 31, 2011.

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The carrying amount and estimated fair value of the Company s financial instrument assets and liabilities which are not measured at fair value on the Unaudited Condensed Consolidated Statements of Financial Condition are listed in the tables below.

| | Carrying Amount | September 30, 2012 Estimated Fair Value Level I | Level II | Level III | Total |
|---|---|---|---|---|---|
| **Financial Assets:** | | | | | |
| Cash and Cash Equivalents | $ 144,547 | $ 144,547 | $ | $ | $ 144,547 |
| Securities Purchased Under Agreements to Resell | 973 | | 973 | | 973 |
| Accounts Receivable | 72,666 | | 72,666 | | 72,666 |
| Receivable from Employees and Related Parties | 5,539 | | 5,539 | | 5,539 |
| Assets Segregated for Bank Regulatory Requirements | 10,200 | 10,200 | | | 10,200 |
| **Financial Liabilities:** | | | | | |
| Accounts Payable and Accrued Expenses | $ 16,278 | $ | $ 16,278 | $ | $ 16,278 |
| Securities Sold Under Agreements to Repurchase | 140,443 | | 140,443 | | 140,443 |
| Payable to Employees and Related Parties | 10,259 | | 10,259 | | 10,259 |
| Notes Payable | 100,933 | | 135,184 | | 135,184 |

| | Carrying Amount | December 31, 2011 Estimated Fair Value Level I | Level II | Level III | Total |
|---|---|---|---|---|---|
| **Financial Assets:** | | | | | |
| Cash and Cash Equivalents | $ 136,614 | $ 136,614 | $ | $ | $ 136,614 |
| Securities Purchased Under Agreements to Resell | 2,146 | | 2,146 | | 2,146 |
| Accounts Receivable | 52,060 | | 52,060 | | 52,060 |
| Receivable from Employees and Related Parties | 7,793 | | 7,793 | | 7,793 |
| Assets Segregated for Bank Regulatory Requirements | 10,200 | 10,200 | | | 10,200 |
| **Financial Liabilities:** | | | | | |
| Accounts Payable and Accrued Expenses | $ 17,849 | $ | $ 17,849 | $ | $ 17,849 |
| Securities Sold Under Agreements to Repurchase | 129,577 | | 129,577 | | 129,577 |
| Payable to Employees and Related Parties | 12,647 | | 12,647 | | 12,647 |
| Notes Payable | 99,664 | | 122,279 | | 122,279 |

The following methods and assumptions were used to estimate the fair value of these financial assets and liabilities:

The fair value of the Company s Notes Payable is estimated based on a present value analysis utilizing aggregate market yields for similar financial instruments.

The carrying amounts reported on the Unaudited Condensed Consolidated Statements of Financial Condition for Cash, Securities Purchased Under Agreements to Resell, Securities Sold Under Agreements to Repurchase, Accounts Receivable, Receivables from Employees and Related Parties, Accounts Payable and Accrued Expenses, Payables to Employees and Related Parties and Assets Segregated for Bank Regulatory Requirements approximate fair value due to the short term nature of these items.

**Note 10 Furniture, Equipment and Leasehold Improvements**

Furniture, Equipment and Leasehold Improvements consisted of the following:

| | September 30, 2012 | December 31, 2011 |
|---|---|---|
| Furniture and Office Equipment | $ 8,815 | $ 7,137 |
| Leasehold Improvements | 28,837 | 19,890 |
| Computer and Computer-related Equipment | 9,744 | 7,900 |