

Lazard Ltd  
Form 10-Q  
October 31, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

001-32492

(Commission File Number)

LAZARD LTD

(Exact name of registrant as specified in its charter)

Bermuda 98-0437848  
(State or Other Jurisdiction of Incorporation (I.R.S. Employer Identification No.)  
or Organization)

Clarendon House

2 Church Street

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Hamilton HM11, Bermuda

(Address of principal executive offices)

Registrant's telephone number: (441) 295-1422

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 No

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 No

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

Large accelerated filer Accelerated filer  
Non-accelerated filer Smaller reporting company  
Emerging growth company

If the Registrant is an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 20, 2017, there were 129,766,091 shares of the Registrant's Class A common stock outstanding (including 9,820,657 shares held by subsidiaries).

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When we use the terms “Lazard”, “we”, “us”, “our” and “the Company”, we mean Lazard Ltd, a company incorporated under the laws of Bermuda, and its subsidiaries, including Lazard Group LLC, a Delaware limited liability company (“Lazard Group”), that is the current holding company for our businesses. Lazard Ltd’s primary operating asset is its indirect ownership as of September 30, 2017 of all of the common membership interests in Lazard Group and its controlling interest in Lazard Group.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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## LAZARD LTD

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

SEPTEMBER 30, 2017 AND DECEMBER 31, 2016

(UNAUDITED)

(dollars in thousands, except for per share data)

	September 30, 2017	December 31, 2016
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,254,010	\$ 1,158,785
Deposits with banks and short-term investments	652,484	419,668
Cash deposited with clearing organizations and other segregated cash	35,369	29,030
Receivables (net of allowance for doubtful accounts of \$27,464 and \$16,386 at September 30, 2017 and December 31, 2016, respectively):		
Fees	451,218	564,291
Customers and other	100,670	73,991
Investments	551,888	638,282
Property (net of accumulated amortization and depreciation of \$314,717 and \$286,001 at September 30, 2017 and December 31, 2016, respectively)	426,948	459,422
Goodwill and other intangible assets (net of accumulated amortization of \$62,610 and \$60,080 at September 30, 2017 and December 31, 2016, respectively)	200,800	209,021
Deferred tax assets	392,068	382,024
Other assets	1,099,870	1,075,777
Total Assets	222,951	184,499
	\$ 4,836,388	\$ 4,556,508

See notes to condensed consolidated financial statements.

## LAZARD LTD

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

SEPTEMBER 30, 2017 AND DECEMBER 31, 2016

(UNAUDITED)

(dollars in thousands, except for per share data)

	September 30, 2017	December 31, 2016
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Deposits and other customer payables	\$ 702,014	\$ 472,283
Accrued compensation and benefits	490,844	541,588
Senior debt	1,189,936	1,188,600
Tax receivable agreement obligation	512,821	513,610
Deferred tax liabilities	4,281	9,168
Other liabilities	568,017	537,446
<b>Total Liabilities</b>	<b>3,467,913</b>	<b>3,262,695</b>
Commitments and contingencies		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, par value \$.01 per share; 15,000,000 shares authorized:		
Series A - no shares issued and outstanding	-	-
Series B - no shares issued and outstanding	-	-
Common stock:		
Class A, par value \$.01 per share (500,000,000 shares authorized;		
129,766,091 shares issued at September 30, 2017 and December 31, 2016,		
including shares held by subsidiaries as indicated below)	1,298	1,298
Additional paid-in-capital	732,981	688,231
Retained earnings	1,219,303	1,134,186
Accumulated other comprehensive loss, net of tax	(261,673 )	(314,222 )
	1,691,909	1,509,493
Class A common stock held by subsidiaries, at cost (9,647,663 and 7,628,786		
shares at September 30, 2017 and December 31, 2016, respectively)	(384,067 )	(273,506 )
<b>Total Lazard Ltd Stockholders' Equity</b>	<b>1,307,842</b>	<b>1,235,987</b>
Noncontrolling interests	60,633	57,826
<b>Total Stockholders' Equity</b>	<b>1,368,475</b>	<b>1,293,813</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 4,836,388</b>	<b>\$ 4,556,508</b>

See notes to condensed consolidated financial statements.

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## LAZARD LTD

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016

(UNAUDITED)

(dollars in thousands, except for per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>REVENUE</b>				
Investment banking and other advisory fees	\$305,530	\$343,154	\$1,050,721	\$894,906
Asset management fees	301,719	254,551	868,522	729,679
Interest income	1,630	1,128	4,893	3,668
Other	29,252	22,269	81,361	49,607
Total revenue	638,131	621,102	2,005,497	1,677,860
Interest expense	13,272	12,194	39,994	36,054
Net revenue	624,859	608,908	1,965,503	1,641,806
<b>OPERATING EXPENSES</b>				
Compensation and benefits	361,787	353,756	1,138,200	959,276
Occupancy and equipment	29,156	26,973	87,468	81,143
Marketing and business development	19,798	16,927	63,577	60,492
Technology and information services	31,373	24,179	87,429	71,406
Professional services	11,005	10,870	33,701	31,877
Fund administration and outsourced services	18,325	17,097	52,576	46,427
Amortization and other acquisition-related costs	172	863	5,003	1,837
Other	9,031	9,251	30,639	28,743
Total operating expenses	480,647	459,916	1,498,593	1,281,201
<b>OPERATING INCOME</b>	<b>144,212</b>	<b>148,992</b>	<b>466,910</b>	<b>360,605</b>
Provision for income taxes	32,742	36,374	124,109	95,900
<b>NET INCOME</b>	<b>111,470</b>	<b>112,618</b>	<b>342,801</b>	<b>264,705</b>
<b>LESS - NET INCOME ATTRIBUTABLE TO</b>				
NONCONTROLLING INTERESTS	2,260	82	5,660	4,989
<b>NET INCOME ATTRIBUTABLE TO LAZARD LTD</b>	<b>\$109,210</b>	<b>\$112,536</b>	<b>\$337,141</b>	<b>\$259,716</b>
<b>ATTRIBUTABLE TO LAZARD LTD CLASS A</b>				
<b>COMMON STOCKHOLDERS:</b>				
<b>WEIGHTED AVERAGE SHARES OF COMMON STOCK</b>				
<b>OUTSTANDING:</b>				
Basic	121,243,598	124,408,884	122,142,303	125,303,758
Diluted	132,393,664	132,320,855	132,407,551	132,517,887



NET INCOME PER SHARE OF COMMON STOCK:

Basic	\$0.90	\$0.90	\$2.76	\$2.07
Diluted	\$0.82	\$0.85	\$2.55	\$1.96
DIVIDENDS DECLARED PER SHARE OF				
COMMON STOCK	\$0.41	\$0.38	\$2.40	\$2.31

See notes to condensed consolidated financial statements.

## LAZARD LTD

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016

(UNAUDITED)

(dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
NET INCOME	\$111,470	\$112,618	\$342,801	\$264,705
OTHER COMPREHENSIVE INCOME (LOSS), NET OF				
TAX:				
Currency translation adjustments (including a tax benefit of				
\$221 for the three months ended September 30, 2016 and				
\$3,090 for the nine months ended September 30, 2016)	19,748	(159 )	62,847	(4,524 )
Employee benefit plans:				
Actuarial loss (net of tax benefit of \$1,197 and \$17				
for the three months ended September 30, 2017 and 2016,				
respectively, and \$3,673 and \$315 for the nine months				
ended September 30, 2017 and 2016, respectively)	(4,715 )	(33 )	(13,819 )	(649 )
Adjustment for items reclassified to earnings (net of				
tax expense of \$204 and \$375 for the three months				
ended September 30, 2017 and 2016, respectively, and				
\$676 and \$1,171 for the nine months ended September 30,				
2017 and 2016, respectively)	1,081	1,134	3,523	3,441
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	16,114	942	52,551	(1,732 )
COMPREHENSIVE INCOME	127,584	113,560	395,352	262,973
LESS - COMPREHENSIVE INCOME ATTRIBUTABLE TO				
NONCONTROLLING INTERESTS	2,262	82	5,662	4,989
COMPREHENSIVE INCOME ATTRIBUTABLE TO				
LAZARD LTD	\$125,322	\$113,478	\$389,690	\$257,984

See notes to condensed consolidated financial statements.

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## LAZARD LTD

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016

(UNAUDITED)

(dollars in thousands)

	Nine Months Ended September 30,	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$342,801	\$264,705
Adjustments to reconcile net income to net cash provided by (used in)		
operating activities:		
Depreciation and amortization of property	23,209	24,586
Amortization of deferred expenses and share-based incentive compensation	285,162	276,714
Amortization and other acquisition-related costs	5,003	1,837
Deferred tax provision	50,699	49,184
(Increase) decrease in operating assets:		
Deposits with banks and short-term investments	(171,734 )	(135,152 )
Cash deposited with clearing organizations and other segregated cash	(5,138 )	115
Receivables-net	112,499	(43,593 )
Investments	27,927	79,698
Other assets	(71,053 )	(61,778 )
Increase (decrease) in operating liabilities:		
Deposits and other payables	164,784	70,165
Accrued compensation and benefits and other liabilities	(86,097 )	(227,356 )
Net cash provided by operating activities	678,062	299,125
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to property	(15,463 )	(22,070 )
Disposals of property	283	866
Net cash used in investing activities	(15,180 )	(21,204 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from:		
Contributions from noncontrolling interests	-	93
Excess tax benefits from share-based incentive compensation	-	2,343
Other financing activities	-	30,518
Payments for:		
Capital lease obligations	(7,329 )	(1,234 )
Distributions to noncontrolling interests	(3,059 )	(966 )
Payments under tax receivable agreement	(789 )	(10,086 )
Purchase of Class A common stock	(252,538 )	(228,865 )
Class A common stock dividends	(292,293 )	(289,326 )

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Settlement of vested share-based incentive compensation	(67,384 )	(55,562 )
Other financing activities	(10,073 )	(3,080 )
Net cash used in financing activities	(633,465 )	(556,165 )
EFFECT OF EXCHANGE RATE CHANGES ON CASH	65,808	48
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	95,225	(278,196 )
CASH AND CASH EQUIVALENTS—January 1	1,158,785	1,132,083
CASH AND CASH EQUIVALENTS—September 30	\$1,254,010	\$853,887

See notes to condensed consolidated financial statements.

LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2016

(UNAUDITED)

(dollars in thousands)

	Series A Preferred Stock		Common Stock		Additional Paid-In-Capital	Retained Earnings	Accumulated		Total		
	Shares	\$	Shares	\$			Comprehensive Income (Loss), Net of Tax	Class A Common Stock Held By Subsidiaries	Common Stock	Equity	Noncontrolling Interests
January 1,	7,921	\$-	129,766,091	\$ 1,298	\$ 600,034	\$ 1,123,728	\$(234,356)	4,253,381	\$(177,249)	\$ 1,313,455	\$ 53,851
Net income						259,716				259,716	4,989
Comprehensive income							(1,732 )			(1,732 )	
of incentive plan											
on equivalents					213,144					213,144	
mon shares					32,849	(35,929 )				(3,080 )	
Class A stock						(289,326 )				(289,326 )	
Class A stock in								6,656,250	(228,865 )	(228,865 )	
with incentive											
on and benefit											
					(216,610)			(4,217,819)	167,948	(48,662 )	

Acquisitions  
Equity

Class A  
Share

Income tax  
Common  
Share

Share  
related  
to  
g

					(21,777 )			(913,722 )	34,430	12,653		
					6,313					6,313		
										-	(873 )	
					9,559					9,559		
Q3 2016	7,921	\$-	129,766,091	\$1,298	\$623,512	\$1,058,189	\$(236,088)	5,778,090	\$(203,736)	\$1,243,175	\$57,967	

See notes to condensed consolidated financial statements.

## LAZARD LTD

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2017

(UNAUDITED)

(dollars in thousands)

	Common Stock		Additional Paid-In- Capital	Retained Earnings	Accumulated		Total		Total Stockholders' Equity	
	Shares	\$			Other Comprehensive Income (Loss), Net of Tax	Class A Common Stock Held By Subsidiaries	Lazard Ltd Stockholders' Equity	Noncontrol Interests		
Balance - January 1,	129,766,091	\$ 1,298	\$ 688,231	\$ 1,134,186	\$ (314,222)	7,628,786	\$ (273,506)	\$ 1,235,987	\$ 57,826	\$ 1,293,813
Change for the period - net effect on										
Change from the issuance of new shares during the period										
Change in balance related to share-based incentive plans				81,544				81,544		81,544
Change in balance, as adjusted for the effect of the adoption of ASU 2016-01	129,766,091	1,298	688,231	1,215,730	(314,222)	7,628,786	(273,506)	1,317,531	57,826	1,375,357
Change in comprehensive income:				337,141				337,141	5,660	342,801
Change in comprehensive income - net of tax					52,549			52,549	2	52,551
Change in balance related to share-based incentive plans										
Change in balance related to share-based incentive plans			220,648					220,648		220,648
Change in balance related to share-based incentive plans			36,482	(41,479)				(4,997)		(4,997)
Change in balance related to share-based incentive plans				(292,293)				(292,293)		(292,293)



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Issue of Class A common stock						5,838,520	(252,538)	(252,538)		(252,538)
Repurchase of Class A common stock in connection with share-based incentive compensation and tax expense										
Net change						(212,271)	(3,772,169)	140,068	(72,203)	(72,203)
Business acquisitions										
Issuance of equity										
Transactions:										
Issue of Class A common stock										
Share repurchase related tax expense of \$832						(472)	(47,474)	1,909	1,437	1,437
Issuance of common stock										
Share repurchase (including related tax expense)						363			363	363
Contributions to controlling interest, net									-	(3,059)
						-	204		204	408
Balance -										
September 30, 2017	129,766,091	\$1,298	\$732,981	\$1,219,303	\$(261,673)	9,647,663	\$(384,067)	\$1,307,842	\$60,633	\$1,368,475

See notes to condensed consolidated financial statements.

LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(dollars in thousands, except for per share data, unless otherwise noted)

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Lazard Ltd, a Bermuda holding company, and its subsidiaries (collectively referred to as “Lazard Ltd”, “Lazard”, “we” or the “Company”), including Lazard Ltd’s indirect investment in Lazard Group LLC, a Delaware limited liability company (collectively referred to, together with its subsidiaries, as “Lazard Group”), is one of the world’s preeminent financial advisory and asset management firms and has long specialized in crafting solutions to the complex financial and strategic challenges of our clients. We serve a diverse set of clients around the world, including corporations, governments, institutions, partnerships and individuals.

Lazard Ltd indirectly held 100% of all outstanding Lazard Group common membership interests as of September 30, 2017 and December 31, 2016. Lazard Ltd, through its control of the managing members of Lazard Group, controls Lazard Group, which is governed by an Amended and Restated Operating Agreement dated as of October 26, 2015, as amended (the “Operating Agreement”).

Lazard Ltd’s primary operating asset is its indirect ownership of the common membership interests of, and managing member interests in, Lazard Group, whose principal operating activities are included in two business segments:

• Financial Advisory, which offers corporate, partnership, institutional, government, sovereign and individual clients across the globe a wide array of financial advisory services regarding mergers and acquisitions (“M&A”) and other strategic matters, restructurings, capital structure, capital raising, shareholder advisory, and various other financial matters, and

• Asset Management, which offers a broad range of global investment solutions and investment management services in equity and fixed income strategies, asset allocation strategies, alternative investments and private equity funds to corporations, public funds, sovereign entities, endowments and foundations, labor funds, financial intermediaries and private clients.

In addition, we record selected other activities in our Corporate segment, including management of cash, investments, deferred tax assets, outstanding indebtedness, certain contingent obligations, and assets and liabilities associated with Lazard Group’s Paris-based subsidiary Lazard Frères Banque SA (“LFB”).

Basis of Presentation

The accompanying condensed consolidated financial statements of Lazard Ltd have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (the “SEC”) regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America (“U.S. GAAP”) for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in Lazard Ltd’s Annual Report on Form 10-K for the year ended December 31, 2016. The accompanying December 31, 2016 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 for annual financial statement purposes. The accompanying condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented.

Preparing financial statements requires management to make estimates and assumptions that affect the amounts that are reported in the financial statements and the accompanying disclosures. For example, discretionary compensation and benefits expense for interim periods is accrued based on the year-to-date amount of revenue earned, and an assumed annual ratio of compensation and benefits expense to revenue, with the applicable amounts adjusted for certain items. Although these estimates are based on management's knowledge of current events and actions that Lazard may undertake in the future, actual results may differ materially from the estimates.

The consolidated results of operations for the three month and nine month periods ended September 30, 2017 are not indicative of the results to be expected for any future interim or annual period.

The condensed consolidated financial statements include Lazard Ltd, Lazard Group and Lazard Group's principal operating subsidiaries: Lazard Frères & Co. LLC ("LFNY"), a New York limited liability company, along with its subsidiaries, including Lazard Asset Management LLC and its subsidiaries (collectively referred to as "LAM"); the French limited liability companies Compagnie

LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

(dollars in thousands, except for per share data, unless otherwise noted)

Financière Lazard Frères SAS (“CFLF”) along with its subsidiaries, LFB and Lazard Frères Gestion SAS (“LFG”), and Maison Lazard SAS and its subsidiaries; and Lazard & Co., Limited (“LCL”), through Lazard & Co., Holdings Limited (“LCH”), an English private limited company, together with their jointly owned affiliates and subsidiaries.

The Company’s policy is to consolidate entities in which it has a controlling financial interest. The Company consolidates:

- Voting interest entities (“VOEs”) where the Company holds a majority of the voting interest in such VOEs, and
- Variable interest entities (“VIEs”) where the Company is the primary beneficiary having the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and the obligation to absorb losses of, or receive benefits from, the VIE that could be potentially significant to the VIE.

When the Company does not have a controlling interest in an entity, but exerts significant influence over such entity’s operating and financial decisions, the Company either (i) applies the equity method of accounting in which it records a proportionate share of the entity’s net earnings, or (ii) elects the option to measure at fair value. Intercompany transactions and balances have been eliminated.

Certain prior period amounts have been reclassified to conform to the current period presentation, specifically by including capital lease obligations, previously presented separately, in other liabilities on the condensed consolidated statements of financial condition.

## 2. RECENT ACCOUNTING DEVELOPMENTS

Compensation—Stock Compensation: Improvements to Employee Share-Based Payment Accounting—In March 2016, the Financial Accounting Standards Board (the “FASB”) issued new guidance regarding share-based incentive compensation. The new guidance includes several amendments which affect various aspects of the accounting for share-based incentive compensation transactions, including the income tax consequences, estimation of forfeitures, effect on earnings per share, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new guidance is effective for annual and interim periods beginning after December 15, 2016. The Company adopted this new guidance on January 1, 2017. The new guidance has since January 1, 2017 affected, and the Company expects that in future periods the new guidance will affect, the provision for income taxes for the delivery of stock under share-based incentive compensation arrangements, as well as the effective tax rate in the relevant periods, which could be material to the condensed consolidated statements of operations and the classification of cash flows in the relevant periods. The inclusion of excess tax benefits as an operating activity within the statement of cash flows was adopted on a prospective basis, with prior periods unadjusted. Based on the new guidance, the excess tax benefits are no longer included as assumed proceeds in the calculation of earnings per share under the treasury stock method on a prospective basis. Upon adoption of the new guidance, the Company also recorded deferred tax assets of \$81,544, net of a valuation allowance of \$12,090, for previously unrecognized excess tax benefits (including tax benefits from dividends or dividend equivalents) on share-based incentive compensation

arrangements, with an offsetting adjustment to retained earnings. With respect to forfeiture rates, the Company will continue to estimate the number of awards expected to be forfeited, rather than electing the option to account for forfeitures as they occur. See Note 14.

Revenue from Contracts with Customers—In May 2014, the FASB issued comprehensive new revenue recognition guidance. The guidance requires a company to recognize revenue when it transfers promised services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those services and requires enhanced disclosures. The guidance also changes the accounting for certain contract costs, including whether they may be offset against revenue in the condensed consolidated statements of operations. On July 9, 2015, the FASB approved the deferral of the effective date of the new revenue guidance by one year to annual reporting periods beginning after December 15, 2017. The guidance may be adopted using a full retrospective approach or a modified cumulative effect approach. The Company will adopt the revenue recognition guidance upon its effective date of January 1, 2018 and it intends to apply the modified cumulative effect approach upon transition. The Company's implementation efforts include the identification of revenue within the scope of the guidance and the evaluation of revenue contracts.

The Company continues to evaluate the potential impact of the new guidance including (i) the timing of revenue recognition for Financial Advisory fees and (ii) the presentation of certain contract costs. With respect to revenue recognition, the Company is assessing the potential impact of the new guidance on the Company's recognition of certain M&A Advisory fees (e.g., transaction completion, transaction announcement and retainer fees), including whether the Company's fulfillment of its performance obligations under M&A Advisory engagement contracts would be deemed to occur over time, or at specific points in time, under the new

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guidance. Interpretive guidance on this particular issue continues to be deliberated by the Financial Reporting Executive Committee of the American Institute of Certified Public Accountants. With respect to the potential impact of the new guidance on the Company's presentation of certain contract costs, the Company anticipates that the new guidance will result in the gross basis of presentation of certain contract costs that are currently presented net of certain items in revenues. The most significant changes identified to date with respect to presentation relate to (a) certain distribution costs within our Asset Management business and (b) certain reimbursable deal costs within our Financial Advisory business, both of which are currently presented net against revenues and will be presented as expenses on a gross basis under the new guidance. The Company is currently evaluating the impact of this presentation.

**Classification of Certain Cash Receipts and Cash Payments**—In August and November 2016, the FASB issued updated guidance which clarifies how a company should classify certain cash receipts and cash payments on the statement of cash flows and clarifies that restricted cash should be included in the total of cash and cash equivalents on the statement of cash flows. The new guidance for both updates is effective for annual and interim periods beginning after December 15, 2017 and early adoption is permitted. The new guidance is to be applied on a retrospective basis. The Company is currently evaluating the new guidance.

**Clarifying the Definition of a Business**—In January 2017, the FASB issued updated guidance to clarify the definition of a business within the context of business combinations. The updated guidance requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This updated guidance is expected to reduce the number of transactions that need to be further evaluated as business combinations. If further evaluation is necessary, the updated guidance will require that a business set include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. The updated guidance will remove the evaluation of whether a market participant could replace missing elements. The new guidance is effective for annual and interim periods beginning after December 15, 2017 and is to be applied on a prospective basis. The Company is currently evaluating the new guidance.

**Compensation—Retirement Benefits—Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost**—In March 2016, the FASB issued updated guidance on the presentation of net benefit cost in the statement of operations and the components eligible for capitalization. The new guidance requires that only the service cost component of net periodic pension cost and net periodic postretirement benefit cost be presented with other employee compensation costs in operating expenses. The other components of net benefit cost, including amortization of prior service cost, and gains and losses from settlements and curtailments, are to be included in non-operating expenses. The new guidance also stipulates that only the service cost component of net benefit cost is eligible for capitalization. This new guidance is effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted. The Company is currently evaluating the new guidance.

**Compensation—Stock Compensation: Scope of Modification Accounting**—In May 2017, the FASB issued updated guidance on modifications to share-based payment awards. The updated guidance requires entities to account for the effects of a modification to a share-based payment award unless the following are all the same immediately before and

after the modification: (i) the fair value of the award, (ii) the vesting conditions of the award, and (iii) the classification of the award as an equity instrument or a liability instrument. This new guidance is effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted. The new guidance is to be applied on a prospective basis. The Company is currently evaluating the new guidance.

**Leases**—In February 2016, the FASB issued updated guidance for leases. The guidance requires a lessee to (i) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial condition, (ii) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis, and (iii) classify all cash payments within operating activities in the statement of cash flows. The new guidance is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. The new guidance is to be applied on a modified retrospective basis. The Company is currently evaluating the new guidance.

**Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments**—In June 2016, the FASB issued new guidance regarding the measurement of credit losses on financial instruments. The new guidance replaces the incurred loss impairment methodology in the current guidance with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. The new guidance is effective for annual and interim periods beginning after December 15, 2019 with early adoption permitted for fiscal years beginning after December 15, 2018. The Company is currently evaluating the new guidance.

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Intangibles—Goodwill and Other: Simplifying the Test for Goodwill Impairment—In January 2017, the FASB issued updated guidance which eliminated Step 2 from the goodwill impairment test. Step 2 is the process of measuring a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. The new guidance requires entities to measure a goodwill impairment loss as the amount by which a reporting unit’s carrying value exceeds its fair value, limited to the carrying amount of goodwill. The FASB also eliminated the requirements for entities that have reporting units with zero or negative carrying amounts to perform a qualitative assessment for the goodwill impairment test. Instead, those entities would be required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount. The new guidance is effective for interim or annual goodwill impairment tests performed in fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the new guidance.

### 3. RECEIVABLES

The Company’s receivables represent fee receivables, amounts due from customers and other receivables.

Receivables are stated net of an estimated allowance for doubtful accounts, for past due amounts and for specific accounts deemed uncollectible, which may include situations where a fee is in dispute.

Activity in the allowance for doubtful accounts for the three month and nine month periods ended September 30, 2017 and 2016 was as follows:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Beginning Balance	\$25,094	\$13,569	\$16,386	\$12,882
Bad debt expense, net of recoveries	4,753	1,545	18,584	4,124
Charge-offs, foreign currency translation and other adjustments	(2,383 )	(2,147 )	(7,506 )	(4,039 )
Ending Balance	\$27,464	\$12,967	\$27,464	\$12,967

Bad debt expense, net of recoveries is included in “investment banking and other advisory fees” on the condensed consolidated statements of operations.



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At September 30, 2017 and December 31, 2016, the Company had receivables past due or deemed uncollectible of \$44,372 and \$22,212, respectively.

Of the Company's fee receivables at September 30, 2017 and December 31, 2016, \$64,965 and \$76,133, respectively, represented interest-bearing financing receivables. Based upon our historical loss experience, the credit quality of the counterparties, and the lack of past due or uncollectible amounts, there was no allowance for doubtful accounts required at those dates related to such receivables.

The aggregate carrying amount of our non-interest bearing receivables of \$486,923 and \$562,149 at September 30, 2017 and December 31, 2016, respectively, approximates fair value.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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## 4. INVESTMENTS

The Company's investments and securities sold, not yet purchased, consist of the following at September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Interest-bearing deposits	\$ 552	\$ 456
Debt	6	-
Equities	46,181	41,017
Funds:		
Alternative investments (a)	23,518	32,441
Debt (a)	86,900	74,597
Equity (a)	191,193	188,268
Private equity	78,376	122,421
	379,987	417,727
Equity method	222	222
Total investments	426,948	459,422
Less:		
Interest-bearing deposits	552	456
Equity method	222	222
Investments, at fair value	\$ 426,174	\$ 458,744
Securities sold, not yet purchased, at fair value (included in "other liabilities")	\$ 5,921	\$ 4,482

(a) Interests in alternative investment funds, debt funds and equity funds include investments with fair values of \$13,850, \$48,451 and \$124,570, respectively, at September 30, 2017 and \$13,080, \$37,869 and \$128,219, respectively, at December 31, 2016, held in order to satisfy the Company's liability upon vesting of previously granted Lazard Fund Interests ("LFI") and other similar deferred compensation arrangements. LFI represent grants by the Company to eligible employees of actual or notional interests in a number of Lazard-managed funds, subject to service-based vesting conditions (see Notes 6 and 12).

Interest-bearing deposits have original maturities of greater than three months but equal to or less than one year and are carried at cost that approximates fair value due to their short-term maturities.

Equities primarily consist of seed investments invested in marketable equity securities of large-, mid- and small-cap domestic, international and global companies held within separately managed accounts related to our Asset Management business.

Alternative investment funds primarily consist of interests in various Lazard-managed hedge funds, funds of funds and mutual funds.

Debt funds primarily consist of seed investments in funds related to our Asset Management business that invest in debt securities, amounts related to LFI discussed above and an investment in a Lazard-managed debt fund.

Equity funds primarily consist of seed investments in funds related to our Asset Management business that invest in equity securities, and amounts related to LFI discussed above.

Private equity investments include those owned by Lazard and those consolidated but not owned by Lazard. Private equity investments owned by Lazard are primarily comprised of investments in private equity funds. Such investments primarily include (i) Edgewater Growth Capital Partners III, L.P. (“EGCP III”), a fund primarily making equity and buyout investments in middle market companies, (ii) a fund targeting significant noncontrolling-stake investments in established private companies and (iii) until the second quarter of 2017, a mezzanine fund (the “Mezzanine Fund”), which invests in mezzanine debt of a diversified selection of small- to mid-cap European companies. Lazard sold its interest in the Mezzanine Fund in May 2017.

Private equity investments consolidated but not owned by Lazard relate to the economic interests that are owned by the management team and other investors in the Edgewater Funds (“Edgewater”).

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During the three month and nine month periods ended September 30, 2017 and 2016, the Company reported in “revenue-other” on its condensed consolidated statements of operations net unrealized investment gains and losses pertaining to “trading” securities still held as of the reporting date as follows:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Net unrealized investment gains	\$6,949	\$9,047	\$27,932	\$15,221

## 5. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy of Investments and Certain Other Assets and Liabilities—Lazard categorizes its investments and certain other assets and liabilities recorded at fair value into a three-level fair value hierarchy as follows:

- Level 1. Assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that Lazard has the ability to access.
- Level 2. Assets and liabilities whose values are based on (i) quoted prices for similar assets or liabilities in an active market, or quoted prices for identical or similar assets or liabilities in non-active markets, or (ii) inputs other than quoted prices that are directly observable or derived principally from, or corroborated by, market data.
- Level 3. Assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect our own assumptions about the assumptions a market participant would use in pricing the asset or liability. Items included in Level 3 include securities or other financial assets whose trading volume and level of activity have significantly decreased when compared with normal market activity and there is no longer sufficient frequency or volume to provide pricing information on an ongoing basis.

The fair value of equities is classified as Level 1 or Level 3 as follows: marketable equity securities are classified as Level 1 and are valued based on the last trade price on the primary exchange for that security as provided by external pricing services; equity securities in private companies are generally classified as Level 3.

The fair value of investments in alternative investment funds, debt funds and equity funds is classified as Level 1 when the fair values are primarily based on the publicly reported closing price for the fund.

The fair value of securities sold, not yet purchased, is classified as Level 1 when the fair values are based on unadjusted quoted prices in active markets.

The fair value of the contingent consideration liability is classified as Level 3 and the estimated fair value of the liability is remeasured at each reporting period. The inputs used to derive the fair value of the contingent consideration include the application of probabilities when assessing certain performance thresholds for the relevant periods. Any change in the fair value is recognized in “amortization and other acquisition-related costs” in the condensed consolidated statement of operations. Our business acquisitions may involve the potential payment of contingent consideration upon the achievement of certain performance thresholds. The contingent consideration liability is initially recorded at the estimated fair value of the contingent payments on the acquisition date and is included in “other liabilities” on the condensed consolidated statements of financial condition. See Note 10.

The fair value of derivatives entered into by the Company is classified as Level 2 and is based on the values of the related underlying assets, indices or reference rates as follows: the fair value of forward foreign currency exchange rate contracts is a function of the spot rate and the interest rate differential of the two currencies from the trade date to settlement date; the fair value of total return swaps is based on the change in fair value of the related underlying equity security, financial instrument or index and a specified notional holding; the fair value of interest rate swaps is based on the interest rate yield curve; and the fair value of derivative liabilities related to LFI and other similar deferred compensation arrangements is based on the value of the underlying investments, adjusted for forfeitures. See Note 6.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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Investments Measured at Net Asset Value (“NAV”)—As a practical expedient, the Company uses NAV or its equivalent to measure the fair value of certain investments. NAV is primarily determined based on information provided by external fund administrators. The Company’s investments valued at NAV as a practical expedient in (i) alternative investment funds, debt funds and equity funds are redeemable in the near term, and (ii) private equity funds are not redeemable in the near term as a result of redemption restrictions.

The following tables present, as of September 30, 2017 and December 31, 2016, the classification of (i) investments and certain other assets and liabilities measured at fair value on a recurring basis within the fair value hierarchy and (ii) investments measured at NAV or its equivalent as a practical expedient:

	September 30, 2017				
	Level 1	Level 2	Level 3	NAV	Total
<b>Assets:</b>					
<b>Investments:</b>					
Debt	\$6	\$-	\$-	\$-	\$6
Equities	44,634	-	1,547	-	46,181
<b>Funds:</b>					
Alternative investments	15,798	-	-	7,720	23,518
Debt	86,894	-	-	6	86,900
Equity	191,144	-	-	49	191,193
Private equity	-	-	-	78,376	78,376
Derivatives	-	3,443	-	-	3,443
Total	\$338,476	\$3,443	\$1,547	\$86,151	\$429,617
<b>Liabilities:</b>					
Securities sold, not yet purchased	\$5,921	\$-	\$-	\$-	\$5,921
Contingent consideration liability	-	-	24,927	-	24,927
Derivatives	-	189,142	-	-	189,142
Total	\$5,921	\$189,142	\$24,927	\$-	\$219,990

	December 31, 2016				
	Level 1	Level 2	Level 3	NAV	Total
<b>Assets:</b>					
<b>Investments:</b>					
Equities	\$39,509	\$-	\$1,508	\$-	\$41,017
<b>Funds:</b>					
Alternative investments	25,316	-	-	7,125	32,441
Debt	74,591	-	-	6	74,597
Equity	188,229	-	-	39	188,268

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Private equity	-	-	-	122,421	122,421
Derivatives	-	1,993	-	-	1,993
Total	\$327,645	\$1,993	\$1,508	\$129,591	\$460,737
<b>Liabilities:</b>					
Securities sold, not yet purchased	\$4,482	\$-	\$-	\$-	\$4,482
Contingent consideration liability	-	-	22,608	-	22,608
Derivatives	-	182,223	-	-	182,223
Total	\$4,482	\$182,223	\$22,608	\$-	\$209,313

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The following tables provide a summary of changes in fair value of the Company's Level 3 assets and liabilities for the three month and nine month periods ended September 30, 2017 and 2016:

	Three Months Ended September 30, 2017					
	Net Unrealized/					
	Realized				Foreign	
	Gains/Losses				Currency	
	Beginning	Included In	Purchases/	Sales/	Translation	Ending
	Balance	Earnings (a)	Acquisitions	Dispositions	Adjustments	Balance
<b>Assets:</b>						
<b>Investments:</b>						
Equities	\$3,072	\$ 130	\$ -	\$ (1,661 )	\$ 6	\$ 1,547
Total Level 3 Assets	\$3,072	\$ 130	\$ -	\$ (1,661 )	\$ 6	\$ 1,547
<b>Liabilities:</b>						