Lazard Ltd
Form 10-Q
July 31, 2018

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 June 30, 2018

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, 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 July 20, 2018, there were 129,766,091 shares of the Registrant's Class A common stock outstanding (including 10,044,295 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 June 30, 2018 of all of the common membership interests in Lazard Group and its controlling interest in Lazard Group.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

JUNE 30, 2018 AND DECEMBER 31, 2017

(UNAUDITED)

(dollars in thousands, except for per share data)

	June 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$845,167	$ 1,483,836
Deposits with banks and short-term investments	1,000,662	935,431
Cash deposited with clearing organizations and other segregated cash	37,089	35,539
Receivables (net of allowance for doubtful accounts of $34,956 and $23,746 at June 30, 2018 and December 31, 2017, respectively):		
Fees	610,488	487,800
Customers and other	103,909	83,816
	714,397	571,616
Investments	505,194	427,186
Property (net of accumulated amortization and depreciation of $325,012 and $317,827 at June 30, 2018 and December 31, 2017, respectively)	216,183	205,301
Goodwill and other intangible assets (net of accumulated amortization of $64,681 and $63,099 at June 30, 2018 and December 31, 2017, respectively)	382,360	391,364
Deferred tax assets	618,455	650,260
Other assets	308,485	228,144
Total Assets	$4,627,992	$ 4,928,677

See notes to condensed consolidated financial statements.

LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

JUNE 30, 2018 AND DECEMBER 31, 2017

(UNAUDITED)

(dollars in thousands, except for per share data)

	June 30, 2018	December 31, 2017
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits and other customer payables	$1,055,244	$992,338
Accrued compensation and benefits	403,495	593,781
Senior debt	1,191,277	1,190,383
Tax receivable agreement obligation	277,163	310,275
Deferred tax liabilities	7,184	9,407
Other liabilities	580,525	573,588
Total Liabilities	3,514,888	3,669,772
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
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 June 30, 2018 and December 31, 2017, including shares held by subsidiaries as indicated below)	1,298	1,298
Additional paid-in-capital	652,013	788,140
Retained earnings	1,092,381	1,080,413
Accumulated other comprehensive loss, net of tax	(253,499)	(232,518)
	1,492,193	1,637,333
Class A common stock held by subsidiaries, at cost (9,719,895 and 10,747,142 shares at June 30, 2018 and December 31, 2017, respectively)	(437,031)	(437,530)
Total Lazard Ltd Stockholders' Equity	1,055,162	1,199,803
Noncontrolling interests	57,942	59,102
Total Stockholders' Equity	1,113,104	1,258,905
Total Liabilities and Stockholders' Equity	$4,627,992	$4,928,677

See notes to condensed consolidated financial statements.

LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED JUNE 30, 2018 AND 2017

(UNAUDITED)

(dollars in thousands, except for per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUE				
Investment banking and other advisory fees	$421,444	$410,275	$830,170	$745,191
Asset management fees	335,891	293,879	673,987	566,803
Interest income	2,138	1,609	4,848	3,263
Other	12,055	24,183	30,728	52,109
Total revenue	771,528	729,946	1,539,733	1,367,366
Interest expense	13,590	12,766	27,097	26,722
Net revenue	757,938	717,180	1,512,636	1,340,644
OPERATING EXPENSES				
Compensation and benefits	416,159	414,612	821,206	776,413
Occupancy and equipment	29,240	30,828	59,478	58,312
Marketing and business development	28,228	24,027	53,887	43,779
Technology and information services	32,527	32,032	65,779	56,056
Professional services	16,714	11,234	29,145	22,696
Fund administration and outsourced services	33,227	18,338	68,411	34,251
Amortization and other acquisition-related (benefits) costs	(8,483)	1,257	(7,617)	4,831
Other	10,386	12,351	36,579	21,608
Total operating expenses	557,998	544,679	1,126,868	1,017,946
OPERATING INCOME	199,940	172,501	385,768	322,698
Provision for income taxes	51,561	51,600	75,728	91,367
NET INCOME	148,379	120,901	310,040	231,331
LESS - NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	1,416	523	3,385	3,400
NET INCOME ATTRIBUTABLE TO LAZARD LTD	$146,963	$120,378	$306,655	$227,931
ATTRIBUTABLE TO LAZARD LTD CLASS A COMMON STOCKHOLDERS:				
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:				

Basic	120,306,257	122,368,150	120,118,182	122,591,656
Diluted	130,249,054	132,139,616	131,195,725	132,414,496
NET INCOME PER SHARE OF COMMON STOCK:				
Basic	$1.22	$0.98	$2.55	$1.86
Diluted	$1.13	$0.91	$2.34	$1.72
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	$0.44	$0.41	$2.15	$1.99

See notes to condensed consolidated financial statements.

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LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED JUNE 30, 2018 AND 2017

(UNAUDITED)

(dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
NET INCOME	$148,379	$120,901	$310,040	$231,331
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Currency translation adjustments	(43,453)	26,167	(26,107)	43,099
Employee benefit plans:				
Actuarial gain (loss) (net of tax expense (benefit) of $1,746 and $(2,215) for the three months ended June 30, 2018 and 2017, respectively, and $404 and $(2,476) for the six months ended June 30, 2018 and 2017, respectively)	8,300	(8,609)	3,286	(9,104)
Adjustment for items reclassified to earnings (net of tax expense of $468 and $196 for the three months ended June 30, 2018 and 2017, respectively, and $684 and $472 for the six months ended June 30, 2018 and 2017, respectively)	777	1,356	1,839	2,442
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(34,376)	18,914	(20,982)	36,437
COMPREHENSIVE INCOME	114,003	139,815	289,058	267,768
LESS - COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	1,415	523	3,384	3,400
COMPREHENSIVE INCOME ATTRIBUTABLE TO LAZARD LTD	$112,588	$139,292	$285,674	$264,368

See notes to condensed consolidated financial statements.

LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2018 AND 2017

(UNAUDITED)

(dollars in thousands)

	Six Months Ended June 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$310,040	$ 231,331
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of property	16,676	15,371
Amortization of deferred expenses and share-based incentive compensation	225,647	209,127
Amortization and other acquisition-related (benefits) costs	(7,617)	4,831
Deferred tax provision	20,799	39,936
(Increase) decrease in operating assets:		
Receivables-net	(154,430)	2,227
Investments	(79,998)	30,454
Other assets	(131,314)	(88,178)
Increase (decrease) in operating liabilities:		
Accrued compensation and benefits and other liabilities	(135,027)	(72,529)
Net cash provided by operating activities	64,776	372,570
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property	(32,043)	(9,408)
Disposals of property	1,327	193
Net cash used in investing activities	(30,716)	(9,215)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from:		
Customer deposits	70,194	196,947
Contributions from noncontrolling interests	516	-
Payments for:		
Capital lease obligations	(17)	(7,320)
Distributions to noncontrolling interests	(5,060)	(1,743)
Payments under tax receivable agreement	(31,897)	(776)
Purchase of Class A common stock	(223,795)	(184,892)
Class A common stock dividends	(255,228)	(242,427)
Settlement of vested share-based incentive compensation	(109,218)	(66,085)
Other financing activities	(4,681)	(8,970)
Net cash used in financing activities	(559,186)	(315,266)
	(46,762)	91,054

EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS AND RESTRICTED CASH		
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(571,888)	139,143
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH—January 1	2,454,806	1,607,483
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH—June 30	$ 1,882,918	$ 1,746,626

RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH WITHIN THE CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION:	June 30, 2018	December 31, 2017
Cash and cash equivalents	$ 845,167	$ 1,483,836
Deposits with banks and short-term investments	1,000,662	935,431
Cash deposited with clearing organizations and other segregated cash	37,089	35,539
TOTAL CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	$ 1,882,918	$ 2,454,806

See notes to condensed consolidated financial statements.

LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2017

(UNAUDITED)

(dollars in thousands)

	Common Stock		Additional	Retained	Accumulated Other Comprehensive Income (Loss), Net of	Class A Common Stock Held By Subsidiaries		Total Lazard Ltd Stockholders'	Noncontrolling	Total Stockhol
	Shares	$	Paid-In-Capital	Earnings	Tax	Shares	$	Equity	Interests	Equity
ance - uary 1, 2017	129,766,091	$1,298	$688,231	$1,134,186	$(314,222)	7,628,786	$(273,506)	$1,235,987	$57,826	$1,293,8
ustment for cumulative ct on prior ears from adoption of accounting uidance ted to re-based entive ompensation				81,544				81,544		81,544
ance, as sted - uary 1, 2017	129,766,091	1,298	688,231	1,215,730	(314,222)	7,628,786	(273,506)	1,317,531	57,826	1,375,3
nprehensive ome:										
income				227,931				227,931	3,400	231,33
er nprehensive ome - net					36,437			36,437		36,437

f tax										
ortization hare-based entive ompensation			163,001					163,001		163,00
idend ivalents			31,335	(35,412)				(4,077)		(4,077
ss A mon stock dends				(242,427)				(242,427)		(242,42
chase of ss A mon stock						4,268,479	(184,892)	(184,892)		(184,89
ivery of ss A mon stock onnection h re-based entive ompensation related tax ense f $4,815			(209,543)			(3,736,461)	138,643	(70,900)		(70,900
iness uisitions related ity ansactions:										
ss A mon stock able ncluding ted ortization)			218					218		218
tributions to controlling rests, net								-	(1,743)	(1,743
er				204				204	204	408
ance - e 30, 2017	129,766,091	$1,298	$673,242	$1,166,026	$(277,785)	8,160,804	$(319,755)	$1,243,026	$59,687	$1,302,7

See notes to condensed consolidated financial statements.

LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2018

(UNAUDITED)

(dollars in thousands)

	Common Stock		Additional		Accumulated Other Comprehensive Income (Loss), Net of	Class A Common Stock Held By Subsidiaries		Total Lazard Ltd		Total
	Shares	$	Paid-In-Capital	Retained Earnings	Tax	Shares	$	Stockholders' Equity	Noncontrolling Interests	Stockhol Equity
ance - uary 1, 2018	129,766,091	$1,298	$788,140	$1,080,413	$(232,518)	10,747,142	$(437,530)	$1,199,803	$59,102	$1,258,9
nprehensive ome (loss):										
income				306,655				306,655	3,385	310,04
er prehensive - net of tax					(20,981)			(20,981)	(1)	(20,982
ortization hare-based ntive mpensation			169,830					169,830		169,83
dend valents			33,627	(38,308)				(4,681)		(4,681
ss A mon stock dends				(255,228)				(255,228)		(255,22
chase of ss A mon stock						4,147,526	(223,795)	(223,795)		(223,79
very of ss A mon stock nnection			(340,963)			(5,172,915)	224,233	(116,730)		(116,73

e-based ntive mpensation related tax ense $7,512										
iness uisitions related ty ansactions:										
very of ss A mon stock			(61)			(1,858)	61	-		-
ss A mon stock able ncluding ted rtization)			289					289		289
dend valents			1,151	(1,151)				-		-
ributions to controlling rests, net								-	(4,544)	(4,544
ance - e 30, 2018	129,766,091	$1,298	$652,013	$1,092,381	$(253,499)	9,719,895	$(437,031)	$1,055,162	$57,942	$1,113,1

See notes to condensed consolidated financial statements.

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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 June 30, 2018 and December 31, 2017. 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"), capital advisory, capital raising, restructurings, shareholder advisory, sovereign advisory and other strategic advisory, 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, 2017. The accompanying December 31, 2017 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 six month periods ended June 30, 2018 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 related to the adoption of new guidance impacting the condensed consolidated statements of cash flows (see Note 2).

2. RECENT ACCOUNTING DEVELOPMENTS

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 adopted the revenue recognition guidance upon its effective date of January 1, 2018 using the modified cumulative effect approach. The Company applied the new guidance to contracts that have not yet been completed as of the adoption date. The Company's adoption efforts included the identification of revenue within the scope of the guidance and the evaluation of revenue contracts.

The Company evaluated the potential impact of the new guidance, including (i) the timing of revenue recognition for Financial Advisory and Asset Management fees and (ii) the presentation of certain contract costs. With respect to revenue recognition, the Company assessed the impact of the new guidance on the recognition of fees for Financial Advisory (e.g., transaction completion, transaction announcement and retainers), and Asset Management (e.g., management and incentive fees). This assessment included an analysis of whether the Company's fulfillment of its performance obligations would be deemed to occur over time, or at specific points in time, under the new guidance. Specifically, recognition would be deemed to occur over time if the client receives and consumes benefits from the services as the Company performs the services. The Company concluded that Financial Advisory and Asset Management fees would typically be recognized over time as performance occurs, subject to constraints, using an appropriate measure of progress based on resources consumed, which is consistent with when the client receives benefits. There was no material impact to the Company's recognition of revenue upon adoption of the new guidance.

The new guidance requires the Company to prospectively present certain contract costs on a gross basis. The most significant changes 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 were previously presented net against revenues and are now presented as expenses on a gross basis under the new guidance because the Company is primarily responsible for fulfilling the promise of the arrangement. For the three month and six month periods ended June 30, 2018, the presentation of such costs on a gross basis resulted in an increase to net revenue of $24,052 and $47,614, respectively, primarily comprised of increases to asset management fees and investment banking and other advisory fees. In addition, there was a corresponding increase to operating expenses of $24,052 and $47,614, respectively, primarily comprised of an increase to distribution costs presented within fund administration and outsourced services and an increase to reimbursable deal costs presented within marketing and business development. These amounts would have been presented on a net basis prior to the adoption of the new guidance, and there was no material impact to net income as a result of the gross basis of presentation under the new guidance.

LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

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

See Note 3 for further information on contracts within the scope of the new guidance.

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 is to be applied on a retrospective basis. The Company adopted this new guidance on January 1, 2018. The adoption of the new guidance in the first quarter of 2018 resulted in the reclassification of "cash deposited with clearing organization and other segregated cash" and "deposits with banks and short-term investments" from operating activities to components of "cash and cash equivalents and restricted cash" on the condensed consolidated statement of cash flows. In addition, the Company reclassified cash flows related to customer deposits from operating activities to financing activities. This resulted in changes in deposits with banks and short-term investments and customer deposits no longer being reflected in cash flows from operating activities. Except for the reclassification of these items on the condensed consolidated statement of cash flows, the new guidance had no impact on the Company's financial statements.

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, such asset or group of assets 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 adopted the new guidance on January 1, 2018 and it will be applied to business combinations on a prospective basis.

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, applied on a retrospective basis. The other components of net benefit cost, including amortization of prior service cost, and gains and losses from settlements and curtailments, are included in other operating expenses. The new guidance also stipulates that only the service cost component of net benefit cost is eligible for capitalization, applied on a prospective basis. This new guidance is effective for annual and interim periods beginning after December 15, 2017. The Company adopted the new guidance on January 1, 2018 and there was no material impact to the Company's financial statements.

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 and is to be applied on a prospective basis. The Company adopted the new guidance on January 1, 2018, and there was no material impact to the Company's financial statements.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income—In February 2018, the FASB issued updated guidance on the tax effects of items in "accumulated other comprehensive income (loss), net of tax" ("AOCI"). Specifically, the new guidance will permit, but not require, a reclassification from AOCI to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate under the Tax Cuts and Jobs Act of 2017 (see Note 15). The amount of the reclassification would be the difference between the historical corporate income tax rate and the newly enacted 21% corporate income tax rate. The new guidance is effective for annual and interim periods beginning after December 15, 2018, with an option to apply it in the period of adoption or on a retrospective basis for each period in which the effect of the change in the U.S. federal corporate income tax rate is recognized. Early adoption of the new guidance is permitted for public business entities for reporting periods for which financial statements have not yet been issued. 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,

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(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.

Improvements to Nonemployee Share-Based Payment Accounting—In June 2018, the FASB issued updated guidance to simplify the accounting for nonemployee share-based payment transactions. The new guidance generally requires equity-classified nonemployee share-based payment awards to be measured at the grant date, which is the date at which a grantor and grantee reach a mutual understanding of the key terms and conditions of a share-based payment award. This update generally aligns the accounting for equity-classified share-based payment awards to nonemployees with the measurement date required for employees. The new guidance is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. Upon adoption, the new guidance would 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.

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. REVENUE RECOGNITION

Investment Banking and Other Advisory Fees—Fees for Financial Advisory services are recorded when: (i) a contract with a client has been identified, (ii) the performance obligations in the contract have been identified, (iii) the fee or other transaction price has been determined; (iv) the fee or other transaction price has been allocated to each performance obligation in the contract; and (v) the Company has satisfied the applicable performance obligation. The expenses that are directly related to such transactions are recorded as incurred and presented within operating expenses when the Company is primarily responsible for fulfilling the promise of the arrangement. Revenues associated with the reimbursement of such expenses are recorded when the Company is contractually entitled to reimbursement and presented within investment banking and other advisory fees.

Asset Management Fees—Fees for Asset Management services are primarily comprised of management fees and incentive fees. Management fees are derived from fees for investment management and other services provided to clients. Revenue is recorded in accordance with the same five criteria as Financial Advisory fees, which generally results in management fees being recorded on a daily, monthly or quarterly basis, primarily based on a percentage of client assets managed. Fees vary with the type of assets managed, with higher fees earned on equity assets, alternative investment (such as hedge fund) and private equity funds, and lower fees earned on fixed income and money market products. Expenses that are directly related to the sale or distribution of fund interests are recorded as incurred and presented within operating expenses when the Company is primarily responsible for fulfilling the promise of the arrangement. Revenues associated with the reimbursement of such expenses are recorded when the Company is contractually entitled to reimbursement and presented within asset management fees.

In addition, 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.

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For hedge funds, incentive fees are calculated based on a specific 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 when a significant reversal in the amount of the cumulative revenue to be recognized is not probable, which is typically at the end of the relevant performance measurement period. The incentive fee measurement period is generally an annual period (unless an account is terminated 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 generally are 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 interests during the life of the fund can occur. As a result, the Company records incentive fees earned on our private equity funds when a significant reversal in the amount of the cumulative revenue to be recognized is not probable, which is typically at the end of the relevant performance period.

Receivables relating to asset management and incentive fees are reported in "fees receivable" on the consolidated statements of financial condition.

The Company disaggregates revenue based on its business segment results and believes that the following information provides a reasonable representation of how performance obligations relate to the nature, amount, timing and uncertainty of revenue and cash flows:

	Three Months Ended June 30, 2018 (d)	Six Months Ended June 30, 2018 (d)
Net Revenue:		
Financial Advisory (a)	$422,089	$831,210
Asset Management:		
Management Fees and Other (b)	$340,160	$688,844
Incentive Fees (c)	12,428	18,027
Total Asset Management	$352,588	$706,871

(a) Financial Advisory is comprised of M&A Advisory, Capital Advisory, Capital Raising, Restructuring, Shareholder Advisory, Sovereign Advisory, and other strategic advisory work for clients. The benefits of these advisory services are generally transferred to the Company's clients over time, and consideration for these advisory services typically includes transaction completion, transaction announcement and retainer fees. Retainer fees are generally fixed and recognized over the period in which the advisory services are performed. However, transaction announcement and transaction completion fees are variable and subject to constraints, and they are typically not recognized until there is an announcement date or a completion date, respectively, due to the uncertainty associated with those events. The advisory fees that may be unrecognized as of the end of a reporting period, primarily comprised of fees associated with transaction announcements and transaction completions, generally remain unrecognized due to the uncertainty associated with those events.

(b) Management fees and other is primarily comprised of management services. The benefits of these management services are transferred to the Company's clients over time. Consideration for these management services generally includes management fees, which are based on assets under management and recognized over the period in which the management services are performed. The selling or distribution of fund interests is a separate performance obligation within management fees and other, and the benefits of such services are transferred to the Company's clients at the point in time that such fund interests are sold or distributed.

(c) Incentive fees is primarily comprised of management services. The benefits of these management services are transferred to the Company's clients over time. Consideration for these management services is generally variable and includes performance or incentive fees. The fees allocated to these management services that are unrecognized as of the end of the reporting period are generally amounts that are subject to constraints due to the uncertainty associated with performance targets and clawbacks.

(d) In addition to the above, contracts with clients include trade-based commission income, which is recognized at the point in time of execution and presented within other revenue. Such income may be earned by providing trade facilitation, execution, clearance and settlement, custody, and trade administration services to clients.

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With regard to the disclosure requirement for remaining performance obligations, the Company elected the practical expedients permitted in the guidance to (i) exclude contracts with a duration of one year or less; and (ii) exclude variable consideration, such as transaction completion and transaction announcement fees, that is allocated entirely to unsatisfied performance obligations. Excluded variable consideration typically relates to contracts with a duration of one year or less, and is generally constrained due to uncertainties. Therefore, when applying the practical expedients, amounts related to remaining performance obligations are not material to the Company's financial statements.

4. 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 six month periods ended June 30, 2018 and 2017 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Beginning Balance	$38,557	$29,662	$23,746	$16,386
Bad debt expense, net of recoveries	666	180	16,618	13,831
Charge-offs, foreign currency translation and other adjustments	(4,267)	(4,748)	(5,408)	(5,123)
Ending Balance	$34,956	$25,094	$34,956	$25,094

Bad debt expense, net of recoveries is included in "operating expenses—other" on the condensed consolidated statements of operations.

At June 30, 2018 and December 31, 2017, the Company had receivables past due or deemed uncollectible of $42,434 and $34,865, respectively.

Of the Company’s fee receivables at June 30, 2018 and December 31, 2017, $74,668 and $80,536, 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 $639,729 and $491,080 at June 30, 2018 and December 31, 2017, respectively, approximates fair value.

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5. INVESTMENTS

The Company's investments and securities sold, not yet purchased, consist of the following at June 30, 2018 and December 31, 2017:

	June 30, 2018	December 31, 2017
Interest-bearing deposits	$530	$ 556
Debt	74,583	6
Equities	39,818	45,257
Funds:		
Alternative investments (a)	26,097	20,993
Debt (a)	87,529	84,077
Equity (a)	209,379	199,618
Private equity	67,258	76,679
	390,263	381,367
Total investments	505,194	427,186
Less:		
Interest-bearing deposits	530	556
Investments, at fair value	$504,664	$ 426,630
Securities sold, not yet purchased, at fair value (included in "other liabilities")	$4,419	$ 7,338

(a) Interests in alternative investment funds, debt funds and equity funds include investments with fair values of $11,898, $57,444 and $147,862, respectively, at June 30, 2018 and $11,213, $48,391 and $131,893, respectively, at December 31, 2017, 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 7 and 13).

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.

Debt primarily consists of U.S. Treasury securities with original maturities of greater than three months and less than one year.

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. Such amounts primarily consist of seed investments in funds related to our Asset Management business and amounts related to LFI discussed above.

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.

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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 six month periods ended June 30, 2018 and 2017, 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net unrealized investment gains (losses)	$(5,864)	$7,803	$(15,155)	$20,983

6. 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 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 (benefits) 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 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 11.

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 7.

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

The following tables present, as of June 30, 2018 and December 31, 2017, 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:

	June 30, 2018				
	Level 1	Level 2	Level 3	NAV	Total
Assets:					
Investments:					
Debt	$74,583	$-	$-	$-	$74,583
Equities	38,189	-	1,629	-	39,818
Funds:					
Alternative investments	25,168	-	-	929	26,097
Debt	87,522	-	-	7	87,529
Equity	209,326	-	-	53	209,379
Private equity	-	-	-	67,258	67,258
Derivatives	-	6,399	-	-	6,399
Total	$434,788	$6,399	$1,629	$68,247	$511,063
Liabilities:					
Securities sold, not yet purchased	$4,419	$-	$-	$-	$4,419
Contingent consideration liability	-	-	19,628	-	19,628
Derivatives	-	202,975	-	-	202,975
Total	$4,419	$202,975	$19,628	$-	$227,022

	December 31, 2017				
	Level 1	Level 2	Level 3	NAV	Total
Assets:					
Investments:					
Debt	$6	$ -	$-	$-	$6
Equities	43,665	-	1,592	-	45,257
Funds:					
Alternative investments	17,353	-	-	3,640	20,993

Debt	84,071	-	-	6	84,077
Equity	199,565	-	-	53	199,618
Private equity	-				