

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

98-0437848

Clarendon House

2 Church Street

Edgar Filing: Lazard Ltd - Form 10-Q

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).

## TABLE OF CONTENTS

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.

	Page
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	1
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	36
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	63
<u>Item 4. Controls and Procedures</u>	64
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	65
<u>Item 1A. Risk Factors</u>	65
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	65
<u>Item 3. Defaults Upon Senior Securities</u>	66
<u>Item 4. Mine Safety Disclosures</u>	66
<u>Item 5. Other Information</u>	66
<u>Item 6. Exhibits</u>	67
<u>Signatures</u>	70

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

	Page
<u>Condensed Consolidated Statements of Financial Condition as of September 30, 2017 and December 31, 2016</u>	2
<u>Condensed Consolidated Statements of Operations for the three month and nine month periods ended September 30, 2017 and 2016</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the three month and nine month periods ended September 30, 2017 and 2016</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2017 and 2016</u>	6
<u>Condensed Consolidated Statements of Changes in Stockholders' Equity for the nine month periods ended September 30, 2017 and 2016</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	9

## 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.

3

---

## 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.

5

---

## 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 )

Edgar Filing: Lazard Ltd - Form 10-Q

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 Other Comprehensive Income (Loss), Net of Tax		Class A Common Stock Held By Subsidiaries		Total Lazard Ltd Stockholders' Equity		Noncontrolling Interests
	Shares	\$	Shares	\$			Shares	\$	Shares	\$	Equity		
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	
Other comprehensive income							(1,732)				(1,732)		
Share-based compensation					213,144						213,144		
Share-based payments					32,849	(35,929)					(3,080)		
Share-based awards						(289,326)					(289,326)		
Class A stock repurchased								6,656,250	(228,865)	(228,865)			
Class A stock in treasury													
Share-based compensation with incentive													
Share-based compensation and benefit					(216,610)			(4,217,819)	167,948	(48,662)			

Acquisitions  
Equity

Class A  
Common

Income tax  
Common

Share-based  
payments  
to  
employees

					(21,777 )			(913,722 )	34,430	12,653		
					6,313					6,313		
										-	(873 )	
					9,559					9,559		
June 30, 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 Lazard Ltd Stockholders' Equity		Noncontrol Interests	Total Stock Equity
					Comprehensive Income (Loss), Net of Tax	Class A Common Stock Held By Subsidiaries				
	Shares	\$				Shares	\$			
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 from the cumulative effect on										
Change from the issuance of new shares										
Change from the issuance of shares related to performance based incentive compensation				81,544				81,544		81,544
Change from the issuance of shares, as adjusted										
Balance - January 1, 2017	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 from comprehensive income				337,141				337,141	5,660	342,801
Change from comprehensive income - net of tax					52,549			52,549	2	52,551
Change from the recognition of performance based incentive compensation										
Change from the recognition of performance based incentive compensation and-equivalents				220,648				220,648		220,648
Change from the recognition of performance based incentive compensation and-equivalents				36,482	(41,479)			(4,997)		(4,997)
Change from the recognition of performance based incentive compensation and-equivalents										
Change from the recognition of performance based incentive compensation and-equivalents				(292,293)				(292,293)		(292,293)



Edgar Filing: Lazard Ltd - Form 10-Q

Issue of Class A common stock						5,838,520	(252,538)	(252,538)		(252,538)
Repurchase of Class A common stock in connection with employee stock-based incentive plan										
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										
Related tax expense of \$832						(472)	(47,474)	1,909	1,437	1,437
Issuance of common stock										
Issuance of convertible preferred stock										
Issuance of convertible preferred stock (including related tax expense)						363			363	363
Contributions to equity										
Acquisition of controlling interests, net									-	(3,059)
Net change						-	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

LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

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

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.

LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

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

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.



Edgar Filing: Lazard Ltd - Form 10-Q

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.

## LAZARD LTD

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

(UNAUDITED)

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

## 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”).

LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

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

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.

## LAZARD LTD

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

(UNAUDITED)

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

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

Edgar Filing: Lazard Ltd - Form 10-Q

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

## LAZARD LTD

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

(UNAUDITED)

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

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>						
Contingent consideration liability	\$25,539	\$ (612 )	\$ -	\$ -	\$ -	\$24,927
Total Level 3 Liabilities	\$25,539	\$ (612 )	\$ -	\$ -	\$ -	\$24,927

	Nine 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	\$1,508	\$ 4	\$ 1,661	\$ (1,669 )	\$ 43	\$1,547
Total Level 3 Assets	\$1,508	\$ 4	\$ 1,661	\$ (1,669 )	\$ 43	\$1,547
<b>Liabilities:</b>						



Edgar Filing: Lazard Ltd - Form 10-Q

Contingent consideration liability	\$22,608	\$ 2,568	\$ -	\$ (249	) \$ -	\$24,927
Total Level 3 Liabilities	\$22,608	\$ 2,568	\$ -	\$ (249	) \$ -	\$24,927

Three Months Ended September 30, 2016

Net Unrealized/

Realized

Foreign

Gains/Losses

Currency

	Beginning	Included In	Purchases/	Sales/	Translation	Ending
	Balance	Earnings (a)	Acquisitions	Dispositions	Adjustments	Balance

Assets:

Investments:

Equities	\$1,298	\$ 2	\$ -	\$ -	\$ 21	\$1,321
Total Level 3 Assets	\$1,298	\$ 2	\$ -	\$ -	\$ 21	\$1,321

Liabilities:

Contingent consideration liability	\$-	\$ 28	\$ 17,000	\$ -	\$ -	\$17,028
Total Level 3 Liabilities	\$-	\$ 28	\$ 17,000	\$ -	\$ -	\$17,028

## LAZARD LTD

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

(UNAUDITED)

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

	Nine Months Ended September 30, 2016					
	Net Unrealized/ Realized		Foreign			
	Gains/Losses		Currency			
	Beginning	Included In	Purchases/ Acquisitions	Sales/ Dispositions	Translation Adjustments	Ending
	Balance	Earnings (a)				Balance
<b>Assets:</b>						
<b>Investments:</b>						
Equities	\$ 1,276	\$ 12	\$ -	\$ -	\$ 33	\$ 1,321
Total Level 3 Assets	\$ 1,276	\$ 12	\$ -	\$ -	\$ 33	\$ 1,321
<b>Liabilities:</b>						
Contingent consideration liability	\$ -	\$ 28	\$ 17,000	\$ -	\$ -	\$ 17,028
Total Level 3 Liabilities	\$ -	\$ 28	\$ 17,000	\$ -	\$ -	\$ 17,028

(a) Earnings recorded in “other revenue” for investments in equities for the three month and nine month periods ended September 30, 2017 and the three month and nine month periods ended September 30, 2016 include net unrealized gains of \$130, \$2, \$2 and \$7, respectively. Earnings recorded in “amortization and other acquisition-related costs” for the contingent consideration liability for the three month and nine month periods ended September 30, 2017 and the three month and nine month periods ended September 30, 2016 include unrealized gains (losses) of \$612, \$(2,568), \$(28) and \$(28), respectively.

There were no transfers between any of the Level 1, 2 and 3 categories in the fair value measurement hierarchy during the three month and nine month periods ended September 30, 2017 and 2016. Certain investments that were valued at NAV as of December 31, 2016 were transferred to Level 2 from the NAV category in the six months ended June 30, 2017, as these investments were valued based on a probable transaction value as of the reporting date that differs from NAV. Such investments were sold in the second quarter of 2017.

The following tables present, at September 30, 2017 and December 31, 2016, certain investments that are valued using NAV or its equivalent as a practical expedient in determining fair value:

September 30, 2017

Investments Redeemable

Edgar Filing: Lazard Ltd - Form 10-Q

	Fair Value	Unfunded Commitments	Not Redeemable	Estimated Liquidation Period of Investments Not Redeemable			Redemption Frequency	Redemption Notice Period
				% of Fair Value	% Next 5 Years	% 5-10 Years Thereafter		
Alternative investment funds:								
Hedge funds	\$6,617	\$ -	NA	NA	NA	NA	(a)	<30-60 days
Funds of funds	517	-	NA	NA	NA	NA	(b)	<30-90 days
Other	586	-	NA	NA	NA	NA	(c)	<30-60 days
Debt funds	6	-	NA	NA	NA	NA	(d)	30 days
Equity funds	49	-	NA	NA	NA	NA	(e)	<30-90 days
Private equity funds:								
Equity growth	78,376	10,085	(f) 100	% 16%	39 %	45 %	NA	NA
Total	\$86,151	\$ 10,085						

(a) weekly (51%), monthly (2%) and quarterly (47%)

(b) monthly (97%) and quarterly (3%)

(c) daily (6%) and monthly (94%)

(d) daily (100%)

(e) daily (18%), monthly (50%) and quarterly (32%)

(f) Unfunded commitments to private equity investments consolidated but not owned by Lazard of \$5,915 are excluded. Such commitments are required to be funded by capital contributions from noncontrolling interest holders.

## LAZARD LTD

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

(UNAUDITED)

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

	December 31, 2016			Estimated Liquidation Period of							
	Fair Value	Unfunded Commitments	% of Fair Value Not Redeemable	Investments Not Redeemable			Investments Redeemable				
				% Next 5 Years	% 5-10 Years	% Thereafter	Redemption Frequency	Redemption Notice Period			
<b>Alternative investment funds:</b>											
Hedge funds	\$6,190	\$ -	NA	NA	NA	NA	(a)	<30-60 days			
Funds of funds	492	-	NA	NA	NA	NA	(b)	<30-90 days			
Other	443	-	NA	NA	NA	NA	(c)	<30-60 days			
Debt funds	6	-	NA	NA	NA	NA	(d)	30 days			
Equity funds	39	-	NA	NA	NA	NA	(e)	<30-90 days			
<b>Private equity funds:</b>											
Equity growth	90,824	9,183	(f) 100 %	12 %	33 %	55 %	NA	NA			
Mezzanine debt	31,597	-	100 %	-	-	100 %	NA	NA			
<b>Total</b>	<b>\$129,591</b>	<b>\$ 9,183</b>									

(a) weekly (73%), monthly (2%) and quarterly (25%)

(b) monthly (98%) and quarterly (2%)

(c) daily (7%) and monthly (93%)

(d) daily (100%)

(e) daily (19%), monthly (50%) and quarterly (31%)

(f) Unfunded commitments to private equity investments consolidated but not owned by Lazard of \$6,886 are excluded. Such commitments are required to be funded by capital contributions from noncontrolling interest holders.

Investment Capital Funding Commitments—At September 30, 2017, the Company's maximum unfunded commitments for capital contributions to investment funds primarily arose from commitments to EGCP III, which amounted to \$8,613. The investment period for EGCP III ended on October 12, 2016, after which point the Company's obligation to fund capital contributions for new investments in EGCP III expired. The Company remains obligated until

October 12, 2023 (or any earlier liquidation of EGCP III) to make capital contributions necessary to fund follow-on investments and to pay for fund expenses.

## 6. DERIVATIVES

The Company enters into forward foreign currency exchange rate contracts, interest rate swaps, interest rate futures, total return swap contracts on various equity and debt indices and other derivative contracts to economically hedge exposures to fluctuations in currency exchange rates, interest rates and equity and debt prices. The Company reports its derivative instruments separately as assets and liabilities unless a legal right of set-off exists under a master netting agreement enforceable by law. The Company's derivative instruments are recorded at their fair value, and are included in "other assets" and "other liabilities" on the condensed consolidated statements of financial condition. Gains and losses on the Company's derivative instruments are generally included in "interest income" and "interest expense", respectively, or "revenue-other", depending on the nature of the underlying item, in the condensed consolidated statements of operations.

In addition to the derivative instruments described above, the Company records derivative liabilities relating to its obligations pertaining to LFI and other similar deferred compensation arrangements, the fair value of which is based on the value of the underlying investments, adjusted for estimated forfeitures, and is included in "accrued compensation and benefits" in the condensed consolidated statements of financial condition. Changes in the fair value of the derivative liabilities are included in "compensation and benefits" in the condensed consolidated statements of operations, the impact of which equally offsets the changes in the fair value of investments which are currently expected to be delivered upon settlement of LFI and other similar deferred compensation arrangements, which are reported in "revenue-other" in the condensed consolidated statements of operations.

## LAZARD LTD

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

(UNAUDITED)

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

The table below presents the fair value of the Company's derivative instruments reported within "other assets" and "other liabilities" and the fair value of the Company's derivative liabilities relating to its obligations pertaining to LFI and other similar deferred compensation arrangements reported within "accrued compensation and benefits" (see Note 12) on the accompanying condensed consolidated statements of financial condition as of September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
<b>Derivative Assets:</b>		
Forward foreign currency exchange rate contracts	\$ 2,938	\$ 1,993
Total return swaps and other (a)	505	-
	\$ 3,443	\$ 1,993
<b>Derivative Liabilities:</b>		
Forward foreign currency exchange rate contracts	\$ 3,835	\$ 2,792
Total return swaps and other (a)	9,557	9,043
LFI and other similar deferred compensation arrangements	175,750	170,388
	\$ 189,142	\$ 182,223

(a) For total return swaps, amounts represent the netting of gross derivative assets and liabilities of \$509 and \$9,561 as of September 30, 2017, respectively, and \$357 and \$9,400 as of December 31, 2016, respectively, for contracts with the same counterparty under legally enforceable master netting agreements. Such amounts are recorded "net" in "other assets", with receivables for net cash collateral under such contracts of \$17,496 and \$16,996 as of September 30, 2017 and December 31, 2016, respectively.

Net gains (losses) with respect to derivative instruments (predominantly reflected in "revenue-other") and the Company's derivative liabilities relating to its obligations pertaining to LFI and other similar deferred compensation arrangements (included in "compensation and benefits" expense) as reflected on the accompanying condensed consolidated statements of operations for the three month and nine month periods ended September 30, 2017 and 2016, were as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Forward foreign currency exchange rate contracts	\$(2,991 )	\$(1,591 )	\$(8,149 )	\$(8,445 )
LFI and other similar deferred compensation arrangements	(4,875 )	(6,909 )	(17,981 )	(4,707 )
Total return swaps and other	(3,890 )	(4,032 )	(12,872 )	(5,494 )
Total	\$(11,756 )	\$(12,532 )	\$(39,002 )	\$(18,646 )

## 7. PROPERTY

At September 30, 2017 and December 31, 2016, property consisted of the following:

	Estimated	September 30,	December 31,
	Depreciable	2017	2016
	Life in		
	Years		
Buildings	33	\$ 149,548	\$ 132,821
Leasehold improvements	3-20	174,129	175,810
Furniture and equipment	3-10	179,921	172,353
Construction in progress		11,919	14,038
Total		515,517	495,022
Less - Accumulated depreciation and amortization		314,717	286,001
Property		\$ 200,800	\$ 209,021

LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

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

## 8. GOODWILL AND OTHER INTANGIBLE ASSETS

The components of goodwill and other intangible assets at September 30, 2017 and December 31, 2016 are presented below:

	September 30, 2017	December 31, 2016
Goodwill	\$ 385,486	\$ 373,117
Other intangible assets (net of accumulated amortization)	6,582	8,907
	\$ 392,068	\$ 382,024

At September 30, 2017 and December 31, 2016, goodwill of \$320,945 and \$308,576, respectively, was attributable to the Company's Financial Advisory segment and, at each such respective date, \$64,541 of goodwill was attributable to the Company's Asset Management segment.

Changes in the carrying amount of goodwill for the nine month periods ended September 30, 2017 and 2016 are as follows:

	Nine Months Ended September 30,	
	2017	2016
Balance, January 1	\$373,117	\$320,761
Business acquisitions (see Note 10)	-	20,377
Foreign currency translation adjustments	12,369	4,906
Balance, September 30	\$385,486	\$346,044

All changes in the carrying amount of goodwill for the nine month periods ended September 30, 2017 and 2016 are attributable to the Company's Financial Advisory segment.

The gross cost and accumulated amortization of other intangible assets as of September 30, 2017 and December 31, 2016, by major intangible asset category, are as follows:

September 30, 2017			December 31, 2016		
Gross	Accumulated	Net	Gross	Accumulated	Net



Edgar Filing: Lazard Ltd - Form 10-Q

	Cost	Amortization	Carrying	Cost	Amortization	Carrying
			Amount			Amount
Success/performance fees	\$35,441	\$ 29,303	\$ 6,138	\$35,259	\$ 26,984	\$ 8,275
Management fees, customer relationships						
and non-compete agreements	33,751	33,307	444	33,728	33,096	632
	\$69,192	\$ 62,610	\$ 6,582	\$68,987	\$ 60,080	\$ 8,907

Amortization expense of intangible assets, included in “amortization and other acquisition-related costs” in the condensed consolidated statements of operations, for the three month and nine month periods ended September 30, 2017 was \$784 and \$2,435, respectively, and for the three month and nine month periods ended September 30, 2016 was \$835 and \$1,809, respectively. Estimated future amortization expense is as follows:

	Amortization
Year Ending December 31,	Expense (a)
2017 (October 1 through December 31)	\$ 494
2018	5,953
2019	79
2020	56
Total amortization expense	\$ 6,582

(a) Approximately 32% of intangible asset amortization is attributable to a noncontrolling interest.

## LAZARD LTD

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

(UNAUDITED)

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

## 9. SENIOR DEBT

Senior debt is comprised of the following as of September 30, 2017 and December 31, 2016:

	Initial		Annual Interest Rate(a)	Outstanding as of September 30, 2017			December 31, 2016		
	Principal Amount	Maturity Date		Unamortized Debt Costs	Unamortized Carrying Value	Principal	Unamortized Debt Costs	Unamortized Carrying Value	
Lazard Group 2020									
Senior Notes	500,000	11/14/20	4.25 %	\$ 500,000	\$ 2,878	\$ 497,122	\$ 500,000	\$ 3,569	\$ 496,431
Lazard Group 2025									
Senior Notes	400,000	2/13/25	3.75 %	400,000	3,479	396,521	400,000	3,833	396,167
Lazard Group 2027									
Senior Notes	300,000	3/1/27	3.625 %	300,000	3,707	296,293	300,000	3,998	296,002
Total				\$ 1,200,000	\$ 10,064	\$ 1,189,936	\$ 1,200,000	\$ 11,400	\$ 1,188,600

(a) The effective interest rates of Lazard Group's 4.25% senior notes due November 14, 2020 (the "2020 Notes"), Lazard Group's 3.75% senior notes due February 13, 2025 (the "2025 Notes") and Lazard Group's 3.625% senior notes due March 1, 2027 (the "2027 Notes") are 4.43%, 3.87% and 3.76%, respectively.

On September 25, 2015, Lazard Group entered into an Amended and Restated Credit Agreement for a five-year \$150,000 senior revolving credit facility with a group of lenders (the "Amended and Restated Credit Agreement"), which expires in September 2020. The Amended and Restated Credit Agreement amended and restated the previous credit agreement dated September 25, 2012. Borrowings under the Amended and Restated Credit Agreement

generally will bear interest at LIBOR plus an applicable margin for specific interest periods determined based on Lazard Group's highest credit rating from an internationally recognized credit agency. At September 30, 2017 and December 31, 2016, no amounts were outstanding under the Amended and Restated Credit Agreement.

The Amended and Restated Credit Agreement, the indenture and the supplemental indentures relating to Lazard Group's senior notes contain certain covenants, events of default and other customary provisions, including a customary make-whole provision in the event of early redemption, where applicable. As of September 30, 2017, the Company was in compliance with such provisions. All of the Company's senior debt obligations are unsecured.

As of September 30, 2017, the Company had approximately \$175,000 in unused lines of credit available to it, including the credit facility provided under the Amended and Restated Credit Agreement and unused lines of credit available to LFB of approximately \$24,000 (at September 30, 2017 exchange rates).

The Company's senior debt at September 30, 2017 and December 31, 2016 is carried at historical amounts of \$1,189,936 and \$1,188,600, respectively. At those dates, the fair value of such senior debt was approximately \$1,230,000 and \$1,204,000, respectively. The fair value of the Company's senior debt is based on market quotations. The Company's senior debt would be categorized within Level 2 of the hierarchy of fair value measurements if carried at fair value.

#### 10. COMMITMENTS AND CONTINGENCIES

**Leases**—The Company has various leases and other contractual commitments arising in the ordinary course of business.

**Guarantees**—In the normal course of business, LFB provides indemnifications to third parties to protect them in the event of non-performance by its clients. At September 30, 2017, LFB had \$2,948 of such indemnifications and held \$2,948 of collateral/counter-guarantees to secure these commitments. The Company believes the likelihood of loss with respect to these indemnities is remote. Accordingly, no liability is recorded in the condensed consolidated statement of financial condition.

**Business Acquisitions**—For businesses acquired in 2016, consideration consists of (i) previously paid one-time cash payments, 60,817 shares of Class A common stock subject to non-compete provisions, and non-contingent interests exchangeable into 204,651 shares of Class A common stock, and (ii) up to 810,742 additional shares of Class A common stock that are subject to certain performance thresholds. As of September 30, 2017, none of the contingent shares had been earned.

LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

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

Other Commitments—The Company has various other contractual commitments arising in the ordinary course of business. In addition, from time to time, each of LFB and LFNy may enter into underwriting commitments in which it will participate as an underwriter. At September 30, 2017, LFB and LFNy had no such underwriting commitments.

See Notes 5 and 13 for information regarding commitments relating to investment capital funding commitments and obligations to fund our pension plans, respectively.

In the opinion of management, the fulfillment of the commitments described herein will not have a material adverse effect on the Company's condensed consolidated financial position or results of operations.

Legal—The Company is involved from time to time in judicial, regulatory and arbitration proceedings and inquiries concerning matters arising in connection with the conduct of our businesses, including proceedings initiated by former employees alleging wrongful termination. The Company reviews such matters on a case-by-case basis and establishes any required accrual if a loss is probable and the amount of such loss can be reasonably estimated. The Company experiences significant variation in its revenue and earnings on a quarterly basis. Accordingly, the results of any pending matter or matters could be significant when compared to the Company's earnings in any particular fiscal quarter. The Company believes, however, based on currently available information, that the results of any pending matters, in the aggregate, will not have a material effect on its business or financial condition.

## 11. STOCKHOLDERS' EQUITY

Share Repurchase Program—During the nine month period ended September 30, 2017 and since 2014, the Board of Directors of Lazard authorized the repurchase of Class A common stock as set forth in the table below:

Repurchase		
Date	Authorization	Expiration
April 2014	\$ 200,000	December 31, 2015
February 2015	\$ 150,000	December 31, 2016
January 2016	\$ 200,000	December 31, 2017
April 2016	\$ 113,182	December 31, 2017
November 2016	\$ 236,000	December 31, 2018

The Company expects that the share repurchase program will primarily be used to offset a portion of the shares that have been or will be issued under the Lazard Ltd 2008 Incentive Compensation Plan (the "2008 Plan"). Pursuant to the

share repurchase program, purchases have been made in the open market or through privately negotiated transactions. The rate at which the Company purchases shares in connection with the share repurchase program may vary from quarter to quarter due to a variety of factors. Purchases with respect to such program are set forth in the table below:

	Number of Shares	Average Price Per Share
Nine Months Ended September 30:	Purchased	Share
2016	6,656,250	\$ 34.38
2017	5,838,520	\$ 43.25

During the nine month periods ended September 30, 2017 and 2016, certain of our executive officers received Class A common stock in connection with the vesting or settlement of previously-granted deferred equity incentive awards. The vesting or settlement of such equity awards gave rise to a tax payable by the executive officers, and, consistent with our past practice, the Company purchased shares of Class A common stock from the executive officers equal in value to all or a portion of the estimated amount of such tax. In addition, during the nine month periods ended September 30, 2017 and 2016, the Company purchased shares of Class A common stock from an executive officer. The aggregate value of all such purchases during the nine month periods ended September 30, 2017 and 2016 was approximately \$14,700 and \$4,900, respectively.

As of September 30, 2017, a total of \$102,587 of share repurchase authorization remained available under the Company's share repurchase program, which will expire on December 31, 2018.

## LAZARD LTD

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

(UNAUDITED)

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

In addition, on October 25, 2017, the Board of Directors of Lazard authorized the repurchase of up to \$200,000 of additional shares of Class A common stock, which authorization will expire on December 31, 2019.

During the nine month period ended September 30, 2017, the Company had in place trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), pursuant to which it effected stock repurchases in the open market.

Preferred Stock—Lazard Ltd has 15,000,000 authorized shares of preferred stock, par value \$0.01 per share, inclusive of its Series A and Series B preferred stock. Series A and Series B preferred shares were issued in connection with certain prior year business acquisitions and were each non-participating securities convertible into Class A common stock, and had no voting or dividend rights. As of both September 30, 2017 and December 31, 2016, no shares of Series A or Series B preferred stock were outstanding.

Accumulated Other Comprehensive Income (Loss), Net of Tax ("AOCI")—The tables below reflect the balances of each component of AOCI at September 30, 2017 and 2016 and activity during the three month and nine month periods then ended:

	Three Months Ended September 30, 2017				Total Lazard Ltd
	Currency Translation	Employee Benefit	Total AOCI	Amount Attributable to Noncontrolling Interests	
Balance, July 1, 2017	\$(112,105)	\$(165,682)	\$(277,787)	\$ (2)	\$(277,785)
Activity:					
Other comprehensive income (loss) before reclassifications	19,748	(4,715)	15,033	2	15,031
Adjustments for items reclassified to earnings, net of tax	-	1,081	1,081	-	1,081
Net other comprehensive income (loss)	19,748	(3,634)	16,114	2	16,112
Balance, September 30, 2017	\$(92,357)	\$(169,316)	\$(261,673)	\$ -	\$(261,673)

## Nine Months Ended September 30, 2017

Currency	Employee	Total	Amount	Total
----------	----------	-------	--------	-------

Edgar Filing: Lazard Ltd - Form 10-Q

	Translation	Benefit	AOCI	Attributable to	Lazard
	Adjustments	Plans		Noncontrolling	Ltd
				Interests	AOCI
Balance, January 1, 2017	\$(155,204)	\$(159,020)	\$(314,224)	\$ (2 )	\$(314,222)
Activity:					
Other comprehensive income (loss) before					
reclassifications	62,847	(13,819 )	49,028	2	49,026
Adjustments for items reclassified to earnings,					
net of tax	-	3,523	3,523	-	3,523
Net other comprehensive income (loss)	62,847	(10,296 )	52,551	2	52,549
Balance, September 30, 2017	\$(92,357 )	\$(169,316)	\$(261,673)	\$ -	\$(261,673)

23

LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

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

	Three Months Ended September 30, 2016				
	Currency Translation	Employee Benefit	Total	Amount	Total
				Attributable to Noncontrolling Interests	Lazard Ltd
	Adjustments	Plans	AOCI		AOCI
Balance, July 1, 2016	\$(101,649)	\$(135,382)	\$(237,031)	\$ (1 )	\$(237,030)
Activity:					
Other comprehensive loss before reclassifications	(159 )	(33 )	(192 )	-	(192 )
Adjustments for items reclassified to earnings, net of tax	-	1,134	1,134	-	1,134
Net other comprehensive income (loss)	(159 )	1,101	942	-	942
Balance, September 30, 2016	\$(101,808)	\$(134,281)	\$(236,089)	\$ (1 )	\$(236,088)

	Nine Months Ended September 30, 2016				
	Currency Translation	Employee Benefit	Total	Amount	Total
				Attributable to Noncontrolling Interests	Lazard Ltd
	Adjustments	Plans	AOCI		AOCI
Balance, January 1, 2016	\$(97,284 )	\$(137,073)	\$(234,357)	\$ (1 )	\$(234,356)
Activity:					
Other comprehensive loss before reclassifications	(4,524 )	(649 )	(5,173 )	-	(5,173 )
Adjustments for items reclassified to earnings, net of tax	-	3,441	3,441	-	3,441
Net other comprehensive income (loss)	(4,524 )	2,792	(1,732 )	-	(1,732 )
Balance, September 30, 2016	\$(101,808)	\$(134,281)	\$(236,089)	\$ (1 )	\$(236,088)



Edgar Filing: Lazard Ltd - Form 10-Q

The table below reflects adjustments for items reclassified out of AOCI, by component, for the three month and nine month periods ended September 30, 2017 and 2016:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Amortization relating to employee benefit plans (a)	\$1,285	\$1,509	\$4,199	\$4,612
Less - related income taxes	204	375	676	1,171
Total reclassifications, net of tax	\$1,081	\$1,134	\$3,523	\$3,441

(a) Included in the computation of net periodic benefit cost (see Note 13). Such amounts are included in “compensation and benefits” expense on the condensed consolidated statements of operations.

Noncontrolling Interests—Noncontrolling interests principally represent interests held in Edgewater’s management vehicles that the Company is deemed to control, but does not own.

## LAZARD LTD

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

(UNAUDITED)

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

The tables below summarize net income attributable to noncontrolling interests for the three month and nine month periods ended September 30, 2017 and 2016 and noncontrolling interests as of September 30, 2017 and December 31, 2016 in the Company's condensed consolidated financial statements:

	Net Income			
	Attributable to Noncontrolling			
	Interests			
	Three Months		Nine Months	
	Ended	Ended	Ended	Ended
	September 30,	September 30,	September 30,	September 30,
	2017	2016	2017	2016
Edgewater	\$2,260	\$ 81	\$5,657	\$4,988
Other	-	1	3	1
<b>Total</b>	<b>\$2,260</b>	<b>\$ 82</b>	<b>\$5,660</b>	<b>\$4,989</b>

	Noncontrolling Interests	
	as of	
	September 30,	December 31,
	2017	2016
Edgewater	\$60,050	\$ 57,238
Other	583	588
<b>Total</b>	<b>\$60,633</b>	<b>\$ 57,826</b>

Dividends Declared, October 25, 2017—On October 25, 2017, the Board of Directors of Lazard declared a quarterly dividend of \$0.41 per share on our Class A common stock, payable on November 17, 2017, to stockholders of record on November 6, 2017.

## 12. INCENTIVE PLANS

## Share-Based Incentive Plan Awards

A description of Lazard Ltd's 2008 Plan and 2005 Equity Incentive Plan (the "2005 Plan") and activity with respect thereto during the three month and nine month periods ended September 30, 2017 and 2016 is presented below.

#### Shares Available Under the 2008 Plan and 2005 Plan

The 2008 Plan authorizes the issuance of shares of Class A common stock pursuant to the grant or exercise of stock options, stock appreciation rights, restricted stock units ("RSUs"), performance-based restricted stock units ("PRSUs") and other share-based awards. Under the 2008 Plan, the maximum number of shares available is based on a formula that limits the aggregate number of shares that may, at any time, be subject to awards that are considered "outstanding" under the 2008 Plan to 30% of the then-outstanding shares of Class A common stock.

The 2005 Plan authorized the issuance of up to 25,000,000 shares of Class A common stock pursuant to the grant or exercise of stock options, stock appreciation rights, RSUs and other share-based awards. Each RSU or similar award granted under the 2005 Plan represents a contingent right to receive one share of Class A common stock, at no cost to the recipient. The fair value of such awards is generally determined based on the closing market price of Class A common stock at the date of grant. The 2005 Plan expired in the second quarter of 2015, although unvested awards granted under the 2005 Plan remain outstanding and continue to be subject to its terms.

## LAZARD LTD

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

(UNAUDITED)

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

The following reflects the amortization expense recorded with respect to share-based incentive plans within “compensation and benefits” expense (with respect to RSUs, PRSUs and restricted stock awards) and “professional services” expense (with respect to deferred stock units (“DSUs”)) within the Company’s accompanying condensed consolidated statements of operations for the three month and nine month periods ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Share-based incentive awards:				
RSUs	\$39,898	\$39,447	\$150,193	\$134,419
PRSUs	9,896	11,252	38,095	38,276
Restricted Stock	7,697	7,015	30,507	38,833
DSUs	156	105	1,853	1,616
Total	\$57,647	\$57,819	\$220,648	\$213,144

The ultimate amount of compensation and benefits expense relating to share-based awards is dependent upon the actual number of shares of Class A common stock that vest. The Company periodically assesses the forfeiture rates used for such estimates, including as a result of any applicable performance conditions. A change in estimated forfeiture rates or performance results in a cumulative adjustment to previously recorded compensation and benefits expense and also would cause the aggregate amount of compensation expense recognized in future periods to differ from the estimated unrecognized compensation expense described below.

For purposes of calculating diluted net income per share, RSUs, DSUs and restricted stock awards are included in the diluted weighted average shares of Class A common stock outstanding using the “treasury stock” method. PRSUs are included in the diluted weighted average shares of Class A common stock outstanding to the extent the performance conditions are met at the end of the reporting period, also using the “treasury stock” method.

The Company’s share-based incentive plans and awards are described below.

## RSUs and DSUs

RSUs generally require future service as a condition for the delivery of the underlying shares of Class A common stock (unless the recipient is then eligible for retirement under the Company’s retirement policy) and convert into shares of Class A common stock on a one-for-one basis after the stipulated vesting periods. PRSUs, which are RSUs that are also subject to service-based vesting conditions, have additional performance conditions, and are described below. The grant date fair value of the RSUs, net of an estimated forfeiture rate, is amortized over the vesting periods

or requisite service periods (generally one-third after two years, and the remaining two-thirds after the third year), and is adjusted for actual forfeitures over such period.

RSUs generally include a dividend participation right that provides that during vesting periods each RSU is attributed additional RSUs (or fractions thereof) equivalent to any dividends paid on Class A common stock during such period. During the nine month periods ended September 30, 2017 and 2016, issuances of RSUs pertaining to such dividend participation rights and respective charges to “retained earnings”, net of estimated forfeitures (with corresponding credits to “additional paid-in-capital”), consisted of the following:

	Nine Months Ended September 30,	
	2017	2016
Number of RSUs issued	866,914	969,054
Charges to retained earnings, net of estimated forfeitures	\$36,482	\$32,849

Non-executive members of the Board of Directors (“Non-Executive Directors”) receive approximately 55% of their annual compensation for service on the Board of Directors and its committees in the form of DSUs, which resulted in 31,280 and 38,771 DSUs granted during the nine month periods ended September 30, 2017 and 2016, respectively.

Their remaining compensation is payable in cash, which they may elect to receive in the form of additional DSUs under the Directors’ Fee Deferral Unit Plan described below. DSUs are convertible into shares of Class A common stock at the time of cessation of service to the Board of Directors and, for

## LAZARD LTD

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

(UNAUDITED)

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

purposes of calculating diluted net income per share, are included in the diluted weighted average shares of Class A common stock outstanding using the “treasury stock” method. DSUs include a cash dividend participation right equivalent to dividends paid on Class A common stock.

The Company’s Directors’ Fee Deferral Unit Plan permits the Non-Executive Directors to elect to receive additional DSUs in lieu of some or all of their cash fees. The number of DSUs granted to a Non-Executive Director pursuant to this election will equal the value of cash fees that the applicable Non-Executive Director has elected to forego pursuant to such election, divided by the market value of a share of Class A common stock on the date immediately preceding the date of the grant. During the nine month periods ended September 30, 2017 and 2016, 10,541 and 7,407 DSUs, respectively, had been granted pursuant to such Plan.

DSU awards are expensed at their fair value on their date of grant, inclusive of amounts related to the Directors’ Fee Deferral Unit Plan.

The following is a summary of activity relating to RSUs and DSUs during the nine month periods ended September 30, 2017 and 2016:

	RSUs	Weighted	DSUs	Weighted
		Average		Average
		Grant		Grant
		Date		Date
		Fair		Fair
	Units	Value	Units	Value
Balance, January 1, 2017	11,698,138	\$ 40.65	276,725	\$ 36.05
Granted (including 866,914 RSUs relating to dividend participation)	5,294,156	\$ 43.01	41,821	\$ 44.30
Forfeited	(162,320 )	\$ 39.97	-	-
Vested	(3,977,477 )	\$ 45.27	(43,465 )	\$ 35.77
Balance, September 30, 2017	12,852,497	\$ 40.20	275,081	\$ 37.35
Balance, January 1, 2016	9,599,658	\$ 44.06	312,670	\$ 35.98
Granted (including 969,054 RSUs relating to dividend participation)	6,649,625	\$ 34.64	46,178	\$ 34.98
Forfeited	(181,337 )	\$ 39.79	-	-

Edgar Filing: Lazard Ltd - Form 10-Q

Vested	(4,527,559 ) \$ 39.16	(84,759 ) \$ 35.30
Balance, September 30, 2016	11,540,387 \$ 40.62	274,089 \$ 36.02

In connection with RSUs that vested during the nine month periods ended September 30, 2017 and 2016, the Company satisfied its minimum statutory tax withholding requirements in lieu of delivering 1,282,843 and 1,416,643 shares of Class A common stock during such respective nine month periods. Accordingly, 2,694,634 and 3,110,916 shares of Class A common stock held by the Company were delivered during the nine month periods ended September 30, 2017 and 2016, respectively.

As of September 30, 2017, estimated unrecognized RSU compensation expense was approximately \$178,321, with such expense expected to be recognized over a weighted average period of approximately 0.9 years subsequent to September 30, 2017.

LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

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

## Restricted Stock

The following is a summary of activity related to shares of restricted Class A common stock associated with compensation arrangements during the nine month periods ended September 30, 2017 and 2016:

	Restricted	Weighted Average Grant Date Fair Value
	Shares	
Balance, January 1, 2017	1,655,073	\$ 40.95
Granted	841,355	\$ 42.58
Forfeited	(65,086 )	\$ 40.80
Vested	(483,811 )	\$ 45.42
Balance, September 30, 2017	1,947,531	\$ 40.54
Balance, January 1, 2016	713,738	\$ 47.12
Granted	1,795,258	\$ 36.74
Forfeited	(33,943 )	\$ 40.49
Vested	(802,276 )	\$ 37.09
Balance, September 30, 2016	1,672,777	\$ 40.92

In connection with shares of restricted Class A common stock that vested during the nine month periods ended September 30, 2017 and 2016, the Company satisfied its minimum statutory tax withholding requirements in lieu of delivering 147,775 and 132,984 shares of Class A common stock during such respective nine month periods. Accordingly, 336,036 and 669,292 shares of Class A common stock held by the Company were delivered during the nine month periods ended September 30, 2017 and 2016, respectively.

The restricted stock awards include a cash dividend participation right equivalent to dividends paid on Class A common stock during the period, which will vest concurrently with the underlying restricted stock award. At September 30, 2017, estimated unrecognized restricted stock expense was approximately \$35,369, with such expense to be recognized over a weighted average period of approximately 0.8 years subsequent to September 30, 2017.

PRSU's



PRSUs are RSUs that are subject to both performance-based and service-based vesting conditions. The number of shares of Class A common stock that a recipient will receive upon vesting of a PRSU will be calculated by reference to certain performance metrics that relate to the Company's performance over a three-year period. The target number of shares of Class A common stock subject to each PRSU is one; however, based on the achievement of the performance criteria, the number of shares of Class A common stock that may be received in connection with each PRSU generally can range from zero to two times the target number. PRSUs will vest on a single date three years following the date of the grant, provided the applicable service and performance conditions are satisfied. In addition, the performance metrics applicable to each PRSU will be evaluated on an annual basis at the end of each fiscal year during the performance period and, if the Company has achieved a threshold level of performance with respect to the fiscal year, 25% of the target number of shares of Class A common stock subject to each PRSU will no longer be at risk of forfeiture based on the achievement of performance criteria. PRSUs include dividend participation rights that provide that during vesting periods, the target number of PRSUs (or, following the relevant performance period, the actual number of shares of Class A common stock that are no longer subject to performance conditions) receive dividend equivalents at the same rate that dividends are paid on Class A common stock during such periods. These dividend equivalents are credited as RSUs that are not subject to the performance-based vesting criteria but are otherwise subject to the same restrictions as the underlying PRSUs to which they relate.

LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

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

The following is a summary of activity relating to PRSUs during the nine month periods ended September 30, 2017 and 2016:

		Weighted Average Grant Date Fair Value
	PRSUs	
Balance, January 1, 2017	1,590,756	\$ 40.76
Granted (a)	458,113	\$ 43.76
Vested	(825,565 )	\$ 42.27
Balance, September 30, 2017	1,223,304	\$ 40.86
Balance, January 1, 2016	1,019,038	\$ 44.49
Granted (a)	627,956	\$ 32.91
Vested	(417,021 )	\$ 38.43
Balance, September 30, 2016	1,229,973	\$ 40.63

(a) Represents PRSU awards granted during the relevant year at the target payout level.

In connection with certain PRSUs that vested or were settled during the nine month periods ended September 30, 2017 and 2016, the Company satisfied its minimum statutory tax withholding requirements in lieu of delivering 127,530 and 64,169 shares of Class A common stock during such respective nine month periods. Accordingly, 698,035 and 352,852 shares of Class A common stock held by the Company were delivered during the nine month periods ended September 30, 2017 and 2016, respectively.

Compensation expense recognized for PRSU awards is determined by multiplying the number of shares of Class A common stock underlying such awards that, based on the Company's estimate, are considered probable of vesting, by the grant date fair value. As of September 30, 2017, the total estimated unrecognized compensation expense was approximately \$11,846, and the Company expects to amortize such expense over a weighted-average period of approximately 0.8 years subsequent to September 30, 2017.

#### LFI and Other Similar Deferred Compensation Arrangements

Commencing in February 2011, the Company granted LFI to eligible employees. In connection with LFI and other similar deferred compensation arrangements, which generally require future service as a condition for vesting, the

Company recorded a prepaid compensation asset and a corresponding compensation liability on the grant date based upon the fair value of the award. The prepaid asset is amortized on a straight-line basis over the applicable vesting periods or requisite service periods (which are generally similar to the comparable periods for RSUs), and is charged to “compensation and benefits” expense within the Company’s condensed consolidated statement of operations. LFI and similar deferred compensation arrangements that do not require future service are expensed immediately. The related compensation liability is accounted for at fair value as a derivative liability, which contemplates the impact of estimated forfeitures, and is adjusted for changes in fair value primarily related to changes in value of the underlying investments.

## LAZARD LTD

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

(UNAUDITED)

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

The following is a summary of activity relating to LFI and other similar deferred compensation arrangements during the nine month periods ended September 30, 2017 and 2016:

	Prepaid	
	Compensation	Compensation
	Asset	Liability
Balance, January 1, 2017	\$ 49,650	\$ 170,388
Granted	77,580	77,580
Settled	-	(95,718 )
Forfeited	(866 )	(1,647 )
Amortization	(52,702 )	-
Change in fair value related to:		
Increase in fair value of underlying investments	-	17,981
Adjustment for estimated forfeitures	-	5,333
Other	1,515	1,833
Balance, September 30, 2017	\$ 75,177	\$ 175,750

	Prepaid	
	Compensation	Compensation
	Asset	Liability
Balance, January 1, 2016	\$ 75,703	\$ 193,574
Granted	51,871	51,871
Settled	-	(75,583 )
Forfeited	(1,967 )	(3,435 )
Amortization	(56,784 )	-
Change in fair value related to:		
Increase in fair value of underlying investments	-	4,707
Adjustment for estimated forfeitures	-	3,551
Other	(1,232 )	585
Balance, September 30, 2016	\$ 67,591	\$ 175,270

The amortization of the prepaid compensation asset will generally be recognized over a weighted average period of approximately 0.9 years subsequent to September 30, 2017.

The following is a summary of the impact of LFI and other similar deferred compensation arrangements on “compensation and benefits” expense within the accompanying condensed consolidated statements of operations for the three month and nine month periods ended September 30, 2017 and 2016:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Amortization, net of forfeitures	\$15,961	\$18,116	\$57,254	\$58,867
Change in the fair value of underlying investments	4,875	6,909	17,981	4,707
Total	\$20,836	\$25,025	\$75,235	\$63,574

### 13. EMPLOYEE BENEFIT PLANS

The Company provides retirement and other post-retirement benefits to certain of its employees through defined benefit pension plans (the “pension plans”) and, until December 2016, in the U.S., a partially funded contributory medical post-retirement plan covering certain qualifying U.S. employees (the “medical plan” and together with the pension plans, the “post-retirement plans”). The Company also offers defined contribution plans to its employees. The post-retirement plans generally provide benefits to participants based on average levels of compensation. Expenses related to the Company’s employee benefit plans are included in “compensation and benefits” expense on the condensed consolidated statements of operations.

LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

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

Employer Contributions to Pension Plans—The Company’s funding policy for its U.S. and non-U.S. pension plans is to fund when required or when applicable upon an agreement with the plans’ trustees (the “Trustees”). Management also evaluates from time to time whether to make voluntary contributions to the plans.

The following table summarizes the components of net periodic benefit cost (credit) related to the Company’s post-retirement plans for the three month and nine month periods ended September 30, 2017 and 2016:

	Pension Plans		Medical Plan	
	Three Months Ended		Plan	
	September 30,		2017	2016
	2017	2016	2017	2016
<b>Components of Net Periodic Benefit Cost (Credit):</b>				
Service cost	\$373	\$313	\$-	\$3
Interest cost	4,191	4,833	-	42
Expected return on plan assets	(6,295)	(6,648)	-	-
<b>Amortization of:</b>				
Prior service cost	-	599	-	-
Net actuarial loss (gain)	1,285	957	-	(47)
Net periodic benefit cost (credit)	\$(446 )	\$54	\$-	\$(2 )

  

	Pension Plans		Medical Plan	
	Nine Months Ended		Plan	
	September 30,		2017	2016
	2017	2016	2017	2016
<b>Components of Net Periodic Benefit Cost (Credit):</b>				
Service cost	\$1,048	\$934	\$-	\$9
Interest cost	12,258	15,292	-	125
Expected return on plan assets	(18,855)	(21,047)	-	-
<b>Amortization of:</b>				
Prior service cost	30	1,793	-	-
Net actuarial loss (gain)	4,169	2,958	-	(139)
Net periodic benefit cost (credit)	\$(1,350 )	\$(70 )	\$-	\$(5 )

#### 14. INCOME TAXES

Lazard Ltd, through its subsidiaries, is subject to U.S. federal income taxes on all of its U.S. operating income, as well as on the portion of non-U.S. income attributable to its U.S. subsidiaries. In addition, Lazard Ltd, through its subsidiaries, is subject to state and local taxes on its income apportioned to various state and local jurisdictions. Outside the U.S., Lazard Group operates principally through subsidiary corporations that are subject to local income taxes in foreign jurisdictions. Lazard Group is also subject to New York City Unincorporated Business Tax (“UBT”) attributable to its operations apportioned to New York City.

The Company recorded income tax provisions of \$32,742 and \$124,109 for the three month and nine month periods ended September 30, 2017, respectively, and \$36,374 and \$95,900 for the three month and nine month periods ended September 30, 2016, respectively, representing effective tax rates of 22.7%, 26.6%, 24.4% and 26.6%, respectively. The difference between the U.S. federal statutory rate of 35.0% and the effective tax rates reflected above principally relates to (i) taxes payable to foreign jurisdictions that are not offset against U.S. income taxes, (ii) foreign source income (loss) not subject to U.S. income taxes (including interest on intercompany financings), (iii) change in the U.S. federal valuation allowance affecting the provision for income taxes, (iv) excess net tax benefit for share-based incentive compensation, and (v) U.S. state and local taxes, which are incremental to the U.S. federal statutory tax rate.

On January 1, 2017, the Company adopted new accounting guidance on share-based incentive compensation. As a result of the adoption of this new guidance, the Company recognized excess tax benefits of \$9,053 from the vesting of share-based incentive compensation in the provision for income taxes in the condensed consolidated statements of operations for the nine month period ended September 30, 2017. The Company also recorded deferred tax assets of \$81,544, net of a valuation allowance of \$12,090, as of January 1, 2017, for previously unrecognized excess tax benefits (including tax benefits from dividends or dividend equivalents) on share-based incentive compensation, with an offsetting adjustment to retained earnings. See Note 2 for further information on the adoption of this new guidance.

## LAZARD LTD

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

(UNAUDITED)

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

Substantially all of Lazard's operations outside the U.S. are conducted in "pass-through" entities for U.S. income tax purposes. The Company provides for U.S. income taxes on a current basis for those earnings. The repatriation of prior earnings attributable to "non-pass-through" entities would not result in the recognition of a material amount of additional U.S. income taxes.

## 15. NET INCOME PER SHARE OF CLASS A COMMON STOCK

The Company's basic and diluted net income per share calculations for the three month and nine month periods ended September 30, 2017 and 2016 are computed as described below.

## Basic Net Income Per Share

Numerator—utilizes net income attributable to Lazard Ltd for the respective periods.

Denominator—utilizes the weighted average number of shares of Class A common stock outstanding for the respective periods, plus applicable adjustments to such shares associated with shares of Class A common stock issuable on a non-contingent basis.

## Diluted Net Income Per Share

Numerator—utilizes net income attributable to Lazard Ltd for the respective periods as in the basic net income per share calculation described above.

Denominator—utilizes the weighted average number of shares of Class A common stock outstanding for the respective periods as in the basic net income per share calculation described above, plus, to the extent dilutive, the incremental number of shares of Class A common stock required to settle share-based incentive compensation.

The calculations of the Company's basic and diluted net income per share and weighted average shares outstanding for the three month and nine month periods ended September 30, 2017 and 2016 are presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income attributable to Lazard Ltd - basic	\$ 109,210	\$ 112,536	\$ 337,141	\$ 259,716
Net income attributable to Lazard Ltd - diluted	\$ 109,210	\$ 112,536	\$ 337,141	\$ 259,716
	120,987,607	124,296,449	121,868,223	125,218,272



Edgar Filing: Lazard Ltd - Form 10-Q

Weighted average number of shares of Class A common				
stock outstanding				
Add - adjustment for shares of Class A common stock				
issuable on a non-contingent basis	255,991	112,435	274,080	85,486
Weighted average number of shares of Class A common				
stock outstanding - basic	121,243,598	124,408,884	122,142,303	125,303,758
Add - dilutive effect, as applicable, of:				
Weighted average number of incremental shares of Class A				
common stock issuable from share-based				
incentive compensation	11,150,066	7,911,971	10,265,248	7,214,129
Weighted average number of shares of Class A common stock				
outstanding - diluted	132,393,664	132,320,855	132,407,551	132,517,887
Net income attributable to Lazard Ltd per share of Class				
A common stock:				
Basic	\$0.90	\$0.90	\$2.76	\$2.07
Diluted	\$0.82	\$0.85	\$2.55	\$1.96

LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

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

## 16. RELATED PARTIES

### Sponsored Funds

The Company serves as an investment advisor for certain affiliated investment companies and fund entities and receives management fees and, for the alternative investment funds, performance fees for providing such services. Investment advisory fees relating to such services were \$163,767 and \$471,727 for the three month and nine month periods ended September 30, 2017, respectively, and \$130,546 and \$374,250 for the three month and nine month periods ended September 30, 2016, respectively, and are included in “asset management fees” on the condensed consolidated statements of operations. Of such amounts, \$57,156 and \$49,944 remained as receivables at September 30, 2017 and December 31, 2016, respectively, and are included in “fees receivable” on the condensed consolidated statements of financial condition.

### Tax Receivable Agreement

The Second Amended and Restated Tax Receivable Agreement, dated as of October 26, 2015 (the “Amended and Restated Tax Receivable Agreement”), between Lazard and LTBP Trust, a Delaware statutory trust (the “Trust”), provides for the payment by our subsidiaries to the Trust of (i) approximately 45% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that we actually realize as a result of certain increases in tax basis and of certain other tax benefits related to the Amended and Restated Tax Receivable Agreement, and (ii) an amount that we currently expect will approximate 85% of the cash tax savings that may arise from tax benefits attributable to payments under the Amended and Restated Tax Receivable Agreement. Our subsidiaries expect to benefit from the balance of cash savings, if any, in income tax that our subsidiaries realize. Any amount paid by our subsidiaries to the Trust will generally be distributed to the owners of the Trust, including our executive officers, in proportion to their beneficial interests in the Trust.

For purposes of the Amended and Restated Tax Receivable Agreement, cash savings in income and franchise tax will be computed by comparing our subsidiaries’ actual income and franchise tax liability to the amount of such taxes that our subsidiaries would have been required to pay had there been no increase in the tax basis of certain tangible and intangible assets of Lazard Group attributable to our subsidiaries’ interest in Lazard Group and had our subsidiaries not entered into the Amended and Restated Tax Receivable Agreement. The term of the Amended and Restated Tax Receivable Agreement will continue until approximately 2033 or, if earlier, until all relevant tax benefits have been utilized or expired.

The amount of the Amended and Restated Tax Receivable Agreement liability is an undiscounted amount based upon currently enacted tax laws, the current structure of the Company and various assumptions regarding potential future operating profitability. The assumptions reflected in the estimate involve significant judgment. As such, the actual amount and timing of payments under the Amended and Restated Tax Receivable Agreement could differ materially from our estimates. Any changes in the amount of the estimated liability would be recorded as a non-compensation expense in the condensed consolidated statement of operations. Adjustments, if necessary, to the related deferred tax assets would be recorded through the “provision (benefit) for income taxes”.

The cumulative liability relating to our obligations under the Amended and Restated Tax Receivable Agreement as of September 30, 2017 and December 31, 2016 was \$512,821 and \$513,610, respectively, and is recorded in “tax receivable agreement obligation” on the condensed consolidated statements of financial condition. The balance at September 30, 2017 reflects a payment made under the Amended and Restated Tax Receivable Agreement in the nine months ended September 30, 2017 of \$789.

Other

See Note 11 for information regarding related party transactions pertaining to shares repurchased from certain of our executive officers.

LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

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

#### 17. REGULATORY AUTHORITIES

LFNY is a U.S. registered broker-dealer and is subject to the net capital requirements of Rule 15c3-1 under the Exchange Act. Under the basic method permitted by this rule, the minimum required net capital, as defined, is a specified fixed percentage ( $6\frac{2}{3}\%$ ) of total aggregate indebtedness recorded in LFNY's Financial and Operational Combined Uniform Single ("FOCUS") report filed with the Financial Industry Regulatory Authority ("FINRA"), or \$100, whichever is greater. In addition, the ratio of aggregate indebtedness (as defined) to net capital may not exceed 15:1. At September 30, 2017, LFNY's regulatory net capital was \$254,141, which exceeded the minimum requirement by \$247,866. LFNY's aggregate indebtedness to net capital ratio was 0.37:1 as of September 30, 2017.

Certain U.K. subsidiaries of the Company, including LCL, Lazard Fund Managers Limited and Lazard Asset Management Limited (collectively, the "U.K. Subsidiaries") are regulated by the Financial Conduct Authority. At September 30, 2017, the aggregate regulatory net capital of the U.K. Subsidiaries was \$190,884, which exceeded the minimum requirement by \$172,104.

CFLF, under which asset management and commercial banking activities are carried out in France, is subject to regulation by the Autorité de Contrôle Prudentiel et de Résolution ("ACPR") for its banking activities conducted through its subsidiary, LFB. LFB, as a registered bank, is engaged primarily in commercial and private banking services for clients and funds managed by LFG and other clients, and asset-liability management. The investment services activities of the Paris group, exercised through LFB and other subsidiaries of CFLF, primarily LFG (asset management), also are subject to regulation and supervision by the Autorité des Marchés Financiers. At September 30, 2017, the consolidated regulatory net capital of CFLF was \$137,988, which exceeded the minimum requirement set for regulatory capital levels by \$89,582. In addition, pursuant to the consolidated supervision rules in the European Union, LFB, in particular, as a French credit institution, is required to be supervised by a regulatory body, either in the U.S. or in the European Union. In 2013, the Company and the ACPR agreed on terms for the consolidated supervision of LFB and certain other non-Financial Advisory European subsidiaries of the Company (referred to herein, on a combined basis, as the "combined European regulated group") under such rules. Under this supervision, the combined European regulated group is required to comply with minimum requirements for regulatory net capital to be reported on a quarterly basis and satisfy periodic financial and other reporting obligations. At June 30, 2017, the regulatory net capital of the combined European regulated group was \$167,325, which exceeded the minimum requirement set for regulatory capital levels by \$81,079. Additionally, the combined European regulated group, together with our European Financial Advisory entities, is required to perform an annual risk assessment and provide certain other information on a periodic basis, including financial reports and information relating to financial performance, balance sheet data and capital structure.

Certain other U.S. and non-U.S. subsidiaries are subject to various capital adequacy requirements promulgated by various regulatory and exchange authorities in the countries in which they operate. At September 30, 2017, for those subsidiaries with regulatory capital requirements, their aggregate net capital was \$151,460, which exceeded the minimum required capital by \$124,535.

At September 30, 2017, each of these subsidiaries individually was in compliance with its regulatory capital requirements.

Any new or expanded rules and regulations that may be adopted in countries in which we operate (including regulations that have not yet been proposed) could affect us in other ways.

#### 18. SEGMENT INFORMATION

The Company's reportable segments offer different products and services and are managed separately as different levels and types of expertise are required to effectively manage the segments' transactions. Each segment is reviewed to determine the allocation of resources and to assess its performance. The Company's principal operating activities are included in its Financial Advisory and Asset Management business segments as described in Note 1. In addition, as described in Note 1, the Company records selected other activities in its Corporate segment.

The Company's segment information for the three month and nine month periods ended September 30, 2017 and 2016 is prepared using the following methodology:

- Revenue and expenses directly associated with each segment are included in determining operating income.
- Expenses not directly associated with specific segments are allocated based on the most relevant measures applicable, including headcount, square footage and other factors.

34

---

LAZARD LTD

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

(UNAUDITED)

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

Segment assets are based on those directly associated with each segment, and include an allocation of certain assets relating to various segments, based on the most relevant measures applicable, including headcount, square footage and other factors.

The Company allocates investment gains and losses, interest income and interest expense among the various segments based on the segment in which the underlying asset or liability is reported.

Each segment's operating expenses include (i) compensation and benefits expenses incurred directly in support of the businesses and (ii) other operating expenses, which include directly incurred expenses for occupancy and equipment, marketing and business development, technology and information services, professional services, fund administration and outsourced services and indirect support costs (including compensation and other operating expenses related thereto) for administrative services. Such administrative services include, but are not limited to, accounting, tax, human resources, legal, facilities management and senior management activities.

Management evaluates segment results based on net revenue and operating income (loss) and believes that the following information provides a reasonable representation of each segment's contribution with respect to net revenue, operating income (loss) and total assets:

		Three Months Ended		Nine Months Ended	
		September 30,		September 30,	
		2017	2016	2017	2016
Financial Advisory	Net Revenue	\$305,890	\$343,488	\$1,052,584	\$896,467
	Operating Expenses	245,465	258,865	821,935	719,670
	Operating Income	\$60,425	\$84,623	\$230,649	\$176,797
Asset Management	Net Revenue	\$320,487	\$267,725	\$913,728	\$767,610
	Operating Expenses	217,233	185,753	621,885	543,616
	Operating Income	\$103,254	\$81,972	\$291,843	\$223,994
Corporate	Net Revenue	\$(1,518 )	\$(2,305 )	\$(809 )	\$(22,271 )
	Operating Expenses	17,949	15,298	54,773	17,915
	Operating Loss	\$(19,467 )	\$(17,603 )	\$(55,582 )	\$(40,186 )
Total	Net Revenue	\$624,859	\$608,908	\$1,965,503	\$1,641,806
	Operating Expenses	480,647	459,916	1,498,593	1,281,201
	Operating Income	\$144,212	\$148,992	\$466,910	\$360,605

		As Of	
		September 30,	December 31,
		2017	2016
Total Assets			
Financial Advisory		\$828,948	\$907,035

Edgar Filing: Lazard Ltd - Form 10-Q

Asset Management	668,410	645,653
Corporate	3,339,030	3,003,820
Total	\$4,836,388	\$ 4,556,508

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

The following discussion should be read in conjunction with Lazard Ltd's condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q (the "Form 10-Q"), as well as Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") included in our Annual Report on Form 10-K for the year ended December 31, 2016 (the "Form 10-K"). All references to "2017," "2016," "third quarter," "first nine months" or "the period" refer to, as the context requires, the three month and nine month periods ended September 30, 2017 and September 30, 2016.

### Forward-Looking Statements and Certain Factors that May Affect Our Business

Management has included in Parts I and II of this Form 10-Q, including in its MD&A, statements that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as "may," "might," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," "target" and the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to known and unknown risks, uncertainties and assumptions about us, may include projections of our future financial performance based on our growth strategies, business plans and initiatives and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. These factors include, but are not limited to, those discussed in our Form 10-K under the caption "Risk Factors," including the following:

- a decline in general economic conditions or global or regional financial markets;
- a decline in our revenues, for example due to a decline in overall mergers and acquisitions ("M&A") activity, our share of the M&A market or our assets under management ("AUM");
- losses caused by financial or other problems experienced by third parties;
- losses due to unidentified or unanticipated risks;
- a lack of liquidity, i.e., ready access to funds, for use in our businesses; and
- competitive pressure on our businesses and on our ability to retain and attract employees at current compensation levels.

These risks and uncertainties are not exhaustive. Other sections of the Form 10-K and this Form 10-Q describe additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for our management to predict all risks and uncertainties, nor can management assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We are under no duty to update any of these forward-looking statements after the date of this Form 10-Q to conform our prior statements to actual results or revised expectations and we do not intend to do so.

Forward-looking statements include, but are not limited to, statements about:

- financial goals, including the ratio of awarded compensation and benefits expense to operating revenue;
- ability to deploy surplus cash through dividends, share repurchases and debt repurchases;
- ability to offset stockholder dilution through share repurchases;



possible or assumed future results of operations and operating cash flows;  
strategies and investment policies;  
financing plans and the availability of short-term borrowing;  
competitive position;  
future acquisitions, including the consideration to be paid and the timing of consummation;  
potential growth opportunities available to our businesses;

36

---

- recruitment and retention of our managing directors and employees;
- potential levels of compensation expense, including awarded compensation and benefits expense and adjusted compensation and benefits expense, and non-compensation expense;
- potential operating performance, achievements, productivity improvements, efficiency and cost reduction efforts;
- likelihood of success and impact of litigation;
- expected tax rates, including effective tax rates;
- changes in interest and tax rates;
- availability of certain tax benefits, including certain potential deductions;
- potential impact of certain events or circumstances on our financial statements;
- changes in foreign currency exchange rates;
- expectations with respect to the economy, the securities markets, the market for mergers, acquisitions and strategic advisory and restructuring activity, the market for asset management activity and other macroeconomic and industry trends;
- effects of competition on our business; and
- impact of future legislation and regulation on our business.

The Company is committed to providing timely and accurate information to the investing public, consistent with our legal and regulatory obligations. To that end, the Company uses its website, its twitter account ([twitter.com/Lazard](https://twitter.com/Lazard)) and other social media sites to convey information about our businesses, including the anticipated release of quarterly financial results, quarterly financial, statistical and business-related information, and the posting of updates of AUM in various mutual funds, hedge funds and other investment products managed by our Asset Management business. Investors can link to Lazard Ltd, Lazard Group and their operating company websites through <http://www.lazard.com>. Our websites and social media sites and the information contained therein or connected thereto shall not be deemed to be incorporated into this Form 10-Q.

## Business Summary

Lazard is one of the world's preeminent financial advisory and asset management firms. We have long specialized in crafting solutions to the complex financial and strategic challenges of a diverse set of clients around the world, including corporations, governments, institutions, partnerships and individuals. Founded in 1848 in New Orleans, we currently operate from 43 cities in key business and financial centers across 27 countries throughout North America, Europe, Asia, Australia, the Middle East, and Central and South America.

Our primary business purpose is to serve our clients. Our deep roots in business centers around the world form a global network of relationships with key decision-makers in corporations, governments and investing institutions. This network is both a competitive strength and a powerful resource for Lazard and our clients. As a firm that competes on the quality of our advice, we have two fundamental assets: our people and our reputation.

We operate in cyclical businesses across multiple geographies, industries and asset classes. In recent years, we have expanded our geographic reach, bolstered our industry expertise and continued to build in growth areas. Companies, government bodies and investors seek independent advice with a geographic perspective, deep understanding of capital structure, informed research and knowledge of global, regional and local economic conditions. We believe that our business model as an independent advisor will continue to create opportunities for us to attract new clients and key personnel.

Our principal sources of revenue are derived from activities in the following 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 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.

37

---

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”).

Our consolidated net revenue was derived from the following segments:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Financial Advisory	49 %	56 %	54 %	54 %
Asset Management	51	44	46	47
Corporate	-	-	-	(1 )
Total	100 %	100 %	100 %	100 %

We also invest our own capital from time to time, generally alongside capital of qualified institutional and individual investors in alternative investments or private equity investments, and, since 2005, we have engaged in a number of alternative investments and private equity activities, including, historically, investments through (i) Edgewater, our Chicago-based private equity firm, (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. We also make investments to seed our Asset Management strategies.

#### Business Environment and Outlook

Economic and global financial market conditions can materially affect our financial performance. As described above, our principal sources of revenue are derived from activities in our Financial Advisory and Asset Management business segments. As our Financial Advisory revenues are primarily dependent on the successful completion of merger, acquisition, restructuring, capital raising or similar transactions, and our Asset Management revenues are primarily driven by the levels of AUM, weak economic and global financial market conditions can result in a challenging business environment for M&A and capital-raising activity as well as our Asset Management business, but may provide opportunities for our restructuring business.

Equity market indices for developed and emerging markets at September 30, 2017 increased as compared to such indices at September 30, 2016 and December 31, 2016. In the global M&A markets during the first nine months of 2017, the value of all completed M&A transactions decreased as compared to the same period in the prior year, as did the subset of such transactions involving values greater than \$500 million. During the same time, the number of all announced M&A transactions, including the subset of such transactions involving values greater than \$500 million, increased. During the first nine months of 2017, global restructuring activity, as measured by the number of corporate defaults, decreased as compared to the first nine months of 2016.

On an ongoing basis, regional, macroeconomic and geopolitical factors, including any potential regional tax or regulatory reform, may impact our business. Overall, the global macroeconomic outlook for the near- to mid-term appears positive. The U.S. economy appears to be healthy, and the European economy seems to continue to recover. Corporate cash balances remain high, and borrowing costs remain low for companies with strong credit ratings. Although market volatility may affect our business from time to time, the longer-term trends appear to remain

favorable for both of our businesses.

Our outlook with respect to our Financial Advisory and Asset Management businesses is described below.

**Financial Advisory**—The fundamentals for continued M&A activity appear to remain in place. Although the strength of our Financial Advisory business in the second half of 2016 could make comparisons to future periods more challenging, we believe our Financial Advisory business is in a strong competitive position. Demand continues for expert, independent strategic advice that can be levered across geographies and our range of advisory capabilities. The global scale and breadth of our Financial Advisory business allows us to advise on large, complex cross-border transactions and restructuring transactions across a variety of industries. In addition, we believe our businesses throughout the emerging markets position us for growth in these markets, while enhancing our relationships with, and the services that we can provide to, clients in other economies. In the third quarter of 2016, we expanded our North American Financial Advisory business through the acquisition of an independent financial advisory firm based in Canada. In addition, in October 2016, we acquired the portion of MBA Lazard that we did not previously own, thereby fully integrating our Latin American operations. We believe that these transactions have augmented the strength of our Financial Advisory business throughout the Americas.

38

---

•**Asset Management**—In the short to intermediate term, we expect most investor demand will come from defined benefit and defined contribution plans in the developed economies because of their sheer scope and size. Over the longer term, we expect an increasing share of our AUM to come from the developing economies in Asia, Latin America and the Middle East, as their retirement systems evolve and individual wealth is increasingly deployed in the financial markets. Our global footprint is already well established in the developed economies and we expect our business in the developing economies will slowly expand. Given our diversified investment platform and our ability to provide investment solutions for a global mix of clients, we believe we are positioned to benefit from growth that may occur in the asset management industry. We are continually developing and seeding new investment strategies that extend our existing platforms. Recent examples of growth initiatives include the following investment strategies: various Quantitative Equity strategies, various Multi-Asset strategies, a Real Assets strategy, and a Global Equity Franchise strategy.

We operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge continuously, and it is not possible for our management to predict all risks and uncertainties, nor can we assess the impact of all potentially applicable factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. See Item 1A, “Risk Factors” in our Form 10-K. Furthermore, net income and revenue in any period may not be indicative of full-year results or the results of any other period and may vary significantly from year to year and quarter to quarter.

Overall, we continue to focus on the development of our business, including the generation of stable revenue growth, earnings growth and shareholder returns, the evaluation of potential growth opportunities, the prudent management of our costs and expenses, the efficient use of our assets and the return of capital to our shareholders.

Certain data with respect to our Financial Advisory and Asset Management businesses is included below.

#### Financial Advisory

As reflected in the following table, which sets forth global M&A industry statistics, the value of all completed transactions, including completed transactions with values greater than \$500 million, decreased in the first nine months of 2017 as compared to 2016. With respect to announced M&A transactions, the number of all transactions, including the number of announced transactions involving values greater than \$500 million, increased in the first nine months of 2017 as compared to 2016.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	% Incr / (Decr)	2017	2016	% Incr / (Decr)
	(\$ in billions)					
<b>Completed M&amp;A Transactions:</b>						
<b>All deals:</b>						
Value	\$860	\$932	(8)%	\$2,632	\$2,781	(5)%
Number	9,467	9,296	2%	29,260	29,035	1%
<b>Deals Greater than \$500 million:</b>						
Value	\$655	\$696	(6)%	\$1,990	\$2,093	(5)%
Number	258	280	(8)%	826	821	1%
<b>Announced M&amp;A Transactions:</b>						

Edgar Filing: Lazard Ltd - Form 10-Q

All deals:								
Value	\$886	\$868	2	%	\$2,505	\$2,523	(1	)%
Number	9,822	9,214	7	%	29,970	28,975	3	%
Deals Greater than \$500 million:								
Value	\$663	\$641	3	%	\$1,831	\$1,837	(0	)%
Number	311	302	3	%	887	843	5	%

Source: Dealogic as of October 5, 2017.

Global restructuring activity during the first nine months of 2017, as measured by the number of corporate defaults, decreased as compared to the first nine months of 2016. The number of defaulting issuers decreased to 64 in the first nine months of 2017, according to Moody's Investors Service, Inc., as compared to 115 in the first nine months of 2016.

Net revenue trends in Financial Advisory for M&A and Strategic Advisory and Restructuring are generally correlated to the level of completed industry-wide M&A transactions and restructuring transactions occurring subsequent to corporate debt defaults, respectively. However, deviations from this relationship can occur in any given year for a number of reasons. For instance, our results can diverge from industry-wide activity where there are material variances from the level of industry-wide M&A activity in a particular market where Lazard has significant market share, or regarding the relative number of our advisory engagements with respect to larger-sized transactions, and where we are involved in non-public or sovereign advisory assignments. For example, our M&A and Strategic Advisory revenue, which includes M&A Advisory, Capital Advisory, Capital Raising, Sovereign Advisory and Shareholder Advisory revenue, increased 13% in the first nine months of 2017 as compared to 2016. The industry statistics for global M&A transactions described above reflect a 5% decrease in the value of all completed transactions in the first nine months of 2017 as compared to 2016. In addition, with respect to our restructuring activity, revenue increased 38% in the first nine months of 2017 as compared to 2016, in contrast to a 44% decrease in global default activity in the first nine months of 2017 as compared to 2016.

### Asset Management

The percentage change in major equity market indices at September 30, 2017, as compared to such indices at June 30, 2017, December 31, 2016, and at September 30, 2016, is shown in the table below.

	Percentage Changes					
	September 30, 2017 vs.					
	June 30, 2017		December 31, 2016		September 30, 2016	
	2017	2016	2017	2016	2017	2016
MSCI World Index	4%	14	%	16	%	%
Euro Stoxx	4%	9	%	20	%	%
MSCI Emerging Market	7%	25	%	20	%	%
S&P 500	4%	13	%	16	%	%

The fees that we receive for providing investment management and advisory services are primarily driven by the level of AUM and the nature of the AUM product mix. Accordingly, market movements, foreign currency exchange rate volatility and changes in our AUM product mix will impact the level of revenues we receive from our Asset Management business when comparing periodic results. A substantial portion of our AUM is invested in equities. Movements in AUM during the period generally reflect the changes in equity market indices. Our AUM at September 30, 2017 increased 20% versus AUM at December 31, 2016, primarily due to market and foreign exchange appreciation and net inflows. Average AUM for the three month period ended September 30, 2017 was 16% higher than the average AUM for the three month period ended September 30, 2016. Average AUM for the first nine months of 2017 increased 14% as compared to average AUM in the first nine months of 2016.

### Financial Statement Overview

#### Net Revenue

The majority of Lazard's Financial Advisory net revenue historically has been earned from the successful completion of M&A transactions, strategic advisory matters, restructuring and capital structure advisory services, capital raising



and similar transactions. The main drivers of Financial Advisory net revenue are overall M&A activity, the level of corporate debt defaults and the environment for capital raising activities, particularly in the industries and geographic markets in which Lazard focuses. In some client engagements, often those involving financially distressed companies, revenue is earned in the form of retainers and similar fees that are contractually agreed upon with each client for each assignment and are not necessarily linked to the completion of a transaction. In addition, Lazard also earns fees from providing strategic advice to clients, with such fees not being dependent on a specific transaction, and may also earn fees in connection with public and private securities offerings. Significant fluctuations in Financial Advisory net revenue can occur over the course of any given year, because a significant portion of such net revenue is earned upon the successful completion of a transaction, restructuring or capital raising activity, the timing of which is uncertain and is not subject to Lazard's control.

Lazard's Asset Management segment principally includes Lazard Asset Management LLC (together with its subsidiaries, "LAM"), Lazard Frères Gestion SAS ("LFG") and Edgewater. Asset Management net revenue is derived from fees for investment management and advisory services provided to clients. As noted above, the main driver of Asset Management net revenue is the level and product mix of AUM, which is generally influenced by the performance of the global equity markets and, to a lesser extent, fixed income markets as well as Lazard's investment performance, which impacts its ability to successfully attract and retain assets. As a result, fluctuations (including timing thereof) in financial markets and client asset inflows and outflows have a direct effect on Asset Management net revenue and operating income. Asset Management fees are generally based on the level of AUM measured daily, monthly or quarterly, and an increase or reduction in AUM, due to market price fluctuations, currency fluctuations, changes in product mix, or net client asset flows will result in a corresponding increase or decrease in management fees. The majority of our investment

advisory contracts are generally terminable at any time or on notice of 30 days or less. Institutional and individual clients, and firms with which we have strategic alliances, can terminate their relationship with us, reduce the aggregate amount of AUM or shift their funds to other types of accounts with different rate structures for a number of reasons, including investment performance, changes in prevailing interest rates and financial market performance. In addition, as Lazard's AUM includes significant amounts of assets that are denominated in currencies other than U.S. Dollars, changes in the value of the U.S. Dollar relative to foreign currencies will impact the value of Lazard's AUM and the overall amount of management fees generated by the AUM. Fees vary with the type of assets managed and the vehicle in which they are managed, with higher fees earned on equity assets and alternative investment funds, such as hedge funds and private equity funds, and lower fees earned on fixed income and cash management products.

The Company earns performance-based incentive fees on various investment products, including traditional products and alternative investment funds, such as hedge funds and private equity funds.

For hedge funds, incentive fees are calculated based on a specified percentage of a fund's net appreciation, in some cases in excess of established benchmarks or thresholds. The Company records incentive fees on traditional products and hedge funds at the end of the relevant performance measurement period, when potential uncertainties regarding the ultimate realizable amounts have been determined. The incentive fee measurement period is generally an annual period (unless an account terminates or a redemption occurs during the year). The incentive fees received at the end of the measurement period are not subject to reversal or payback. Incentive fees on hedge funds are often subject to loss carryforward provisions in which losses incurred by the hedge funds in any year are applied against certain gains realized by the hedge funds in future periods before any incentive fees can be earned.

For private equity funds, incentive fees may be earned in the form of a "carried interest" if profits arising from realized investments exceed a specified threshold. Typically, such carried interest is ultimately calculated on a whole-fund basis and, therefore, clawback of carried interest during the life of the fund can occur. As a result, incentive fees earned on our private equity funds are not recognized until potential uncertainties regarding the ultimate realizable amounts have been determined, including any potential for clawback.

Corporate segment net revenue consists primarily of investment gains and losses on the Company's "seed investments" related to our Asset Management business, principal investments in private equity funds and "equity method" investments, net of hedging activities, as well as gains and losses on investments held in connection with Lazard Fund Interests ("LFI") and interest income and interest expense. Corporate net revenue also can fluctuate due to changes in the fair value of investments classified as "trading", as well as due to changes in interest and currency exchange rates and in the levels of cash, investments and indebtedness.

Although Corporate segment net revenue during 2017 is not significant compared to Lazard's net revenue, total assets in the Corporate segment represented 69% of Lazard's consolidated total assets as of September 30, 2017, which are attributable to cash and cash equivalents, investments in debt and equity securities, interests in alternative investment, debt, equity and private equity funds, deferred tax assets and certain assets associated with LFI. LFI, as a registered bank, is engaged primarily in commercial and private banking services for clients and funds managed by LFI and other clients, and asset-liability management.

### Operating Expenses

The majority of Lazard's operating expenses relate to compensation and benefits for managing directors and employees. Our compensation and benefits expense includes (i) salaries and benefits, (ii) amortization of the relevant portion of previously granted deferred incentive compensation awards, including (a) share-based incentive compensation under the Lazard Ltd 2008 Incentive Compensation Plan (the "2008 Plan"), and (b) LFI and other similar deferred compensation arrangements (see Note 12 of Notes to Condensed Consolidated Financial Statements), (iii) a

provision for discretionary or guaranteed cash bonuses and profit pools and (iv) when applicable, severance payments. Compensation expense in any given period is dependent on many factors, including general economic and market conditions, our actual and forecasted operating and financial performance, staffing levels, estimated forfeiture rates, competitive pay conditions and the nature of revenues earned, as well as the mix between current and deferred compensation.

For interim periods, we use “adjusted compensation and benefits expense” and the ratio of “adjusted compensation and benefits expense” to “operating revenue,” both non-U.S. GAAP measures, for comparison of compensation and benefits expense between periods. For the reconciliations and calculations with respect to “adjusted compensation and benefits expense” and related ratios to “operating revenue,” see the table under “Consolidated Results of Operations” below.

We believe that “awarded compensation and benefits expense” and the ratio of “awarded compensation and benefits expense” to “operating revenue,” both non-U.S. GAAP measures, are the most appropriate measures to assess the annual cost of compensation and provide the most meaningful basis for comparison of compensation and benefits expense between present, historical and future years. “Awarded compensation and benefits expense” for a given year is calculated using “adjusted compensation and benefits expense,” also a non-U.S. GAAP measure, as modified by the following items:

- we deduct amortization expense recorded for accounting principles generally accepted in the United States of America (“U.S. GAAP”) purposes in the fiscal year associated with deferred incentive compensation awards;
- we add incentive compensation with respect to the fiscal year, which is comprised of:
  - (i) the deferred incentive compensation awards granted in the year-end compensation process with respect to the fiscal year (e.g., deferred incentive compensation awards granted in 2017 related to the 2016 year-end compensation process), including Performance-based restricted stock unit (“PRSU”) awards (based on the target payout level);
  - (ii) the portion of investments in people (e.g., “sign-on” bonuses or retention awards) and other special deferred incentive compensation awards that is applicable to the fiscal year the award becomes effective; and
  - (iii) amounts in excess of the target payout level for PRSU awards at the end of their respective performance periods;
- we reduce the amounts in (i), (ii) and (iii) above by an estimate of future forfeitures with respect to such awards; and
- we adjust for year-end foreign exchange fluctuations.

Compensation and benefits expense is the largest component of our operating expenses. We seek to maintain discipline with respect to compensation, including the rate at which we award deferred compensation. Our goal is to maintain a ratio of awarded compensation and benefits expense to operating revenue and a ratio of adjusted compensation and benefits expense to operating revenue over the cycle in the mid-to-high-50s percentage range, which compares to 55.8% and 56.5%, respectively, for the year ended December 31, 2016. While we have implemented policies and initiatives that we believe will assist us in maintaining ratios within this range, there can be no guarantee that we will continue to maintain such ratios, or that our policies or initiatives will not change, in the future. We may benefit from pressure on compensation costs within the financial services industry in future periods; however, increased competition for senior professionals, changes in the macroeconomic environment or the financial markets generally, lower operating revenue resulting from, for example, a decrease in M&A activity, our share of the M&A market or our AUM levels, changes in the mix of revenues from our businesses or various other factors could prevent us from achieving this goal.

Our operating expenses also include “non-compensation expense”, which includes costs for occupancy and equipment, marketing and business development, technology and information services, professional services, fund administration and outsourced services and other expenses.

We believe that “adjusted non-compensation expense”, a non-U.S. GAAP measure, provides a more meaningful basis for our investors to assess our operating results. For calculations with respect to “adjusted non-compensation expense”, see the table under “Consolidated Results of Operations” below.

Our operating expenses also include “amortization and other acquisition-related costs”, which includes the change in fair value of the contingent consideration associated with business acquisitions.

#### Provision for Income Taxes

Lazard Ltd, through its subsidiaries, is subject to U.S. federal income taxes on all of its U.S. operating income, as well as on the portion of non-U.S. income attributable to its U.S. subsidiaries. In addition, Lazard Ltd, through its subsidiaries, is subject to state and local taxes on its income apportioned to various state and local jurisdictions. Outside the U.S., Lazard Group operates principally through subsidiary corporations that are subject to local income

taxes in foreign jurisdictions. Lazard Group is also subject to Unincorporated Business Tax (“UBT”) attributable to its operations apportioned to New York City (see Note 14 of Notes to Condensed Consolidated Financial Statements for additional information).

See “Critical Accounting Policies and Estimates—Income Taxes” below and Notes 14 and 16 of Notes to Condensed Consolidated Financial Statements for additional information regarding income taxes and the tax receivable agreement obligation.

## Noncontrolling Interests

Noncontrolling interests primarily consist of amounts related to Edgewater's management vehicles that the Company is deemed to control but not own. See Note 11 of Notes to Condensed Consolidated Financial Statements for information regarding the Company's noncontrolling interests.

## Consolidated Results of Operations

Lazard's condensed consolidated financial statements are presented in U.S. Dollars. Many of our non-U.S. subsidiaries have a functional currency (i.e., the currency in which operational activities are primarily conducted) that is other than the U.S. Dollar, generally the currency of the country in which the subsidiaries are domiciled. Such subsidiaries' assets and liabilities are translated into U.S. Dollars using exchange rates as of the respective balance sheet date, while revenue and expenses are translated at average exchange rates during the respective periods based on the daily closing exchange rates. Adjustments that result from translating amounts from a subsidiary's functional currency are reported as a component of stockholders' equity. Foreign currency remeasurement gains and losses on transactions in non-functional currencies are included in the condensed consolidated statements of operations.

A portion of our net revenue is derived from transactions that are denominated in currencies other than the U.S. Dollar. Net revenue for the three month period ended September 30, 2017 was positively impacted, and net revenue for the nine month period ended September 30, 2017 was negatively impacted, by exchange rate movements, in each case in comparison to the relevant prior year period. The majority of the impact to net revenue, in both periods, was offset by the impact of the exchange rate movements on our operating expenses during the periods denominated in currencies other than the U.S. Dollar.

The condensed consolidated financial statements are prepared in conformity with U.S. GAAP. Selected financial data derived from the Company's reported condensed consolidated results of operations is set forth below, followed by a more detailed discussion of both the consolidated and business segment results.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	(\$ in thousands)			
Net Revenue	\$624,859	\$608,908	\$1,965,503	\$1,641,806
Operating Expenses:				
Compensation and benefits	361,787	353,756	1,138,200	959,276
Non-compensation	118,688	105,297	355,390	320,088
Amortization and other acquisition-related costs	172	863	5,003	1,837
Total operating expenses	480,647	459,916	1,498,593	1,281,201
Operating Income	144,212	148,992	466,910	360,605
Provision for income taxes	32,742	36,374	124,109	95,900
Net Income	111,470	112,618	342,801	264,705
Less - Net Income Attributable to Noncontrolling Interests	2,260	82	5,660	4,989
Net Income Attributable to Lazard Ltd	\$109,210	\$112,536	\$337,141	\$259,716
Operating Income, as a % of net revenue	23.1	% 24.5	% 23.8	% 22.0

## Edgar Filing: Lazard Ltd - Form 10-Q

The tables below describe the components of operating revenue, adjusted compensation and benefits expense, adjusted non-compensation expense, earnings from operations and related key ratios, which are non-U.S. GAAP measures used by the Company to manage its business. We believe such non-U.S. GAAP measures provide the most meaningful basis for comparison between present, historical and future periods, as described above.

43

---

	Three Months Ended		Nine Months Ended	
	September 30, 2017	2016	September 30, 2017	2016
(\$ in thousands)				
<b>Operating Revenue:</b>				
Net revenue	\$624,859	\$608,908	\$1,965,503	\$1,641,806
<b>Adjustments:</b>				
Interest expense (a)	12,380	11,430	37,477	34,313
Revenue related to noncontrolling interests (b)	(5,039 )	(2,661 )	(13,079 )	(12,271 )
Gains on investments pertaining to LFI (c)	(4,875 )	(6,909 )	(17,981 )	(4,707 )
Operating revenue	\$627,325	\$610,768	\$1,971,920	\$1,659,141

- (a) Interest expense (excluding interest expense incurred by LFB) is added back in determining operating revenue because such expense relates to corporate financing activities and is not considered to be a cost directly related to the revenue of our business.
- (b) Revenue related to the consolidation of noncontrolling interests is excluded from operating revenue because the Company has no economic interest in such amount.
- (c) Represents changes in the fair value of investments held in connection with LFI and other similar deferred compensation arrangements for which a corresponding equal amount is excluded from compensation and benefits expense.

	Three Months Ended		Nine Months Ended	
	September 30, 2017	2016	September 30, 2017	2016
(\$ in thousands)				
<b>Adjusted Compensation and Benefits Expense:</b>				
Total compensation and benefits expense	\$361,787	\$353,756	\$1,138,200	\$959,276
<b>Adjustments:</b>				
Noncontrolling interests (a)	(2,473 )	(1,763 )	(6,084 )	(5,109 )
Charges pertaining to LFI (b)	(4,875 )	(6,909 )	(17,981 )	(4,707 )
Adjusted compensation and benefits expense	\$354,439	\$345,084	\$1,114,135	\$949,460
Adjusted compensation and benefits expense, as a % of operating revenue	56.5 %	56.5 %	56.5 %	57.2 %

- (a) Expenses related to the consolidation of noncontrolling interests are excluded because Lazard has no economic interest in such amounts.
- (b) Represents changes in fair value of the compensation liability recorded in connection with LFI and other similar deferred incentive compensation awards for which a corresponding equal amount is excluded from operating revenue.

Three Months Ended      Nine Months Ended



Edgar Filing: Lazard Ltd - Form 10-Q

	September 30, 2017		September 30, 2016	
	(\$ in thousands)			
<b>Adjusted Non-Compensation Expense:</b>				
Total non-compensation expense	\$ 118,688	\$ 105,297	\$ 355,390	\$ 320,088
<b>Adjustments:</b>				
Expenses associated with ERP system implementation (a)	(6,530 )	-	(15,391 )	-
Expenses related to office space reorganization (b)	(1,412 )	-	(4,573 )	-
Noncontrolling interests (c)	(239 )	(465 )	(1,338 )	(1,500 )
Adjusted non-compensation expense	\$ 110,507	\$ 104,832	\$ 334,088	\$ 318,588
Adjusted non-compensation expense, as a % of operating revenue	17.6 %	17.2 %	16.9 %	19.2 %

(a) Represents expenses associated with the Enterprise Resource Planning (“ERP”) system implementation.

(b) Represents incremental rent expense and lease abandonment costs related to office space reorganization.

(c) Expenses related to the consolidation of noncontrolling interests are excluded because the Company has no economic interest in such amounts.

Edgar Filing: Lazard Ltd - Form 10-Q

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	(\$ in thousands)			
<b>Earnings From Operations:</b>				
Operating revenue	\$627,325	\$610,768	\$1,971,920	\$1,659,141
<b>Deduct:</b>				
Adjusted compensation and benefits expense	(354,439)	(345,084)	(1,114,135)	(949,460 )
Adjusted non-compensation expense	(110,507)	(104,832)	(334,088 )	(318,588 )
Earnings from operations	\$162,379	\$160,852	\$523,697	\$391,093
Earnings from operations, as a % of operating revenue	25.9 %	26.3 %	26.6 %	23.6 %

Headcount information is set forth below:

	As of		
	September 30, 2017	December 31, 2016	September 30, 2016
<b>Headcount:</b>			
<b>Managing Directors:</b>			
Financial Advisory	153	149	144
Asset Management	98	92	92
Corporate	21	20	20
Total Managing Directors	272	261	256
<b>Other Employees:</b>			
Business segment professionals	1,320	1,276	1,253
All other professionals and support staff	1,269	1,244	1,219
Total	2,861	2,781	2,728

### Operating Results

The Company's quarterly revenue and profits can fluctuate materially depending on the number, size and timing of completed transactions on which it advised, as well as seasonality, the performance of equity markets and other factors. Accordingly, the revenue and profits in any particular quarter may not be indicative of future results. Lazard management believes that annual results are the most meaningful basis for comparison among present, historical and future periods.

Three Months Ended September 30, 2017 versus September 30, 2016

The Company reported net income attributable to Lazard Ltd of \$109 million, as compared to net income of \$113 million in the 2016 period.

## Edgar Filing: Lazard Ltd - Form 10-Q

Net revenue increased \$16 million, or 3%, with operating revenue increasing \$17 million, or 3%, as compared to the 2016 period. Fee revenue from investment banking and other advisory activities decreased \$38 million, or 11%, as compared to the 2016 period, primarily due to a decrease in M&A and Strategic Advisory revenue. Asset management fees, including incentive fees, increased \$47 million, or 19%, as compared to the 2016 period, primarily due to an increase in average AUM. In the aggregate, interest income, other revenue and interest expense increased \$7 million as compared to the 2016 period.

Compensation and benefits expense increased \$8 million, or 2%, as compared to the 2016 period, primarily associated with increased operating revenue.

Adjusted compensation and benefits expense (which excludes certain items and which we believe allows for improved comparability between periods, as described above) was \$354 million, an increase of \$9 million, or 3%, as compared to \$345 million in the 2016 period. The ratio of adjusted compensation and benefits expense to operating revenue was 56.5% for both the 2017 and 2016 periods and 56.5% for full-year 2016.

Non-compensation expense increased \$13 million, or 13%, as compared to the 2016 period, primarily due to expenses associated with the ERP system implementation and expenses related to office space reorganization, as well as higher mutual fund service fees related to the growth in AUM and higher marketing and business development expenses.

Adjusted non-compensation

expense, which excludes non-compensation costs related to the ERP system implementation, office space reorganization and noncontrolling interests, increased \$6 million, or 5%, as compared to the 2016 period. The ratio of adjusted non-compensation expense to operating revenue was 17.6% for the 2017 period, as compared to 17.2% in the 2016 period.

Amortization and other acquisition-related costs decreased \$1 million as compared to the 2016 period, primarily due to the change in the fair market value of contingent consideration.

Operating income decreased \$5 million, or 3%, as compared to the 2016 period.

Earnings from operations increased \$2 million, or 1%, as compared to the 2016 period, and, as a percentage of operating revenue, was 25.9%, as compared to 26.3% in the 2016 period.

The provision for income taxes reflects an effective tax rate of 22.7%, as compared to 24.4% for the 2016 period. The effective tax rate decreased primarily due to the change in the geographic mix of earnings.

Net income attributable to noncontrolling interests increased \$2 million as compared to the 2016 period.

Nine Months Ended September 30, 2017 versus September 30, 2016

The Company reported net income attributable to Lazard Ltd of \$337 million, as compared to net income of \$260 million in the 2016 period.

Net revenue increased \$324 million, or 20%, with operating revenue increasing \$313 million, or 19%, as compared to the 2016 period. Fee revenue from investment banking and other advisory activities increased \$156 million, or 17%, as compared to the 2016 period, due to an increase in M&A and Strategic Advisory and Restructuring revenue. Asset management fees, including incentive fees, increased \$139 million, or 19%, as compared to the 2016 period, primarily due to an increase in average AUM. In the aggregate, interest income, other revenue and interest expense increased \$29 million as compared to the 2016 period, primarily due to gains in the 2017 period attributable to investments held in connection with LFI.

Compensation and benefits expense increased \$179 million, or 19%, as compared to the 2016 period, primarily associated with increased operating revenue.

Adjusted compensation and benefits expense (which excludes certain items and which we believe allows for improved comparability between periods, as described above) was \$1,114 million, an increase of \$165 million, or 17%, as compared to \$949 million in the 2016 period. The ratio of adjusted compensation and benefits expense to operating revenue was 56.5% for the 2017 period, as compared to 57.2% for the 2016 period and 56.5% for full-year 2016.

Non-compensation expense increased \$35 million, or 11%, as compared to the 2016 period, primarily due to expenses associated with the ERP system implementation and expenses related to office space reorganization, as well as higher mutual fund service fees related to the growth in AUM and higher marketing and business development expenses. Adjusted non-compensation expense, which excludes non-compensation costs related to the ERP system implementation, office space reorganization and noncontrolling interests, increased \$16 million, or 5%, as compared to the 2016 period. The ratio of adjusted non-compensation expense to operating revenue was 16.9% for the 2017 period, as compared to 19.2% in the 2016 period.

Amortization and other acquisition-related costs increased \$3 million as compared to the 2016 period, primarily due to the change in the fair market value of contingent consideration.

Operating income increased \$106 million, or 29%, as compared to the 2016 period.

Earnings from operations increased \$133 million, or 34%, as compared to the 2016 period, and, as a percentage of operating revenue, was 26.6%, as compared to 23.6% in the 2016 period.

The provision for income taxes reflects an effective tax rate of 26.6% for both the 2017 and the 2016 periods. The effective tax rate reflects the Company's adoption of new accounting guidance on share-based incentive compensation and the change in the geographic mix of earnings. See Notes 2 and 14 of Notes to Condensed Consolidated Financial Statements.

Net income attributable to noncontrolling interests increased \$1 million, or 13%, as compared to the 2016 period.

## Business Segments

The following is a discussion of net revenue and operating income for the Company's segments: Financial Advisory, Asset Management and Corporate. Each segment's operating expenses include (i) compensation and benefits expenses that are incurred directly in support of the segment and (ii) other operating expenses, which include directly incurred expenses for occupancy and equipment, marketing and business development, technology and information services, professional services, fund administration and outsourcing, and indirect support costs (including compensation and benefits expense and other operating expenses related thereto) for administrative services. Such administrative services include, but are not limited to, accounting, tax, human resources, legal, information technology, facilities management and senior management activities. Such support costs are allocated to the relevant segments based on various statistical drivers such as revenue, headcount, square footage and other factors.

Effective January 1, 2017, the Company's reporting by geographic region was transitioned from the Company's previously disclosed North America, Europe and rest of the world regions to the Americas; Europe, Middle East and Africa ("EMEA"); and Asia Pacific. Comparable prior year information has been recast to reflect our revised geographic presentation.

## Financial Advisory

The following table summarizes the reported operating results attributable to the Financial Advisory segment:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	(\$ in thousands)			
Net Revenue	\$305,890	\$343,488	\$1,052,584	\$896,467
Operating Expenses	245,465	258,865	821,935	719,670
Operating Income	\$60,425	\$84,623	\$230,649	\$176,797
Operating Income, as a % of net revenue	19.8 %	24.6 %	21.9 %	19.7 %

Certain Lazard fee and transaction statistics for the Financial Advisory segment are set forth below:

Lazard Statistics:	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Number of clients with fees greater than \$1 million:				
Total Financial Advisory	77	74	229	200
M&A and Strategic Advisory	68	62	198	164
Percentage of total Financial Advisory net revenue from top 10	37 %	43 %	27 %	25 %

## clients

Number of M&amp;A transactions completed with values greater than

\$500 million (a)	15	22	65	64
-------------------	----	----	----	----

(a) Source: Dealogic as of October 5, 2017.

The geographical distribution of Financial Advisory net revenue is set forth below in percentage terms and is based on the Lazard offices that generate Financial Advisory net revenue, which are located in the Americas (primarily in the U.S. and Latin America), EMEA (primarily in the U.K., France, Germany, Italy and Spain) and the Asia Pacific region (primarily in Australia) and therefore may not be reflective of the geography in which the clients are located.

	Three Months Ended September 30, 2017		2016		Nine Months Ended September 30, 2017		2016	
Americas	61	%	57	%	59	%	59	%
EMEA	34		40		36		38	
Asia Pacific	5		3		5		3	
Total	100	%	100	%	100	%	100	%

The Company's managing directors and many of its professionals have significant experience, and many of them are able to use this experience to advise on M&A, strategic advisory matters and restructuring transactions, depending on clients' needs. This flexibility allows Lazard to better match its professionals with the counter-cyclical business cycles of mergers and acquisitions and restructurings. While Lazard measures revenue by practice area, Lazard does not separately measure the costs or profitability of M&A services as compared to restructuring services. Accordingly, Lazard measures performance in its Financial Advisory segment based on overall segment operating revenue and operating income margins.

#### Financial Advisory Results of Operations

Financial Advisory's quarterly revenue and profits can fluctuate materially depending on the number, size and timing of completed transactions on which it advised, as well as seasonality and other factors. Accordingly, the revenue and profits in any particular quarter or period may not be indicative of future results. Lazard management believes that annual results are the most meaningful basis for comparison among present, historical and future periods.

#### Three Months Ended September 30, 2017 versus September 30, 2016

Financial Advisory net revenue decreased \$38 million, or 11%, as compared to the 2016 period. M&A and Strategic Advisory net revenue was \$253 million, a decrease of \$39 million, or 13%, as compared to \$292 million in the 2016 period. Restructuring revenue was \$53 million, an increase of \$2 million, or 3%, as compared to \$51 million in the 2016 period. The decrease in M&A and Strategic Advisory revenue was primarily a result of a smaller number of M&A transactions completed with values greater than \$500 million, as compared to the 2016 period. Clients which in the aggregate represented a significant portion of our M&A and Strategic Advisory revenue in the 2017 period included Dow Chemical, Elis, L'Oreal, Lexmark International, Milestone AV Technologies and Reynolds American. Clients which in the aggregate represented a significant portion of our Restructuring revenue in the 2017 period included Gymboree and Toys "R" Us.

Operating expenses decreased \$13 million, or 5%, as compared to the 2016 period, primarily due to a decrease in compensation associated with decreased operating revenue.

Financial Advisory operating income was \$60 million, a decrease of \$25 million, or 29%, as compared to operating income of \$85 million in the 2016 period and, as a percentage of net revenue, was 19.8%, as compared to 24.6% in the 2016 period.

#### Nine Months Ended September 30, 2017 versus September 30, 2016

Financial Advisory net revenue increased \$156 million, or 17%, as compared to the 2016 period. M&A and Strategic Advisory net revenue was \$824 million, an increase of \$93 million, or 13%, as compared to \$731 million in the 2016 period. Restructuring revenue was \$229 million, an increase of \$63 million, or 38%, as compared to \$166 million in the 2016 period. The increase in M&A and Strategic Advisory revenue was primarily due to an increase in the number of completed transactions involving fees greater than \$1 million as compared to the 2016 period.

Restructuring revenue in the 2017 period primarily reflected the closing of large assignments.

Operating expenses increased \$102 million, or 14%, as compared to the 2016 period, primarily due to an increase in compensation associated with increased operating revenue.

Financial Advisory operating income was \$231 million, an increase of \$54 million, or 30%, as compared to operating income of \$177 million in the 2016 period and, as a percentage of net revenue, was 21.9%, as compared to 19.7% in



the 2016 period.

48

---

## Asset Management

The following table shows the composition of AUM for the Asset Management segment:

	As of	
	September 30,	December 31,
	2017	2016
	(\$ in millions)	
<b>AUM by Asset Class:</b>		
<b>Equity:</b>		
Emerging Markets	\$49,548	\$ 41,363
Global	40,505	30,567
Local	40,761	36,243
Multi-Regional	67,707	54,668
<b>Total Equity</b>	<b>198,521</b>	<b>162,841</b>
<b>Fixed Income:</b>		
Emerging Markets	17,243	15,580
Global	4,213	3,483
Local	4,447	4,245
Multi-Regional	9,134	7,847
<b>Total Fixed Income</b>	<b>35,037</b>	<b>31,155</b>
Alternative Investments	2,668	2,422
Private Equity	1,475	1,253
Cash Management	424	239
<b>Total AUM</b>	<b>\$238,125</b>	<b>\$ 197,910</b>

Total AUM at September 30, 2017 was \$238 billion, an increase of \$40 billion, or 20%, as compared to total AUM of \$198 billion at December 31, 2016, primarily due to market and foreign exchange appreciation and net inflows. Average AUM for the three month and nine month periods ended September 30, 2017 increased 16% and 14%, respectively, as compared to the three month and nine month periods ended September 30, 2016, respectively.

As of September 30, 2017, approximately 89% of our AUM was managed on behalf of institutional clients, including corporations, labor unions, public pension funds, insurance companies and banks, and through sub-advisory relationships, mutual fund sponsors, broker-dealers and registered advisors, compared to approximately 88% as of December 31, 2016. As of September 30, 2017, approximately 11% of our AUM was managed on behalf of individual client relationships, which are principally with family offices and individuals, compared to approximately 12% at December 31, 2016.

As of September 30, 2017, AUM with foreign currency exposure represented approximately 74% of our total AUM as compared to 70% at December 31, 2016. AUM with foreign currency exposure generally declines in value with the strengthening of the U.S. Dollar and increases in value as the U.S. Dollar weakens, with all other factors held constant.

The following is a summary of changes in AUM by asset class for the three month and nine month periods ended September 30, 2017 and 2016:

Three Months Ended September 30, 2017

AUM				Market Value	Foreign		AUM
	Beginning	Inflows	Outflows		Exchange	Appreciation/	
Balance	(a)	(a)	Net	Appreciation/ (Depreciation)	Appreciation/ (Depreciation)	Balance	
(\$ in millions)							
Equity	\$188,091	\$8,177	\$(8,769 )	\$(592)	\$ 8,931	\$ 2,091	\$198,521
Fixed Income	33,165	1,478	(856 )	622	762	488	35,037
Other	4,505	139	(154 )	(15 )	23	54	4,567
Total	\$225,761	\$9,794	\$(9,779 )	\$15	\$ 9,716	\$ 2,633	\$238,125

(a) Inflows in the Equity asset class were primarily attributable to the Global and Multi-Regional platforms, and inflows in the Fixed Income asset class were primarily attributable to the Emerging Markets platform. Outflows in the Equity asset class were primarily attributable to the Emerging Markets and Multi-Regional equity platforms, and outflows in the Fixed Income asset class were primarily attributable to the Emerging Markets platform.

49

Edgar Filing: Lazard Ltd - Form 10-Q

Nine Months Ended September 30, 2017

AUM	Foreign						AUM
	Market Value	Exchange	AUM				
Beginning	Net	Appreciation/	Appreciation/	Ending			
Balance	Inflows	Outflows	Flows	(Depreciation)	(Depreciation)	Balance	
(\$ in millions)	(a)	(a)					
Equity	\$162,841	\$28,468	\$(25,505)	\$2,963	\$ 25,360	\$ 7,357	\$198,521
Fixed Income	31,155	4,293	(4,544 )	(251 )	2,457	1,676	35,037
Other	3,914	918	(677 )	241	252	160	4,567
Total	\$197,910	\$33,679	\$(30,726)	\$2,953	\$ 28,069	\$ 9,193	\$238,125

(a) Inflows in the Equity asset class were primarily attributable to the Multi-Regional, Global and Emerging Markets platforms, and inflows in the Fixed Income asset class were primarily attributable to the Emerging Markets and Multi-Regional platforms. Outflows in the Equity asset class were primarily attributable to the Multi-Regional, Global and Emerging Markets equity platforms, and outflows in the Fixed Income asset class were primarily attributable to the Emerging Markets and Multi-Regional platforms.

Three Months Ended September 30, 2016

AUM	Foreign						AUM
	Market Value	Exchange	AUM				
Beginning	Net	Appreciation/	Appreciation/	Ending			
Balance	Inflows	Outflows	Flows	(Depreciation)	(Depreciation)	Balance	
(\$ in millions)							
Equity	\$156,572	\$7,661	\$(6,773 )	\$888	\$ 9,282	\$ 590	\$167,332
Fixed Income	30,577	3,061	(659 )	2,402	860	120	33,959
Other	4,716	114	(631 )	(517 )	(39 )	(11 )	4,149
Total	\$191,865	\$10,836	\$(8,063 )	\$2,773	\$ 10,103	\$ 699	\$205,440

Nine Months Ended September 30, 2016

AUM	Foreign						AUM
	Market Value	Exchange	AUM				
Beginning	Net	Appreciation/	Appreciation/	Ending			
Balance	Inflows	Outflows	Flows	(Depreciation)	(Depreciation)	Balance	
(\$ in millions)							
Equity	\$151,495	\$24,161	\$(21,497)	\$2,664	\$ 10,427	\$ 2,746	\$167,332

Edgar Filing: Lazard Ltd - Form 10-Q

Fixed Income	30,387	5,158	(4,463 )	695	2,155	722	33,959
Other	4,498	708	(1,202 )	(494 )	206	(61 )	4,149
Total	\$186,380	\$30,027	\$(27,162)	\$2,865	\$12,788	\$3,407	\$205,440

As of October 20, 2017, AUM was \$240.4 billion, a \$2.3 billion increase since September 30, 2017. The increase in AUM was due to market appreciation of \$3.8 billion, partially offset by net outflows of \$0.8 billion and foreign exchange depreciation of \$0.7 billion.

Average AUM for the three month and nine month periods ended September 30, 2017 and 2016 for each significant asset class is set forth below. Average AUM generally represents the average of the monthly ending AUM balances for the period.

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	(\$ in millions)			
Average AUM by Asset Class:				
Equity	\$195,131	\$163,462	\$183,630	\$157,093
Fixed Income	33,907	32,908	32,750	31,212
Alternative Investments	2,881	3,280	2,760	3,414
Private Equity	1,458	944	1,342	913
Cash Management	431	434	358	357
Total Average AUM	\$233,808	\$201,028	\$220,840	\$192,989

The following table summarizes the reported operating results attributable to the Asset Management segment:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	(\$ in thousands)			
Net Revenue	\$320,487	\$267,725	\$913,728	\$767,610
Operating Expenses	217,233	185,753	621,885	543,616
Operating Income	\$103,254	\$81,972	\$291,843	\$223,994
Operating Income, as a % of net revenue	32.2 %	30.6 %	31.9 %	29.2 %

The geographical distribution of Asset Management net revenue is set forth below in percentage terms, and is based on the Lazard offices that manage and distribute the respective AUM amounts. Such geographical distribution may not be reflective of the geography of the investment products or clients.

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Americas	59 %	61 %	58 %	60 %
EMEA	31	29	32	29
Asia Pacific	10	10	10	11
Total	100 %	100 %	100 %	100 %

#### Asset Management Results of Operations

Asset Management's quarterly revenue and profits in any particular quarter or period may not be indicative of future results and may fluctuate based on the performance of the equity and other capital markets. Lazard management believes that annual results are the most meaningful basis for comparison among present, historical and future periods.

#### Three Months Ended September 30, 2017 versus September 30, 2016

Asset Management net revenue increased \$52 million, or 20%, as compared to the 2016 period. Management fees and other revenue was \$317 million, an increase of \$50 million, or 19%, as compared to \$267 million in the 2016 period, primarily due to an increase in average AUM. Incentive fees were \$3 million, an increase of \$2 million as compared to \$1 million in the 2016 period.

Operating expenses increased \$31 million, or 17%, as compared to the 2016 period, primarily due to increases in compensation associated with increased operating revenue.

Asset Management operating income was \$103 million, an increase of \$21 million, or 26%, as compared to operating income of \$82 million in the 2016 period and, as a percentage of net revenue, was 32.2%, as compared to 30.6% in the 2016 period.

## Edgar Filing: Lazard Ltd - Form 10-Q

Nine Months Ended September 30, 2017 versus September 30, 2016

Asset Management net revenue increased \$146 million, or 19%, as compared to the 2016 period. Management fees and other revenue was \$887 million, an increase of \$123 million, or 16%, as compared to \$764 million in the 2016 period, primarily due to an increase in average AUM. Incentive fees were \$27 million, an increase of \$23 million as compared to \$4 million in the 2016 period.

Operating expenses increased \$78 million, or 14%, as compared to the 2016 period, primarily due to increases in compensation associated with increased operating revenue.

Asset Management operating income was \$292 million, an increase of \$68 million, or 30%, as compared to operating income of \$224 million in the 2016 period and, as a percentage of net revenue, was 31.9%, as compared to 29.2% in the 2016 period.

51

---

## Corporate

The following table summarizes the reported operating results attributable to the Corporate segment:

	Three Months Ended September 30, 2017		2016		Nine Months Ended September 30, 2017		2016	
	(\$ in thousands)							
Interest Income	\$1,721	\$732	\$3,665	\$2,237				
Interest Expense	(13,000)	(12,044)	(38,514)	(35,700)				
Net Interest (Expense)	(11,279)	(11,312)	(34,849)	(33,463)				
Other Revenue	9,761	9,007	34,040	11,192				
Net Revenue (Expense)	(1,518 )	(2,305 )	(809 )	(22,271)				
Operating Expenses	17,949	15,298	54,773	17,915				
Operating Income (Loss)	\$(19,467)	\$(17,603)	\$(55,582)	\$(40,186)				

## Corporate Results of Operations

Corporate operating results in any particular quarter or period may not be indicative of future results and may fluctuate based on a variety of factors. Lazard management believes that annual results are the most meaningful basis for comparison among present, historical and future periods.

## Three Months Ended September 30, 2017 versus September 30, 2016

Net interest expense was substantially unchanged as compared to the 2016 period.

Other revenue increased \$1 million as compared to the 2016 period.

Operating expenses increased \$3 million as compared to the 2016 period, primarily related to office space reorganization.

## Nine Months Ended September 30, 2017 versus September 30, 2016

Net interest expense increased \$1 million, or 4%, as compared to the 2016 period.

Other revenue increased \$23 million as compared to the 2016 period, primarily due to gains in the 2017 period attributable to investments held in connection with LFI.

Operating expenses increased \$37 million as compared to the 2016 period, primarily due to an increase in compensation and benefits expense, including an increase in charges pertaining to LFI.

## Cash Flows

The Company's cash flows are influenced primarily by the timing of the receipt of Financial Advisory and Asset Management fees, the timing of distributions to shareholders, payments of incentive compensation to managing directors and employees and purchases of Class A common stock. M&A and Strategic Advisory and Asset Management fees are generally collected within 60 days of billing, while Restructuring fee collections may extend



beyond 60 days, particularly those that involve bankruptcies with court-ordered holdbacks. Fees from our Private Capital Advisory (which we historically referred to as Private Fund Advisory) activities are generally collected over a four-year period from billing and typically include an interest component.

The Company makes cash payments for, or in respect of, a significant portion of its incentive compensation during the first three months of each calendar year with respect to the prior year's results. The Company also paid a special dividend in February 2017 and February 2016.

## Summary of Cash Flows:

	Nine Months Ended September 30, 2017 2016 (\$ in millions)	
<b>Cash Provided By (Used In):</b>		
<b>Operating activities:</b>		
Net income	\$343	\$265
Adjustments to reconcile net income to net cash provided by operating activities (a)	364	352
Other operating activities (b)	(29 )	(318 )
Net cash provided by (used in) operating activities	678	299
Investing activities	(15 )	(21 )
Financing activities (c)	(634 )	(556 )
Effect of exchange rate changes	66	-
Net Increase (Decrease) in Cash and Cash Equivalents	95	(278 )
<b>Cash and Cash Equivalents:</b>		
Beginning of Period	1,159	1,132
End of Period	\$1,254	\$854

(a) Consists of the following:

	Nine Months Ended September 30, 2017 2016 (\$ in millions)	
Depreciation and amortization of property	\$ 23	\$ 24
Amortization of deferred expenses and stock units	285	277
Deferred tax provision	51	49
Amortization and other acquisition-related costs	5	2
<b>Total</b>	<b>\$ 364</b>	<b>\$ 352</b>

(b) Includes net changes in operating assets and liabilities.

(c) Consists primarily of purchases of shares of Class A common stock, tax withholdings related to the settlement of vested restricted stock units (“RSUs”), vested restricted stock awards and vested PRSUs, Class A common stock dividends and distributions to noncontrolling interest holders.

#### Liquidity and Capital Resources

The Company’s liquidity and capital resources are derived from operating activities, financing activities and equity offerings.

#### Operating Activities

Net revenue, operating income and cash receipts fluctuate significantly between periods. In the case of Financial Advisory, fee receipts are generally dependent upon the successful completion of client transactions, the occurrence and timing of which is irregular and not subject to Lazard's control.

Liquidity is significantly impacted by cash payments for, or in respect of, incentive compensation, a significant portion of which are made during the first three months of the year. As a consequence, cash on hand generally declines in the beginning of the year and gradually builds over the remainder of the year. We also pay certain tax advances during the year on behalf of our managing directors, which serve to reduce their respective incentive compensation payments. We expect this seasonal pattern of cash flow to continue.

Liquidity is also affected by the level of deposits and other customer payables, principally at LFB. To the extent that such deposits and other customer payables rise or fall, this has a corresponding impact on liquidity held at LFB, with the majority of such amounts generally being recorded in "deposits with banks and short-term investments", or in "investments" for interest-bearing deposits having original maturities of greater than three months. In the first nine months of 2017, as reflected on the condensed consolidated statements of financial condition, both "deposits with banks and short-term investments" and "deposits and other customer payables" increased as compared to December 31, 2016, due to a higher level of LFB customer-related demand deposits, primarily from clients and funds managed by LFG.

Lazard’s condensed consolidated financial statements are presented in U.S. Dollars. Many of Lazard’s non-U.S. subsidiaries have a functional currency (i.e., the currency in which operational activities are primarily conducted) that is other than the U.S. Dollar, generally the currency of the country in which such subsidiaries are domiciled. Such subsidiaries’ assets and liabilities are translated into U.S. Dollars at the respective balance sheet date exchange rates, while revenue and expenses are translated at average exchange rates during the year based on the daily closing exchange rates. Adjustments that result from translating amounts from a subsidiary’s functional currency are reported as a component of stockholders’ equity. Foreign currency remeasurement gains and losses on transactions in non-functional currencies are included on the condensed consolidated statements of operations.

We regularly monitor our liquidity position, including cash levels, credit lines, principal investment commitments, interest and principal payments on debt, capital expenditures, dividend payments, purchases of shares of Class A common stock and matters relating to liquidity and to compliance with regulatory net capital requirements. At September 30, 2017, Lazard had approximately \$1,254 million of cash, with such amount including approximately \$607 million held at Lazard’s operations outside the U.S. Since Lazard provides for U.S. income taxes on substantially all of its unrepatriated foreign earnings, we expect that no material amount of additional U.S. income taxes would be recognized upon receipt of dividends or distributions of such earnings from our foreign operations.

We maintain lines of credit in excess of anticipated liquidity requirements. As of September 30, 2017, Lazard had approximately \$175 million in unused lines of credit available to it, including a \$150 million, five-year, senior revolving credit facility with a group of lenders that expires in September 2020 (the “Amended and Restated Credit Agreement”) (see “—Financing Activities” below) and unused lines of credit available to LFB of approximately \$24 million (at September 30, 2017 exchange rates).

The Amended and Restated Credit Agreement contains customary terms and conditions, including limitations on consolidations, mergers, indebtedness and certain payments, as well as financial condition covenants relating to leverage and interest coverage ratios. Lazard Group’s obligations under the Amended and Restated Credit Agreement may be accelerated upon customary events of default, including non-payment of principal or interest, breaches of covenants, cross-defaults to other material debt, a change in control and specified bankruptcy events.

#### Financing Activities

The table below sets forth our corporate indebtedness as of September 30, 2017 and December 31, 2016. The agreements with respect to this indebtedness are discussed in more detail in our condensed consolidated financial statements and related notes included elsewhere in this Form 10-Q and in our Form 10-K.

	Maturity Date	Outstanding as of September 30, 2017			December 31, 2016		
		Principal	Debt Costs	Carrying Value	Principal	Debt Costs	Carrying Value
Senior Debt							
		(\$ in millions)					
Lazard Group 2020 Senior Notes	2020	\$500.0	\$ 2.9	\$497.1	\$500.0	\$ 3.6	\$496.4
Lazard Group 2025 Senior Notes	2025	400.0	3.5	396.5	400.0	3.8	396.2
Lazard Group 2027 Senior Notes	2027	300.0	3.7	296.3	300.0	4.0	296.0
		\$1,200.0	\$ 10.1	\$1,189.9	\$1,200.0	\$ 11.4	\$1,188.6

Lazard’s annual cash flow generated from operations historically has been sufficient to enable it to meet its annual obligations. We believe that our cash flows from operating activities, along with the use of our credit lines as needed,

should be sufficient for us to fund our current obligations for the next 12 months.

As long as the lenders' commitments remain in effect, any loan pursuant to the Amended and Restated Credit Agreement remains outstanding and unpaid or any other amount is due to the lending bank group, the Amended and Restated Credit Agreement includes financial covenants that require that Lazard Group not permit (i) its Consolidated Leverage Ratio (as defined in the Amended and Restated Credit Agreement) for the 12-month period ending on the last day of any fiscal quarter to be greater than 3.25 to 1.00 or (ii) its Consolidated Interest Coverage Ratio (as defined in the Amended and Restated Credit Agreement) for the 12-month period ending on the last day of any fiscal quarter to be less than 3.00 to 1.00. For the 12-month period ended September 30, 2017, Lazard Group was in compliance with such ratios, with its Consolidated Leverage Ratio being 1.15 to 1.00 and its Consolidated Interest Coverage Ratio being 20.44 to 1.00. In any event, no amounts were outstanding under the Amended and Restated Credit Agreement as of September 30, 2017.

In addition, the Amended and Restated Credit Agreement, indenture and supplemental indentures relating to Lazard Group's senior notes contain certain other covenants (none of which relate to financial condition), events of default and other customary provisions. At September 30, 2017, the Company was in compliance with all of these provisions. We may, to the extent required and subject to restrictions contained in our financing arrangements, use other financing sources, which may cause us to be subject to additional restrictions or covenants.

See Note 9 of Notes to Condensed Consolidated Financial Statements for additional information regarding senior debt.

#### Stockholders' Equity

At September 30, 2017, total stockholders' equity was \$1,368 million, as compared to \$1,294 million at December 31, 2016, including \$1,308 million and \$1,236 million attributable to Lazard Ltd on the respective dates. The net activity in stockholders' equity during the nine month period ended September 30, 2017 is reflected in the table below (in millions of dollars):

Stockholders' Equity - January 1, 2017	\$1,294
Adjustment for the cumulative effect on prior years from the adoption of new	
accounting guidance related to share-based incentive compensation	81
Balance, as adjusted, January 1, 2017	1,375
Increase (decrease) due to:	
Net income	343
Other comprehensive income	53
Amortization of share-based incentive compensation	221
Purchase of Class A common stock	(253 )
Settlement of share-based incentive compensation (a)	(72 )
Class A common stock dividends	(292 )
Distributions to noncontrolling interests, net	(3 )
Other - net	(4 )
Stockholders' Equity - September 30, 2017	\$1,368

(a) The tax withholding portion of share-based compensation is settled in cash, not shares.

The Board of Directors of Lazard has issued a series of authorizations to repurchase Class A common stock, which help offset the dilutive effect of our share-based incentive compensation plans. During a given year the Company intends to repurchase at least as many shares as it expects to ultimately issue pursuant to such compensation plans in respect of year-end incentive compensation attributable to the prior year. The rate at which the Company purchases shares in connection with this annual objective may vary from quarter to quarter due to a variety of factors. Purchases with respect to such program are set forth in the table below:

Nine Months Ended September 30:	Number of	Average
	Shares	Price Per

Edgar Filing: Lazard Ltd - Form 10-Q

		Share
2016	6,656,250	\$ 34.38
2017	5,838,520	\$ 43.25

As of September 30, 2017, a total of \$103 million of share repurchase authorization remained available under the Company's share repurchase program, which will expire on December 31, 2018.

In addition, on October 25, 2017, the Board of Directors of Lazard authorized the repurchase of up to \$200 million of additional shares of Class A common stock, which authorization will expire on December 31, 2019.

During the nine month period ended September 30, 2017, the Company had in place trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), pursuant to which it effected stock repurchases in the open market.

The Company plans to continue to deploy excess cash and may do so in a variety of ways, which may include repurchasing outstanding shares of Class A common stock, paying dividends to stockholders and repurchasing its outstanding debt.

See Notes 11 and 12 of Notes to Condensed Consolidated Financial Statements for additional information regarding Lazard's stockholders' equity and incentive plans, respectively.

## Regulatory Capital

We actively monitor our regulatory capital base. Our principal subsidiaries are subject to regulatory requirements in their respective jurisdictions to ensure their general financial soundness and liquidity, which require, among other things, that we comply with certain minimum capital requirements, record-keeping, reporting procedures, relationships with customers, experience and training requirements for employees and certain other requirements and procedures. These regulatory requirements may restrict the flow of funds to and from affiliates. See Note 17 of Notes to Condensed Consolidated Financial Statements for further information. These regulations differ in the U.S., the U.K., France and other countries in which we operate. Our capital structure is designed to provide each of our subsidiaries with capital and liquidity consistent with its business and regulatory requirements. For a discussion of regulations relating to us, see Item 1, “Business—Regulation” included in our Form 10-K.

## Contractual Obligations

The following table sets forth information relating to Lazard’s contractual obligations as of September 30, 2017:

	Contractual Obligations Payment Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	(\$ in thousands)				
Senior debt (including interest) (a)	\$1,489,479	\$47,125	\$94,250	\$562,375	\$785,729
Operating leases (exclusive of \$42,410 of committed sublease income)	814,695	84,865	144,669	130,903	454,258
Investment capital funding commitments (b)	10,085	10,085	-	-	-
Total (c)	\$2,314,259	\$142,075	\$238,919	\$693,278	\$1,239,987

(a) See Note 9 of Notes to Condensed Consolidated Financial Statements.

(b) Unfunded commitments to private equity investments consolidated but not owned by Lazard of \$5,915 are excluded. Such commitments are required to be funded by capital contributions from noncontrolling interest holders. See Note 5 of Notes to Condensed Consolidated Financial Statements. These amounts are generally due on demand and therefore are presented in the “less than 1 year” category.

(c) The table above excludes contingent obligations, given the inability to make a reasonably reliable estimate of the timing of the amounts of any such payments. The table above also excludes any possible payments for uncertain tax positions and payments pursuant to the Company’s tax receivable agreement, given that the actual amount and timing of payments under the tax receivable agreement could differ materially from our estimates. At September 30, 2017, a tax receivable agreement obligation of \$512,821 was recorded on the condensed consolidated statements of financial condition. See “Critical Accounting Policies and Estimates—Income Taxes” below. See also Notes 10, 12, 13, 14 and 16 of Notes to Condensed Consolidated Financial Statements regarding information in connection with commitments, incentive plans, employee benefit plans, income taxes and tax receivable agreement obligations, respectively.

## Critical Accounting Policies and Estimates

Management’s discussion and analysis of our condensed consolidated financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in conformity with U.S.



GAAP. The preparation of Lazard's condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, Lazard evaluates its estimates, including those related to revenue recognition, income taxes (including the impact on the tax receivable agreement obligation), investing activities and goodwill. Lazard bases these estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments, including judgments regarding the carrying values of assets and liabilities, that are not readily apparent from other sources. Actual results may differ from these estimates.

Lazard believes that the critical accounting policies set forth below comprise the most significant estimates and judgments used in the preparation of its condensed consolidated financial statements.

56

---

## Revenue Recognition

Lazard generates substantially all of its net revenue from providing Financial Advisory and Asset Management services to clients. Lazard recognizes revenue when the following criteria are met:

- there is persuasive evidence of an arrangement with a client;
- the agreed-upon services have been provided;
- fees are fixed or determinable; and
- collection is reasonably assured.

The Company earns performance-based incentive fees on various investment products, including traditional products and alternative investment funds such as hedge funds and private equity funds. See “Financial Statement Overview” for a description of our revenue recognition policies on such fees.

If, in Lazard’s judgment, collection of a fee is not probable, Lazard will not recognize revenue until the uncertainty is removed. We maintain an allowance for doubtful accounts to provide coverage for estimated losses from our receivables. We determine the adequacy of the allowance by estimating the probability of loss based on our analysis of the client’s creditworthiness and specifically reserve against exposures where we determine the receivables are impaired, which may include situations where a fee is in dispute or litigation has commenced.

With respect to fees receivable from Financial Advisory activities, such receivables are generally deemed past due when they are outstanding 60 days from the date of invoice. However, some Financial Advisory transactions include specific contractual payment terms that may vary from one month to four years (as is the case for our Private Capital Advisory fees) following the invoice date or may be subject to court approval (as is the case with restructuring assignments that include bankruptcy proceedings). In such cases, receivables are deemed past due when payment is not received by the agreed-upon contractual date or the court approval date, respectively. Financial Advisory fee receivables past due in excess of 180 days are fully provided for unless there is evidence that the balance is collectible. Asset Management fees are deemed past due and fully provided for when such receivables are outstanding 12 months after the invoice date. Notwithstanding our policy for receivables past due, we specifically reserve against exposures relating to Financial Advisory and Asset Management fees where we determine receivables are impaired.

## Compensation Liabilities

Annual discretionary compensation represents a significant portion of our annual compensation and benefits expense. We allocate the estimated amount of such annual discretionary compensation to interim periods in proportion to the amount of operating revenue earned in such periods based on an assumed annual ratio of awarded compensation and benefits expense to operating revenue. See “Financial Statement Overview—Operating Expenses” for more information on our periodic compensation and benefits expense.

## Income Taxes

As part of the process of preparing our consolidated financial statements, we estimate our income taxes for each of our tax-paying entities in its respective jurisdiction. In addition to estimating actual current tax liabilities for these jurisdictions, we also must account for the tax effects of differences between the financial reporting and tax reporting of items, such as basis adjustments, compensation and benefits expense, and depreciation and amortization. Differences which are temporary in nature result in deferred tax assets and liabilities. Significant judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, any valuation allowance recorded against our deferred tax assets and our unrecognized tax benefits.

We recognize a deferred tax asset if it is more likely than not (defined as a likelihood of greater than 50%) that a tax benefit will be accepted by a taxing authority. The measurement of deferred tax assets and liabilities is based upon currently enacted tax rates in the applicable jurisdictions. At December 31, 2016, on a consolidated basis, we recorded gross deferred tax assets of approximately \$1.23 billion, with such amount partially offset by a valuation allowance of approximately \$70 million (as described below).

Subsequent to the initial recognition of deferred tax assets, we also must continually assess the likelihood that such deferred tax assets will be realized. If we determine that we may not fully derive the benefit from a deferred tax asset, we consider whether it would be appropriate to apply a valuation allowance against the applicable deferred tax asset, taking into account all available information. The ultimate realization of a deferred tax asset for a particular entity depends, among other things, on the generation of taxable income by such entity in the applicable jurisdiction.

We consider multiple possible sources of taxable income when assessing a valuation allowance against a deferred tax asset, including:

- future reversals of existing taxable temporary differences;
- future taxable income exclusive of reversing temporary differences and carryforwards;
- taxable income in prior carryback years; and
- tax-planning strategies.

The assessment regarding whether a valuation allowance is required or should be adjusted also considers all available information, including the following:

- nature, frequency, magnitude and duration of any past losses and current operating results;
- duration of statutory carryforward periods;
- historical experience with tax attributes expiring unused; and
- near-term and medium-term financial outlook.

The weight we give to any particular item is, in part, dependent upon the degree to which it can be objectively verified. We give greater weight to the recent results of operations of a relevant entity. Pre-tax operating losses on a three year cumulative basis or lack of sustainable profitability are considered objectively verifiable evidence and will generally outweigh a projection of future taxable income.

Certain of our tax-paying entities have individually experienced losses on a cumulative three year basis or have tax attributes that may expire unused. In addition, one of our tax-paying entities has recorded a valuation allowance on substantially all of its deferred tax assets due to the combined effect of operating losses in certain subsidiaries of that entity as well as foreign taxes that together substantially offset any U.S. tax liability. Taking into account all available information, we cannot determine that it is more likely than not that deferred tax assets held by these entities will be realized. Consequently, we have recorded valuation allowances on \$70 million of deferred tax assets held by these entities as of December 31, 2016.

We record tax positions taken or expected to be taken in a tax return based upon our estimates regarding the amount that is more likely than not to be realized or paid, including in connection with the resolution of any related appeals or other legal processes. Accordingly, we recognize liabilities for certain unrecognized tax benefits based on the amounts that are more likely than not to be settled with the relevant taxing authority. Such liabilities are evaluated periodically as new information becomes available and any changes in the amounts of such liabilities are recorded as adjustments to "income tax expense." Liabilities for unrecognized tax benefits involve significant judgment and the ultimate resolution of such matters may be materially different from our estimates.

On January 1, 2017, we adopted new accounting guidance on share-based incentive compensation. As a result of the adoption of this new guidance, we recognized excess tax benefits of \$9.1 million from the vesting of share-based incentive compensation in the provision for income taxes in the condensed consolidated statements of operations for the nine month period ended September 30, 2017. Upon adoption of the new guidance, we also recorded deferred tax assets of \$81.5 million, net of a valuation allowance of \$12.1 million, for previously unrecognized excess tax benefits (including tax benefits from dividends or dividend equivalents) on share-based incentive compensation, with an offsetting adjustment to retained earnings. See Notes 2 and 14 of Notes to Condensed Consolidated Financial Statements for further information on the adoption of this new guidance. 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.

In addition to the discussion above regarding deferred tax assets and associated valuation allowances, as well as unrecognized tax benefit liability estimates, other factors affect our provision for income taxes, including changes in the geographic mix of our business, the level of our annual pre-tax income, transfer pricing and intercompany transactions.

See Item 1A, "Risk Factors" in our Form 10-K and Note 14 of Notes to Condensed Consolidated Financial Statements for additional information related to income taxes.

## Amended and Restated Tax Receivable Agreement

During the period ended June 30, 2015, we released substantially all of our valuation allowance against deferred tax assets. As a result, we accrued a corresponding liability during the period ended June 30, 2015 for amounts relating to the Second Amended and Restated Tax Receivable Agreement, dated as of October 26, 2015 (the “Amended and Restated Tax Receivable Agreement”), between Lazard and LTBP Trust (the “Trust”). See Note 16 of Notes to Condensed Consolidated Financial Statements for additional information regarding the Amended and Restated Tax Receivable Agreement.

The amount of the Amended and Restated Tax Receivable Agreement liability is an undiscounted amount based upon currently enacted tax laws, the current structure of the Company and various assumptions regarding potential future operating profitability. The assumptions reflected in the estimate involve significant judgment. As such, the actual amount and timing of payments under the Amended and Restated Tax Receivable Agreement could differ materially from our estimates. Any changes in the amount of the estimated liability would be recorded as a non-compensation expense in the condensed consolidated statement of operations. Adjustments, if necessary, to the related deferred tax assets would be recorded through income tax expense.

The cumulative liability relating to our obligations under the Amended and Restated Tax Receivable Agreement recorded as of September 30, 2017 and December 31, 2016 was \$513 million and \$514 million, respectively, and is recorded in “tax receivable agreement obligation” on the condensed consolidated statements of financial condition.

## Investments

Investments consist primarily of interest-bearing deposits, debt and equity securities, interests in alternative investment, debt, equity and private equity funds and investments accounted for under the equity method of accounting.

These investments, with the exception of interest-bearing deposits and equity method investments, are carried at fair value on the condensed consolidated statements of financial condition, and any increases or decreases in the fair value of these investments are reflected in earnings. The fair value of investments is generally based upon market prices or the net asset value (“NAV”) or its equivalent for investments in funds. See Note 5 of Notes to Condensed Consolidated Financial Statements for additional information on the measurement of the fair value of investments.

Lazard is subject to market and credit risk on investments held. As such, gains and losses on investment positions held, which arise from sales or changes in the fair value of the investments, are not predictable and can cause periodic fluctuations in net income.

Data relating to investments is set forth below:

	September <del>30</del> December 31,	
	2017	2016
	(\$ in thousands)	
Seed investments by asset class:		
Equities (a)	\$ 110,835	\$ 99,669
Fixed income	17,972	16,406
Alternative investments	8,293	18,172

Edgar Filing: Lazard Ltd - Form 10-Q

Total seed investments	137,100	134,247
Other investments owned:		
Private equity (b)	58,371	96,089
Interest-bearing deposits (c)	552	456
Fixed income and other	23,827	22,908
Total other investments owned	82,750	119,453
Subtotal	219,850	253,700
Add:		
Equity method (d)	222	222
Private equity consolidated, not owned (e)	20,005	26,332
LFI (f)	186,871	179,168
Total investments	\$426,948	\$ 459,422

(a) At September 30, 2017 and December 31, 2016, seed investments in directly owned equity securities were invested as follows:

	September 30,		December 31,	
	2017		2016	
Percentage invested in:				
Financials	26	%	30	%
Consumer	27		28	
Industrial	14		13	
Technology	10		12	
Other	23		17	
Total	100	%	100	%

- (b) Private equity investments include investments related to certain legacy businesses and co-investments in private equity funds managed by our Asset Management business. Co-investments owned were \$36 million and \$34 million as of September 30, 2017 and December 31, 2016, respectively.
- (c) Short- to medium-term interest rates generally turned negative in Europe during 2014 and remain very low in many other countries and regions throughout the world. In the normal course of asset and liability management activities, the Company attempts to minimize negative interest rates on its cash investments. Interest-bearing deposits generally provide positive yields when held to maturity, while also generally allowing immediate penalty-free withdrawal at any time (with less or no interest earned in such case).
- (d) Represents investments accounted for under the equity method of accounting.
- (e) Represents private equity investments that are consolidated but owned by noncontrolling interests, and therefore do not subject the Company to market or credit risk. The applicable noncontrolling interests are presented within “stockholders’ equity” on the condensed consolidated statements of financial condition.
- (f) Composed of investments held in connection with LFI and other similar deferred compensation arrangements. The market risk associated with such investments is equally offset by the market risk associated with the derivative liability with respect to awards expected to vest. The Company is subject to market risk associated with any portion of such investments that employees may forfeit. See “—Risk Management—Risks Related to Derivatives” for risk management information relating to derivatives. LFI investments held in entities in which the Company maintained a controlling interest were \$2 million in one entity as of September 30, 2017.

At September 30, 2017 and December 31, 2016, total investments with a fair value of \$426 million and \$459 million, respectively, included \$86 million and \$130 million, respectively, or 20% and 28%, respectively, of investments that were classified using NAV or its equivalent as a practical expedient. See Notes 4 and 5 of Notes to Condensed Consolidated Financial Statements for additional information regarding investments measured at fair value, including the levels of fair value within which such measurements of fair value fall.

As of September 30, 2017 and December 31, 2016, the Company held seed investments of approximately \$137 million and \$134 million, respectively. Seed investments held in entities in which the Company maintained a controlling interest were \$24 million in seven entities as of September 30, 2017, as compared to \$41 million in six entities as of December 31, 2016.

As of September 30, 2017 and December 31, 2016, the Company did not consolidate or deconsolidate any seed investment entities or LFI investment entities. As such, 100% of the recorded balance of seed investments and LFI



investments as of September 30, 2017 and December 31, 2016 represented the Company's economic interest in the seed investments. See "—Consolidation of Variable Interest Entities" below for more information on the Company's policy regarding the consolidation of seed investment entities.

For additional information regarding risks associated with our investments, see "Risk Management—Investments" below as well as Item 1A, "Risk Factors—Other Business Risks—Our results of operations may be affected by fluctuations in the fair value of positions held in our investment portfolios" in our Form 10-K.

#### Assets Under Management

AUM primarily consists of debt and equity instruments, which have a value that is readily available based on either prices quoted on a recognized exchange or prices provided by external pricing services.

Prices of equity and debt securities and other instruments that comprise our AUM are provided by well-recognized, independent, third-party vendors. Such third-party vendors rely on prices provided by external pricing services which are obtained from recognized exchanges or markets, or, for certain fixed income securities, from an evaluated bid or other similarly sourced price.

Either directly, or through our third-party vendors, we perform a variety of regular due diligence procedures on our pricing service providers. Those procedures include oversight by our internal operations group, review of the pricing service providers' internal control frameworks, review of the pricing service providers' valuation methodologies, reconciliation to client custodial account values and comparison of significant pricing differences.

#### Goodwill

In accordance with current accounting guidance, goodwill has an indefinite life and is tested for impairment annually, as of November 1, or more frequently if circumstances indicate impairment may have occurred. The Company performs a qualitative evaluation about whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount in lieu of actually calculating the fair value of the reporting unit. See Note 8 of Notes to Condensed Consolidated Financial Statements for additional information regarding goodwill.

#### Consolidation

The condensed consolidated financial statements include the accounts of Lazard Group and entities in which it has a controlling interest. Lazard determines whether it has a controlling interest in an entity by first evaluating whether the entity is a voting interest entity ("VOE") or a variable interest entity ("VIE") under U.S. GAAP.

• **Voting Interest Entities.** VOEs are entities in which (i) the total equity investment at risk is sufficient to enable the entity to finance itself independently and (ii) the equity holders have the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. Lazard is required to consolidate a VOE if it holds a majority of the voting interest in such VOE.

• **Variable Interest Entities.** VIEs are entities that lack one or more of the characteristics of a VOE. If Lazard has a variable interest, or a combination of variable interests, in a VIE, it is required to analyze whether it needs to consolidate such VIE. Lazard is required to consolidate a VIE if we are the primary beneficiary having (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of, or receive benefits from, the VIE that could be potentially significant to the VIE. Lazard's involvement with various entities that are VOEs or VIEs primarily arises from investment management contracts with fund entities in our Asset Management business. Lazard is not required to consolidate such entities because, with the exception of certain seed investments, as discussed below, we do not hold more than an inconsequential equity interest in such entities and we do not hold other variable interests (including our investment management agreements, which do not meet the definition of variable interests) in such entities.

Lazard makes seed investments in certain entities that are considered VOEs and often require consolidation as a result of our investment. The impact of seed investment entities that require consolidation on the condensed consolidated financial statements, including any consolidation or deconsolidation of such entities, is not material to our financial statements. Our exposure to loss from entities in which we have made seed investments is limited to the extent of our investment in, or investment commitment to, such entities. See "Critical Accounting Policies and Estimates—Investments" above for more information regarding our investments.

Generally, when the Company initially invests to seed an investment entity, the Company is the majority owner of the entity. Our majority ownership in seed investment entities represents a controlling interest, except when we are the general partner in such entities and the third-party investors have the right to replace the general partner. To the extent

material, we consolidate seed investment entities in which we own a controlling interest, and we would deconsolidate any such entity when we no longer have a controlling interest in such entity.

## Risk Management

### Investments

The Company has investments in a variety of asset classes, primarily debt and equity securities, and interests in alternative investments, debt, equity and private equity funds. The Company makes investments primarily to seed strategies in our Asset Management business or to reduce exposure arising from LFI and other similar deferred compensation arrangements. The Company measures its net economic exposure to market and other risks arising from investments that it owns, excluding (i) investments held in

connection with LFI and other similar deferred compensation arrangements, (ii) investments in funds owned entirely by the noncontrolling interest holders of certain acquired entities and (iii) interest-bearing deposits over 90 days that allow daily withdrawals without principal penalties.

Risk sensitivities include the effects of economic hedging. For equity market price risk, investment portfolios and their corresponding hedges are beta-adjusted to the All-Country World equity index. Fair value and sensitivity measurements presented herein are based on various portfolio exposures at a particular point in time and may not be representative of future results. Risk exposures may change as a result of ongoing portfolio activities and changing market conditions, among other things.

**Equity Market Price Risk**—At September 30, 2017 and December 31, 2016, the Company's exposure to equity market price risk in its investment portfolio, which primarily relates to investments in equity securities, equity funds and hedge funds, was approximately \$108 million and \$110 million, respectively. The Company hedges market exposure arising from a significant portion of our equity investment portfolios by entering into total return swaps. The Company estimates that a hypothetical 10% adverse change in market prices would result in a net decrease of approximately \$1.3 million and \$1.0 million in the carrying value of such investments as of September 30, 2017 and December 31, 2016, respectively, including the effect of the hedging transactions.

**Interest Rate/Credit Spread Risk**—At September 30, 2017 and December 31, 2016, the Company's exposure to interest rate and credit spread risk in its investment portfolio related to investments in debt securities or funds which invest primarily in debt securities was \$61 million and \$53 million, respectively. The Company hedges market exposure arising from a portion of our debt investment portfolios by entering into total return swaps. The Company estimates that a hypothetical 100 basis point adverse change in interest rates or credit spreads would result in a decrease of approximately \$1.2 million and \$0.9 million in the carrying value of such investments as of September 30, 2017 and December 31, 2016, respectively, including the effect of the hedging transactions.

**Foreign Exchange Rate Risk**—At both September 30, 2017 and December 31, 2016, the Company's exposure to foreign exchange rate risk in its investment portfolio, which primarily relates to investments in foreign currency denominated equity and debt securities, was \$64 million. A significant portion of the Company's foreign currency exposure related to our equity and debt investment portfolios is hedged through the aforementioned total return swaps. The Company estimates that a 10% adverse change in foreign exchange rates versus the U.S. Dollar would result in a decrease of approximately \$1.5 million and \$1.7 million in the carrying value of such investments as of September 30, 2017 and December 31, 2016, respectively, including the effect of the hedging transactions.

**Private Equity**—The Company invests in private equity primarily as a part of its co-investment activities and in connection with certain legacy businesses. At September 30, 2017 and December 31, 2016, the Company's exposure to changes in fair value of such investments was approximately \$58 million and \$96 million, respectively. The Company estimates that a hypothetical 10% adverse change in fair value would result in a decrease of approximately \$5.8 million and \$9.6 million in the carrying value of such investments as of September 30, 2017 and December 31, 2016, respectively.

#### Risks Related to Receivables

We maintain an allowance for doubtful accounts to provide coverage for probable losses from our receivables. We determine the adequacy of the allowance by estimating the probability of loss based on our analysis of the client's creditworthiness, among other things, and specifically provide for exposures where we determine the receivables are impaired. At September 30, 2017, total receivables amounted to \$552 million, net of an allowance for doubtful accounts of \$27 million. As of that date, Financial Advisory and Asset Management fees, and customer receivables comprised 82% and 18% of total receivables, respectively. At December 31, 2016, total receivables amounted to

\$638 million, net of an allowance for doubtful accounts of \$16 million. As of that date, Financial Advisory and Asset Management fees, and customer receivables comprised 88% and 12% of total receivables, respectively. At September 30, 2017 and December 31, 2016, the Company had receivables past due or deemed uncollectible of approximately \$44 million and \$22 million, respectively. See also “Critical Accounting Policies and Estimates—Revenue Recognition” above and Note 3 of Notes to Condensed Consolidated Financial Statements for additional information regarding receivables.

LFB engages in lending activities, including commitments to extend credit (primarily for clients of LFG). At September 30, 2017 and December 31, 2016, customer receivables included \$56 million and \$51 million of LFB loans, respectively, with such loans being fully collateralized and closely monitored for counterparty creditworthiness.

#### Credit Concentrations

To reduce the exposure to concentrations of credit, the Company monitors large exposures to individual counterparties.

### Risks Related to Derivatives

Lazard enters into forward foreign currency exchange contracts and interest rate swaps to hedge exposures to currency exchange rates and interest rates and uses total return swap contracts on various equity and debt indices to hedge a portion of its market exposure with respect to certain seed investments related to our Asset Management business. Derivative contracts are recorded at fair value. Derivative assets amounted to \$3 million and \$2 million at September 30, 2017 and December 31, 2016, respectively, and derivative liabilities, excluding the derivative liability arising from the Company's obligation pertaining to LFI and other similar deferred compensation arrangements, amounted to \$13 million and \$12 million at such respective dates.

The Company also records derivative liabilities relating to its obligations pertaining to LFI awards and other similar deferred compensation arrangements, the fair value of which is based on the value of the underlying investments, adjusted for estimated forfeitures. Changes in the fair value of the derivative liabilities are equally offset by the changes in the fair value of investments which are expected to be delivered upon settlement of LFI awards. Derivative liabilities relating to LFI amounted to \$176 million and \$170 million at September 30, 2017 and December 31, 2016, respectively.

### Risks Related to Cash and Cash Equivalents and Corporate Indebtedness

A significant portion of the Company's indebtedness has fixed interest rates, while its cash and cash equivalents generally have market interest rates. Based on account balances as of September 30, 2017, Lazard estimates that its annual operating income relating to cash and cash equivalents would increase by approximately \$13 million in the event interest rates were to increase by 1% and decrease by approximately \$13 million if rates were to decrease by 1%.

As of September 30, 2017, the Company's cash and cash equivalents totaled approximately \$1,254 million. Substantially all of the Company's cash and cash equivalents were invested in (i) highly liquid institutional money market funds (a significant majority of which were invested solely in U.S. Government or agency money market funds), (ii) in short-term interest bearing and non-interest bearing accounts at a number of leading banks throughout the world, and (iii) in short-term certificates of deposit from such banks. Cash and cash equivalents are constantly monitored. On a regular basis, management reviews its investment profile as well as the credit profile of its list of depositor banks in order to adjust any deposit or investment thresholds as necessary.

### Operational Risk

Operational risk is inherent in all our business and may, for example, manifest itself in the form of errors, breaches in the system of internal controls, employee misconduct, business interruptions, fraud, including fraud perpetrated by third parties, or legal actions due to operating deficiencies or noncompliance. The Company maintains a framework including policies and a system of internal controls designed to monitor and manage operational risk and provide management with timely and accurate information. Management within each of the operating companies is primarily responsible for its operational risk programs. The Company has in place business continuity and disaster recovery programs that manage its capabilities to provide services in the case of a disruption. We purchase insurance policies designed to help protect the Company against accidental loss and losses that may significantly affect our financial objectives, personnel, property or our ability to continue to meet our responsibilities to our various stakeholder groups.

### Recent Accounting Developments

For a discussion of recently issued accounting developments and their impact or potential impact on Lazard's consolidated financial statements, see Note 2 of Notes to Condensed Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk  
Risk Management

Quantitative and qualitative disclosures about market risk are included under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Risk Management”.

63

---

Item 4. Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this quarterly report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this quarterly report, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during our most recent fiscal quarter that has materially affected, or is likely to materially affect, our internal control over financial reporting.



## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

The Company is involved from time to time in judicial, regulatory and arbitration proceedings and inquiries concerning matters arising in connection with the conduct of our businesses, including proceedings initiated by former employees alleging wrongful termination. The Company reviews such matters on a case-by-case basis and establishes any required accrual if a loss is probable and the amount of such loss can be reasonably estimated. The Company experiences significant variation in its revenue and earnings on a quarterly basis. Accordingly, the results of any pending matter or matters could be significant when compared to the Company's earnings in any particular fiscal quarter. The Company believes, however, based on currently available information, that the results of any pending matters, in the aggregate, will not have a material effect on its business or financial condition.

## Item 1A. Risk Factors

There were no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

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

None.

## Issuer Repurchases of Equity Securities

The following table sets forth information regarding Lazard's purchases of its Class A common stock on a monthly basis during the third quarter of 2017. Share repurchases are recorded on a trade date basis.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Publicly Announced Plans or Programs	Total Number of Shares Purchased as Part of	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 – July 31, 2017					
Share Repurchase Program (1)	-	\$ -	-		\$170.2 million
Employee Transactions (2)	14,885	\$ 47.21	-		-
August 1 – August 31, 2017					
Share Repurchase Program (1)	1,285,041	\$ 43.18	1,285,041		\$114.7 million
Employee Transactions (2)	1,368	\$ 42.42	-		-
September 1 – September 30, 2017					

Edgar Filing: Lazard Ltd - Form 10-Q

Share Repurchase Program (1)	285,000	\$ 42.65	285,000	\$ 102.6 million
Employee Transactions (2)	12,543	\$ 42.87	-	-
Total				
Share Repurchase Program (1)	1,570,041	\$ 43.09	1,570,041	\$ 102.6 million
Employee Transactions (2)	28,796	\$ 45.09	-	-

(1) During the nine months ended September 30, 2017 and since 2014, the Board of Directors of Lazard authorized the repurchase of Class A common stock as set forth in the table below.

Repurchase

Date	Authorization	Expiration
April 2014	\$ 200,000	December 31, 2015
February 2015	\$ 150,000	December 31, 2016
January 2016	\$ 200,000	December 31, 2017
April 2016	\$ 113,182	December 31, 2017
November 2016	\$ 236,000	December 31, 2018

In addition, on October 25, 2017, the Board of Directors of Lazard authorized the repurchase of up to \$200 million of additional shares of Class A common stock, which authorization will expire on December 31, 2019.

A significant portion of the Company's purchases under the share repurchase program are used to offset a portion of the shares that have been or will be issued under the 2008 Plan. Purchases under the share repurchase program may be made in the open market or through privately negotiated transactions. The rate at which the Company purchases shares in connection with the share repurchase program may vary from quarter to quarter due to a variety of factors. Amounts shown in this line item include repurchases of Class A common stock and exclude the shares of Class A common stock withheld by the Company to meet the minimum statutory tax withholding requirements as described below.

(2) Under the terms of the 2008 Plan, upon the vesting of RSUs, PRSUs, DSUs and delivery of restricted Class A common stock, shares of Class A common stock may be withheld by the Company to meet the minimum statutory tax withholding requirements. During the three month period ended September 30, 2017, the Company satisfied such obligations in lieu of issuing (i) 16,549 shares of Class A common stock upon the vesting or settlement of 39,507 RSUs and PRSUs and (ii) 12,247 shares of Class A common stock upon the vesting of 24,997 shares of restricted Class A common stock.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Effective as of October 30, 2017, Lazard Ltd, Lazard Group and Scott D. Hoffman entered into an amendment to Mr. Hoffman's Amended and Restated Agreement Relating to Retention and Noncompetition and Other Covenants, dated March 9, 2016, solely to reflect that, in addition to continuing to serve as General Counsel of Lazard Ltd and Lazard Group, effective July 26, 2017, Mr. Hoffman was appointed Chief Administrative Officer of Lazard Ltd and Lazard Group. The amendment is attached as an exhibit hereto.

In addition, in connection with Evan L. Russo's appointment, effective October 1, 2017, as Chief Financial Officer of Lazard Ltd and Lazard Group, effective as of October 30, 2017, Lazard Ltd, Lazard Group and Mr. Russo entered into an Agreement Relating to Retention and Noncompetition and Other Covenants, attached as an exhibit hereto. The material terms of the agreement with Mr. Russo are substantially similar to those with the Company's other executive officers, including the Amended and Restated Agreements Relating to Retention and Noncompetition and Other Covenants, dated as of March 9, 2016, with Ashish Bhutani, Mr. Hoffman and Alexander F. Stern. Such terms are described under the heading "Amended Retention Agreements with Our NEOs" beginning on page 68 of Lazard Ltd's Definitive Proxy Statement on Schedule 14A filed with the United States Securities and Exchange Commission on March 10, 2016.

PART IV

Item 6. Exhibits

- 3.1 Certificate of Incorporation and Memorandum of Association of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement (File No. 333-121407) on Form S-1/A filed on March 21, 2005).
- 3.2 Certificate of Incorporation on Change of Name of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement (File No. 333-121407) on Form S-1/A filed on March 21, 2005).
- 3.3 Amended and Restated Bye-Laws of Lazard Ltd (incorporated by reference to Exhibit 3.3 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
- 3.4 First Amendment to Amended and Restated Bye-Laws of Lazard Ltd (incorporated by reference to Exhibit 3.4 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on May 9, 2008).
- 3.5 Second Amendment to the Amended and Restated Bye-Laws of Lazard Ltd (incorporated by reference to Exhibit 3.5 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 30, 2010).
- 4.1 Form of Specimen Certificate for Class A common stock (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement (File No. 333-121407) on Form S-1/A filed on April 11, 2005).
- 4.2 Indenture, dated as of May 10, 2005, by and between Lazard Group LLC and The Bank of New York, as Trustee (incorporated by reference to Exhibit 4.1 to Lazard Group LLC's Registration Statement (File No. 333-126751) on Form S-4 filed on July 21, 2005).
- 4.3 Fourth Supplemental Indenture, dated as of June 21, 2007, between Lazard Group LLC and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 001-32492) filed on June 22, 2007).
- 4.4 Fifth Supplemental Indenture, dated as of November 14, 2013, between Lazard Group LLC and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 001-32492) filed on November 14, 2013).
- 4.5 Sixth Supplemental Indenture, dated as of February 13, 2015, between Lazard Group LLC and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K (File No. 001-32492) filed on February 13, 2015).
- 4.6 Seventh Supplemental Indenture, dated as of November 4, 2016, between Lazard Group LLC and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K (File No. 001-32492) filed on November 7, 2016).
- 4.7 Form of Senior Note (included in Exhibits 4.3, 4.4, 4.5 and 4.6).
- 10.1 Amended and Restated Operating Agreement of Lazard Group LLC, dated as of October 26, 2015 (incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on October 28, 2015).

- 10.2 Amendment No.1 to Amended and Restated Operating Agreement of Lazard Group LLC, dated as of October 27, 2016 (incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on October 28, 2016).
- 10.3 Second Amended and Restated Tax Receivable Agreement, dated as of October 26, 2015, by and among Ltd Sub A, Ltd Sub B and LTBP Trust (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on October 28, 2015).
- 10.4 Lease, dated as of January 27, 1994, by and between Rockefeller Center Properties and Lazard Frères & Co. LLC (incorporated by reference to Exhibit 10.19 to the Registrant's Registration Statement (File No. 333-121407) on Form S-1/A filed on February 11, 2005).
- 10.5 Fourth Amendment dated as of February 16, 2011, by and among RCPI Landmark Properties, L.L.C. (as the successor in interest to Rockefeller Center Properties), RCPI 30 Rock 22234849, L.L.C. and Lazard Group LLC (as the successor in interest to Lazard Frères & Co. LLC), to the Lease dated as of January 27, 1994, by and among Rockefeller Center Properties and Lazard Frères & Co. LLC (incorporated by reference to Exhibit 10.16 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 29, 2011).
- 10.6 Occupational Lease, dated as of August 9, 2002, by and among Burford (Stratton) Nominee 1 Limited, Burford (Stratton) Nominee 2 Limited, Burford (Stratton) Limited, Lazard & Co., Limited and Lazard LLC (incorporated by reference to Exhibit 10.21 to the Registrant's Registration Statement (File No. 333-121407) on Form S-1/A filed on February 11, 2005).

- 10.7\* Lazard Ltd 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.21 to the Registrant's Registration Statement (File No. 333-121407) on Form S-1/A filed on May 2, 2005).
- 10.8\* Lazard Ltd 2008 Incentive Compensation Plan (incorporated by reference to Annex B to the Registrant's Definitive Proxy Statement on Schedule 14A (File No. 001-32492) filed on March 24, 2008).
- 10.9\* Lazard Ltd 2016 French Sub-plan (incorporated by reference to Annex B to the Registrant's Definitive Proxy Statement on Schedule 14A (File No. 001-32492) filed on March 10, 2016).
- 10.10\* Amended and Restated Agreement relating to Retention and Noncompetition and Other Covenants, dated as of March 9, 2016, by and among the Registrant, Lazard Group LLC and Kenneth M. Jacobs (incorporated by reference to Exhibit 10.9 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 27, 2016).
- 10.11\* Amended and Restated Agreement relating to Retention and Noncompetition and Other Covenants, dated as of March 9, 2016, by and among the Registrant, Lazard Group LLC and Ashish Bhutani (incorporated by reference to Exhibit 10.10 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 27, 2016).
- 10.12\* Amended and Restated Agreement relating to Retention and Noncompetition and Other Covenants, dated as of March 9, 2016, by and among the Registrant, Lazard Group LLC and Matthieu Bucaille (incorporated by reference to Exhibit 10.11 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 27, 2016).
- 10.13\* Amended and Restated Agreement relating to Retention and Noncompetition and Other Covenants, dated as of March 9, 2016, by and among the Registrant, Lazard Group LLC and Scott D. Hoffman (incorporated by reference to Exhibit 10.12 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 27, 2016).
- 10.14\* Amendment, dated as of October 30, 2017, to Amended and Restated Agreement relating to Retention and Noncompetition and Other Covenants, dated as of March 9, 2016, by and among the Registrant, Lazard Group LLC and Scott D. Hoffman.
- 10.15\* Agreement relating to Retention and Noncompetition and Other Covenants, dated as of October 30, 2017, by and among the Registrant, Lazard Group LLC and Evan L. Russo.
- 10.16\* Amended and Restated Agreement relating to Retention and Noncompetition and Other Covenants, dated as of March 9, 2016, by and among the Registrant, Lazard Group LLC and Alexander F. Stern (incorporated by reference to Exhibit 10.13 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 27, 2016).
- 10.17\* Form of Award Letter for Annual Grant of Deferred Stock Units to Non-Executive Directors (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K (File No. 001-32492) filed on September 8, 2005).
- 10.18\* Form of Agreement evidencing a grant of Restricted Stock Units to Executive Officers under the 2008 Incentive Compensation Plan (incorporated by reference to Exhibit 10.41 to the Registrant's Annual Report (File No. 001-32492) on Form 10-K filed on March 2, 2009).

- 10.19\* Form of Agreement evidencing a grant of Deferred Cash Award to Executive Officers (incorporated by reference to Exhibit 10.42 to the Registrant's Annual Report (File No. 001-32492) on Form 10-K filed on March 2, 2009).
- 10.20\* Directors' Fee Deferral Unit Plan (incorporated by reference to Exhibit 10.39 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on May 11, 2006).
- 10.21 Amended and Restated Credit Agreement, dated as of September 25, 2015, among Lazard Group LLC, the Banks from time to time parties thereto, and Citibank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.27 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on October 28, 2015).
- 10.22\* Form of Agreement evidencing a grant of Lazard Fund Interests to Named Executive Officers (incorporated by reference to Exhibit 10.55 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on May 1, 2013).
- 10.23\* Form of Agreement evidencing a February 20, 2014 grant of Performance-Based Stock Units under the 2008 Incentive Compensation Plan (incorporated by reference to Exhibit 10.55 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed May 6, 2014).
- 10.24\* Agreement between the Company and Kenneth M. Jacobs, dated as of February 20, 2014, evidencing a grant of Performance-Based Stock Units under the 2008 Incentive Compensation Plan (incorporated by reference to Exhibit 10.56 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on May 6, 2014).
- 12.1 Computation of Ratio of Earnings to Fixed Charges.
- 31.1 Rule 13a-14(a) Certification of Kenneth M. Jacobs.
- 31.2 Rule 13a-14(a) Certification of Evan L. Russo.
- 32.1 Section 1350 Certification for Kenneth M. Jacobs.

32.2 Section 1350 Certification for Evan L. Russo.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation Linkbase

101.DEF XBRL Taxonomy Extension Definition Linkbase

101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

\*Management contract or compensatory plan or arrangement.



SIGNATURES

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

Dated: October 30, 2017

LAZARD LTD

By: /s/ Evan L. Russo  
Name: Evan L. Russo  
Title: Chief Financial Officer

By: /s/ Dominick Ragone  
Name: Dominick Ragone  
Title: Chief Accounting Officer