Lazard Ltd
Form 10-Q
October 28, 2016

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, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

001-32492

(Commission File Number)

LAZARD LTD

(Exact name of registrant as specified in its charter)

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

Clarendon House

2 Church Street

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of October 21, 2016, there were 129,766,091 shares of the Registrant's Class A common stock outstanding (including 6,518,845 shares held by subsidiaries).

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When we use the terms “Lazard”, “we”, “us”, “our” and “the Company”, we mean Lazard Ltd, a company incorporated under t 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, 2016 of all of the common membership interests in Lazard Group and its controlling interest in Lazard Group.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

SEPTEMBER 30, 2016 AND DECEMBER 31, 2015

(UNAUDITED)

(dollars in thousands, except for per share data)

	September 30, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	$ 853,887	$ 1,132,083
Deposits with banks and short-term investments	534,865	389,861
Cash deposited with clearing organizations and other segregated cash	35,168	34,948
Receivables (net of allowance for doubtful accounts of $12,967 and $12,882 at September 30, 2016 and December 31, 2015, respectively):		
Fees	440,823	423,817
Customers and other	96,872	73,396
	537,695	497,213
Investments	462,758	541,911
Property (net of accumulated amortization and depreciation of $289,417 and $265,506 at September 30, 2016 and December 31, 2015, respectively)	204,300	207,165
Goodwill and other intangible assets (net of accumulated amortization of $59,370 and $57,561 at September 30, 2016 and December 31, 2015, respectively)	353,850	326,976
Deferred tax assets	1,107,046	1,130,595
Other assets	212,734	217,022
Total Assets	$ 4,302,303	$ 4,477,774

See notes to condensed consolidated financial statements.

LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

SEPTEMBER 30, 2016 AND DECEMBER 31, 2015

(UNAUDITED)

(dollars in thousands, except for per share data)

	September 30, 2016	December 31, 2015
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits and other customer payables	$587,059	$506,665
Accrued compensation and benefits	375,512	570,409
Senior debt	990,488	989,358
Tax receivable agreement obligation	513,623	523,962
Deferred tax liabilities	9,377	11,104
Capital lease obligations	8,037	9,028
Other liabilities	517,065	499,942
Total Liabilities	3,001,161	3,110,468
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Preferred stock, par value $.01 per share; 15,000,000 shares authorized:		
Series A - 7,921 shares issued and outstanding at September 30, 2016 and December 31, 2015	-	-
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, 2016 and December 31, 2015, including shares held by subsidiaries as indicated below)	1,298	1,298
Additional paid-in-capital	623,512	600,034
Retained earnings	1,058,189	1,123,728
Accumulated other comprehensive loss, net of tax	(236,088)	(234,356)
	1,446,911	1,490,704
Class A common stock held by subsidiaries, at cost (5,778,090 and 4,253,381 shares at September 30, 2016 and December 31, 2015, respectively)	(203,736)	(177,249)
Total Lazard Ltd Stockholders' Equity	1,243,175	1,313,455
Noncontrolling interests	57,967	53,851
Total Stockholders' Equity	1,301,142	1,367,306

Total Liabilities and Stockholders' Equity	$4,302,303	$4,477,774

See notes to condensed consolidated financial statements.

LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2016 AND 2015

(UNAUDITED)

(dollars in thousands, except for per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
REVENUE				
Investment banking and other advisory fees	$343,154	$330,408	$894,906	$946,057
Asset management fees	254,551	253,752	729,679	784,461
Interest income	1,128	1,102	3,668	3,393
Other	22,269	54	49,607	65,879
Total revenue	621,102	585,316	1,677,860	1,799,790
Interest expense	12,194	11,798	36,054	39,431
Net revenue	608,908	573,518	1,641,806	1,760,359
OPERATING EXPENSES				
Compensation and benefits	353,756	319,565	959,276	984,786
Occupancy and equipment	26,973	26,278	81,143	80,889
Marketing and business development	16,927	18,244	60,492	55,758
Technology and information services	24,179	22,923	71,406	68,850
Professional services	10,870	10,758	31,877	36,100
Fund administration and outsourced services	17,097	14,367	46,427	48,008
Amortization and other acquisition-related costs	863	511	1,837	3,401
Provision (benefit) pursuant to tax receivable agreement	-	(420,792)	-	547,691
Other	9,251	10,920	28,743	90,845
Total operating expenses	459,916	2,774	1,281,201	1,916,328
OPERATING INCOME (LOSS)	148,992	570,744	360,605	(155,969)
Provision (benefit) for income taxes	36,374	170,954	95,900	(993,560)
NET INCOME	112,618	399,790	264,705	837,591
LESS - NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	82	1,269	4,989	9,004
NET INCOME ATTRIBUTABLE TO LAZARD LTD	$112,536	$398,521	$259,716	$828,587
ATTRIBUTABLE TO LAZARD LTD CLASS A COMMON STOCKHOLDERS:				
WEIGHTED AVERAGE SHARES OF COMMON STOCK				

OUTSTANDING:				
Basic	124,408,884	125,925,006	125,303,758	125,264,447
Diluted	132,320,855	133,115,419	132,517,887	133,219,137
NET INCOME PER SHARE OF COMMON STOCK:				
Basic	$0.90	$3.16	$2.07	$6.61
Diluted	$0.85	$2.99	$1.96	$6.22
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	$0.38	$0.35	$2.31	$2.00

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, 2016 AND 2015

(UNAUDITED)

(dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
NET INCOME	$112,618	$399,790	$264,705	$837,591
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)	(159)	(19,034)	(4,524)	(41,376)
Employee benefit plans:				
Actuarial gain (loss) (net of tax expense (benefit) of $(17) and $253 for the three months ended September 30, 2016 and 2015, respectively, and $(315) and $(7,753) for the nine months ended September 30, 2016 and 2015, respectively)	(33)	477	(649)	(14,140)
Adjustment for items reclassified to earnings (net of tax expense of $375 and $368 for the three months ended September 30, 2016 and 2015, respectively, and $1,171 and $1,469 for the nine months ended September 30, 2016 and 2015, respectively)	1,134	1,381	3,441	3,757
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	942	(17,176)	(1,732)	(51,759)
COMPREHENSIVE INCOME	113,560	382,614	262,973	785,832
LESS - COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	82	1,269	4,989	9,004

COMPREHENSIVE INCOME ATTRIBUTABLE TO				
LAZARD LTD	$113,478	$381,345	$257,984	$776,828

See notes to condensed consolidated financial statements.

LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2016 AND 2015

(UNAUDITED)

(dollars in thousands)

	Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$264,705	$837,591
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of property	24,586	24,251
Amortization of deferred expenses and share-based incentive compensation	276,714	246,129
Amortization and other acquisition-related costs	1,837	3,401
Deferred tax provision (benefit)	49,184	(1,056,659)
Provision pursuant to tax receivable agreement	-	547,691
Loss on extinguishment of debt	-	60,219
Gain on disposal of subsidiaries	-	(24,388)
(Increase) decrease in operating assets:		
Deposits with banks and short-term investments	(135,152)	(84,386)
Cash deposited with clearing organizations and other segregated cash	115	7,413
Receivables-net	(43,593)	34,391
Investments	79,698	34,198
Other assets	(61,778)	(105,902)
Increase (decrease) in operating liabilities:		
Deposits and other payables	70,165	105,215
Accrued compensation and benefits and other liabilities	(227,356)	(109,770)
Net cash provided by operating activities	299,125	519,394
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property	(22,070)	(18,479)
Disposals of property	866	471
Net cash used in investing activities	(21,204)	(18,008)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from:		
Contributions from noncontrolling interests	93	268
Issuance of senior debt, net of expenses	-	396,272
Excess tax benefits from share-based incentive compensation	2,343	9,516
Other financing activities	30,518	-
Payments for:		

Senior debt	-	(509,098)
Capital lease obligations	(1,234)	(1,435)
Distributions to noncontrolling interests	(966)	(15,367)
Payments under tax receivable agreement	(10,086)	(1,276)
Partial extinguishment of tax receivable agreement obligation	-	(42,222)
Purchase of Class A common stock	(228,865)	(159,471)
Class A common stock dividends	(289,326)	(246,759)
Settlement of vested share-based incentive compensation	(55,562)	(105,007)
Other financing activities	(3,080)	(1,998)
Net cash used in financing activities	(556,165)	(676,577)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	48	(31,405)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(278,196)	(206,596)
CASH AND CASH EQUIVALENTS—January 1	1,132,083	1,066,580
CASH AND CASH EQUIVALENTS—September 30	$853,887	$859,984

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, 2015

(UNAUDITED)

(dollars in thousands)

	Series A Preferred Stock		Common Stock		Additional	Retained	Accumulated Other Comprehensive Income (Loss), Net of Tax	Class A Common Stock Held By Subsidiaries		Total Lazard Ltd Stockholders'	Noncontro
	Shares	$	Shares	$	Paid-In-Capital	Earnings		Shares	$	Equity	Interests
uary 1,	7,921	$-	129,766,091	$1,298	$702,800	$464,655	$(200,766)	7,450,745	$(261,243)	$706,744	$63,313
ve :											
						828,587				828,587	9,004
hensive							(51,759)			(51,759)	
of ncentive on					174,823					174,823	
ivalents					30,340	(32,338)				(1,998)	
mon ds						(246,759)				(246,759)	
Class A k								3,141,526	(159,471)	(159,471)	
lass A k in with ncentive on and nefit					(337,101)			(6,300,830)	241,589	(95,512)	

uisitions quity												
:												
lass A k					(1,327)			(27,316)	1,327	-		
to g												
										-	(15,099)	
tember	7,921	$-	129,766,091	$1,298	$569,535	$1,014,145	$(252,525)	4,264,125	$(177,798)	$1,154,655	$57,218	

See notes to condensed consolidated financial statements.

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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	Retained	Accumulated Other Comprehensive Income (Loss), Net of Tax	Class A Common Stock Held By Subsidiaries		Total Lazard Ltd Stockholders'	Noncontro
	Shares	$	Shares	$	Paid-In-Capital	Earnings		Shares	$	Equity	Interests
uary 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
ve											
						259,716				259,716	4,989
ehensive											
							(1,732)			(1,732)	-
of ncentive on					213,144					213,144	
uivalents					32,849	(35,929)				(3,080)	
mon ds						(289,326)				(289,326)	
Class A k								6,656,250	(228,865)	(228,865)	
Class A k in with ncentive on and enefit					(216,610)			(4,217,819)	167,948	(48,662)	

uisitions quity											
s:											
Class A k and enefit of					(21,777)			(913,722)	34,430	12,653	
mon e lated)					6,313					6,313	
to g										-	(873)
					9,559					9,559	
ptember	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

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, 2016 and December 31, 2015. 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, corporate preparedness 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, 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 and assets and liabilities associated with Lazard Group’s Paris-based subsidiary Lazard Frères Banque SA (“LFB”).

LFB, as a registered bank, is engaged primarily in commercial and private banking services for clients and funds managed by Lazard Frères Gestion SAS (“LFG”) and other clients, investment banking activities, including participation in underwritten offerings of securities in France, and asset-liability management.

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, 2015. The accompanying December 31, 2015 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, 2016 are not indicative of the results to be expected for any future interim or annual period.

LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

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

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 Financière Lazard Frères SAS ("CFLF") along with its subsidiaries, LFB and 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 applies the equity method of accounting in which it records in earnings its share of earnings or losses of the entity. Intercompany transactions and balances have been eliminated.

Certain prior period amounts have been reclassified to conform to the current period presentation, primarily as a result of the adoption of the current guidance on classification of debt issuance costs and the impact of such guidance on the condensed consolidated statements of financial condition.

2. RECENT ACCOUNTING DEVELOPMENTS

Revenue from Contracts with Customers—In May 2014, the Financial Accounting Standards Board (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 new guidance is effective for annual and interim periods beginning after December 15, 2016 and early adoption is not permitted. 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, with early adoption being permitted for annual periods beginning after December 15, 2016. During 2016, the FASB issued additional clarifications for certain aspects of the new revenue recognition guidance. The Company is currently evaluating the new guidance.

Amendments to the Consolidation Analysis—In February 2015, the FASB issued updated guidance for the consolidation of certain legal entities. The updated guidance eliminates the deferral of certain consolidation standards for entities considered to be investment companies and modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or VOEs. The new guidance is effective for annual reporting periods beginning after December 15, 2015, with early adoption permitted. The Company adopted this guidance using the modified retrospective method with an effective adoption date of January 1, 2016. The adoption of this guidance did not have a material impact on our consolidated financial statements or related disclosures.

Interest—Imputation of Interest—In April 2015, the FASB issued updated guidance which requires a company to classify debt issuance costs related to a recognized debt liability in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The new guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, with early adoption permitted and is to be applied on a retrospective basis. The adoption of this guidance by the Company in the first quarter of 2016 resulted in a reclassification as of December 31, 2015 of $8,992 from "other assets" to "senior debt" on our condensed consolidated statements of financial condition.

Intangibles—Goodwill and Other—Internal-Use Software: Customers Accounting for Fees Paid in a Cloud Computing Arrangement—In April 2015, the FASB issued updated guidance providing clarification on whether a cloud computing arrangement that contains a software license should be accounted for as internal-use software. The new guidance is effective for annual and interim periods beginning after December 15, 2015, with early adoption permitted. The adoption of this guidance by the Company in the first quarter of 2016 did not have a material impact on our consolidated financial statements.

Fair Value Measurement—In May 2015, the FASB issued updated guidance for the classification and disclosure of certain investments using the net asset value ("NAV") as a practical expedient to measure the fair value of the investment. The guidance removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using NAV as a practical expedient. The new guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, with early adoption permitted. The new guidance is to be applied on a retrospective basis. The Company elected to early adopt this guidance in the quarter ended September 30, 2015 and has removed investments that are measured at NAV as a practical expedient from the fair value hierarchy in all periods presented in the consolidated financial statements and related disclosures.

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.

Compensation—Stock Compensation: Improvements to Employee Share-Based Payment Accounting—In March 2016, the FASB issued new guidance regarding equity-based incentive compensation. The new guidance includes several amendments which affect various aspects of the accounting for equity-based incentive compensation transactions, including the income tax consequences, 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 and early adoption is permitted. 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.

Classification of Certain Cash Receipts and Cash Payments—In August 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. The new guidance 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.

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, 2016 and 2015 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Beginning Balance	$13,569	$21,071	$12,882	$23,540
Bad debt expense, net of recoveries	1,545	(256)	4,124	3,037
Charge-offs, foreign currency translation and other adjustments	(2,147)	(488)	(4,039)	(6,250)
Ending Balance	$12,967	$20,327	$12,967	$20,327

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

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At September 30, 2016 and December 31, 2015, the Company had receivables past due or deemed uncollectible of $21,580 and $19,923, respectively.

Of the Company's fee receivables at September 30, 2016 and December 31, 2015, $77,056 and $81,774, 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 $460,639 and $415,439 at September 30, 2016 and December 31, 2015, respectively, approximates fair value.

4. INVESTMENTS

The Company's investments and securities sold, not yet purchased, consist of the following at September 30, 2016 and December 31, 2015:

	September 30, 2016	December 31, 2015
Interest-bearing deposits	$ 474	$ 54,885
Debt	-	535
Equities	42,656	44,834
Funds:		
Alternative investments (a)	39,630	67,600
Debt (a)	75,545	67,134
Equity (a)	170,416	197,787
Private equity	126,726	100,219
	412,317	432,740
Equity method	7,311	8,917
Total investments	462,758	541,911
Less:		
Interest-bearing deposits	474	54,885
Equity method	7,311	8,917
Investments, at fair value	$ 454,973	$ 478,109
Securities sold, not yet purchased, at fair value (included in "other liabilities")	$ 3,512	$ 3,239

(a) Interests in alternative investment funds, debt funds and equity funds include investments with fair values of $15,011, $38,071 and $129,530, respectively, at September 30, 2016 and $10,996, $31,598 and $156,081, respectively, at December 31, 2015, 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.

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(UNAUDITED)

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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) until the fourth quarter of 2015, Lazard Australia Corporate Opportunities Fund 2 (“COF2”), an Australian fund targeting Australian mid-market investments, (iii) a mezzanine fund, which invests in mezzanine debt of a diversified selection of small- to mid-cap European companies, and (iv) a fund targeting significant noncontrolling-stake investments in established private companies. The Company disposed of its private equity business in Australia in the second quarter of 2015 in a transaction with the management of the disposed business. Revenue of $24,388 relating to the disposal of the business primarily represents the realization of carried interest at fair value and is included in “revenue-other” on the condensed consolidated statements of operations for the nine month period ended September 30, 2015.

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”).

During the three month and nine month periods ended September 30, 2016 and 2015, 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		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net unrealized investment gains (losses)	$9,047	$(24,962)	$15,221	$(26,077)

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 Company's investments in debt securities and securities sold, not yet purchased are classified as Level 1 when their respective fair values are based on unadjusted quoted prices in active markets.

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 investments in private equity funds were classified as Level 3 for certain investments that were valued based on a potential transaction value as of September 30, 2015.

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(UNAUDITED)

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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 values of derivatives entered into by the Company are classified as Level 2 and are 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 values 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.

Investments Measured at Net Asset Value—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) in private equity funds are not redeemable in the near term as a result of redemption restrictions.

The following tables present, as of September 30, 2016 and December 31, 2015, 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, 2016				
	Level 1	Level 2	Level 3	NAV (a)	Total
Assets:					
Investments:					
Debt	$-	$-	$-	$-	$-
Equities	41,335	-	1,321	-	42,656
Funds:					
Alternative investments	26,472		-	13,158	39,630
Debt	75,539	-	-	6	75,545

Equity	170,372	-	-	44	170,416
Private equity	-	-	-	126,726	126,726
Derivatives	-	2,269	-	-	2,269
Total	$313,718	$2,269	$1,321	$139,934	$457,242
Liabilities:					
Securities sold, not yet purchased	$3,512	$-	$-	$-	$3,512
Contingent consideration liability			17,028		$17,028
Derivatives	-	186,196	-	-	186,196
Total	$3,512	$186,196	$17,028	$-	$206,736

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(UNAUDITED)

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

	December 31, 2015				
	Level 1	Level 2	Level 3	NAV (a)	Total
Assets:					
Investments:					
Debt	$535	$-	$-	$-	$535
Equities	43,558	-	1,276	-	44,834
Funds:					
Alternative investments	45,135	-	-	22,465	67,600
Debt	67,128	-	-	6	67,134
Equity	197,745	-	-	42	197,787
Private equity	-	-	-	100,219	100,219
Derivatives	-	1,048	-	-	1,048
Total	$354,101	$1,048	$1,276	$122,732	$479,157
Liabilities:					
Securities sold, not yet purchased	$3,239	$-	$-	$-	$3,239
Derivatives	-	195,689	-	-	195,689
Total	$3,239	$195,689	$-	$-	$198,928

(a) Represents certain investments measured at NAV or its equivalent as a practical expedient in determining fair value. In accordance with current accounting guidance, these investments have not been classified in the fair value hierarchy. See Note 2 for additional information.

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, 2016 and 2015:

	Three Months Ended September 30, 2016					
	Beginning Balance	Net Unrealized/ Realized Gains/Losses Included In Earnings (b)	Purchases/ Acquisitions	Sales/ Dispositions	Foreign Currency Translation Adjustments	Ending 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

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(UNAUDITED)

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

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

	Three Months Ended September 30, 2015 (a)					
	Beginning Balance	Net Unrealized/ Realized Gains/Losses Included In Earnings (b)	Purchases/ Acquisitions	Sales/ Dispositions	Foreign Currency Translation Adjustments	Ending Balance
Assets:						
Investments:						
Equities	$1,299	$ 2	$ -	$ -	$ (25)	$1,276
Private equity funds	22,267	633	2,291	-	-	25,191
Total Level 3 Assets	$23,566	$ 635	$ 2,291	$ -	$ (25)	$26,467

	Nine Months Ended September 30, 2015 (a)					
	Beginning Balance	Net Unrealized/ Realized	Purchases/ Acquisitions/	Sales/ Dispositions	Foreign Currency	Ending Balance

		Gains/Losses Included In Earnings (b)	Transfers (c)		Translation Adjustments	
Assets:						
Investments:						
Equities	$1,315	$ 12	$ -	$ -	$ (51)	$1,276
Private equity funds	-	3,404	22,178	(391)	-	25,191
Total Level 3 Assets	$1,315	$ 3,416	$ 22,178	$ (391)	$ (51)	$26,467

(a) The tables for the three month and nine month periods ended September 30, 2015 reflect the retrospective application of new disclosure guidance adopted by the Company for investments using NAV or its equivalent as a practical expedient when measuring fair value. See Note 2.

(b) Earnings recorded in “other revenue” for investments in equities and private equity funds for the three month and nine month periods ended September 30, 2016 and the three month and nine month periods ended September 30, 2015 include net unrealized gains of $2, $7, $635 and $3,416, 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, 2016 include unrealized losses of $28.

(c) Certain investments that were valued at NAV as of December 31, 2014 of $19,255 were transferred to Level 3 from the NAV category in the nine months ended September 30, 2015 as these investments were valued based on potential transaction value as of September 30, 2015.

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, 2016 and 2015.

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The following tables present, at September 30, 2016 and December 31, 2015, certain investments that are valued using NAV or its equivalent as a practical expedient in determining fair value:

September 30, 2016				
			Estimated Liquidation Period of Investments Not Redeemable	Investments Redeemable
Fair Value	Unfunded Commitments	% of Fair Value Not Redeemable	% Next 5 Years	