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Lazard Ltd
Form 10-Q
April 30, 2019

false 2019 Q1 LAZ 0001311370 --12-31 Large Accelerated Filer false false P10M24D
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us-gaap:SubsequentEventMember 2019-04-10 2019-04-10 0001311370
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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 March 31, 2019

OR

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

For the transition period from _____ to _____

001-32492

(Commission File Number)

LAZARD LTD

(Exact name of registrant as specified in its charter)

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

2 Church Street

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 every Interactive Data File required to be submitted 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 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.

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 April 19, 2019, there were 129,766,091 shares of the Registrant's Class A common stock outstanding (including 19,363,492 shares held by subsidiaries).

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When we use the terms “Lazard”, “we”, “us”, “our” and “the Company”, we mean Lazard Ltd, a company incorporated under the laws of Bermuda, and its subsidiaries, including Lazard Group LLC, a Delaware limited liability company (“Lazard Group”), that is the current holding company for our businesses. Lazard Ltd’s primary operating asset is its indirect ownership as of March 31, 2019 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

MARCH 31, 2019 AND DECEMBER 31, 2018

(UNAUDITED)

(dollars in thousands, except for per share data)

	March 31, 2019	December 31, 2018
ASSETS		
Cash and cash equivalents	\$1,011,353	\$ 1,246,537
Deposits with banks and short-term investments	1,138,010	1,006,969
Cash deposited with clearing organizations and other segregated cash	39,302	38,379
Receivables (net of allowance for doubtful accounts of \$43,258 and \$40,164 at March 31, 2019 and December 31, 2018, respectively):		
Fees	503,234	501,397
Customers and other	192,178	184,137
Investments	695,412	685,534
Property (net of accumulated amortization and depreciation of \$342,868 and \$339,770 at March 31, 2019 and December 31, 2018, respectively)	615,781	575,148
Operating lease right-of-use assets	209,616	212,946
Goodwill and other intangible assets (net of accumulated amortization of \$66,428 and \$65,949 at March 31, 2019 and December 31, 2018, respectively)	489,099	-
Deferred tax assets	375,682	375,318
Other assets	591,704	597,776
Total Assets	333,518	258,634
	\$5,499,477	\$ 4,997,241

See notes to condensed consolidated financial statements.

LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

MARCH 31, 2019 AND DECEMBER 31, 2018

(UNAUDITED)

(dollars in thousands, except for per share data)

	March 31, 2019	December 31, 2018
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits and other customer payables	\$ 1,315,867	\$ 1,154,207
Accrued compensation and benefits	309,794	585,484
Operating lease liabilities	568,108	-
Senior debt	1,759,297	1,434,260
Tax receivable agreement obligation	246,966	270,640
Deferred tax liabilities	952	5,571
Other liabilities	527,121	576,986
Total Liabilities	4,728,105	4,027,148
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 March 31, 2019 and December 31, 2018,		
including shares held by subsidiaries as indicated below)	1,298	1,298
Additional paid-in-capital	535,926	750,692
Retained earnings	1,171,754	1,195,563
Accumulated other comprehensive loss, net of tax	(268,858)	(273,818)
	1,440,120	1,673,735
Class A common stock held by subsidiaries, at cost (17,846,122 and 17,574,805		
shares at March 31, 2019 and December 31, 2018, respectively)	(738,899)	(756,884)
Total Lazard Ltd Stockholders' Equity	701,221	916,851
Noncontrolling interests	70,151	53,242
Total Stockholders' Equity	771,372	970,093
Total Liabilities and Stockholders' Equity	\$ 5,499,477	\$ 4,997,241

See notes to condensed consolidated financial statements.

LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2019 AND 2018

(UNAUDITED)

(dollars in thousands, except for per share data)

	Three Months Ended	
	March 31,	
	2019	2018
REVENUE		
Investment banking and other advisory fees	\$335,804	\$408,726
Asset management fees	292,438	338,096
Interest income	3,800	2,710
Other	29,636	18,673
Total revenue	661,678	768,205
Interest expense	18,004	13,507
Net revenue	643,674	754,698
OPERATING EXPENSES		
Compensation and benefits	372,254	405,047
Occupancy and equipment	28,295	30,238
Marketing and business development	27,984	25,659
Technology and information services	32,055	33,252
Professional services	14,217	12,431
Fund administration and outsourced services	28,930	35,184
Amortization and other acquisition-related costs	3,470	866
Other	16,806	26,193
Total operating expenses	524,011	568,870
OPERATING INCOME	119,663	185,828
Provision for income taxes	23,187	24,167
NET INCOME	96,476	161,661
LESS - NET INCOME (LOSS) ATTRIBUTABLE TO		
NONCONTROLLING INTERESTS	(566) 1,969
NET INCOME ATTRIBUTABLE TO LAZARD LTD	\$97,042	\$159,692
ATTRIBUTABLE TO LAZARD LTD CLASS A		
COMMON STOCKHOLDERS:		
WEIGHTED AVERAGE SHARES OF COMMON STOCK		
OUTSTANDING:		
Basic	111,944,255	119,930,106
Diluted	120,820,084	132,142,394
NET INCOME PER SHARE OF COMMON STOCK:		

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Basic	\$0.87	\$1.33
Diluted	\$0.80	\$1.21

See notes to condensed consolidated financial statements.

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LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2019 AND 2018

(UNAUDITED)

(dollars in thousands)

	Three Months Ended March 31,	
	2019	2018
NET INCOME	\$96,476	\$161,661
OTHER COMPREHENSIVE INCOME (LOSS), NET OF		
TAX:		
Currency translation adjustments	3,780	17,346
Employee benefit plans:		
Actuarial gain (loss) (net of tax expense (benefit)		
of \$300 and \$(1,342) for the three months ended		
March 31, 2019 and 2018, respectively)	49	(5,014)
Adjustment for items reclassified to earnings (net of		
tax expense of \$178 and \$216 for the three months		
ended March 31, 2019 and 2018, respectively)	1,132	1,062
OTHER COMPREHENSIVE INCOME, NET OF TAX	4,961	13,394
COMPREHENSIVE INCOME	101,437	175,055
LESS - COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO		
NONCONTROLLING INTERESTS	(565)	1,969
COMPREHENSIVE INCOME ATTRIBUTABLE TO		
LAZARD LTD	\$102,002	\$173,086

See notes to condensed consolidated financial statements.

LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2019 AND 2018

(UNAUDITED)

(dollars in thousands)

	Three Months Ended March 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$96,476	\$ 161,661
Adjustments to reconcile net income to net cash provided by (used in)		
operating activities:		
Depreciation and amortization of property	8,186	8,234
Noncash lease expense	11,381	-
Amortization of deferred expenses and share-based incentive compensation	104,953	100,892
Amortization and other acquisition-related costs	3,470	866
Deferred tax provision	4,462	6,398
Loss on extinguishment of debt	4,243	-
(Increase) decrease in operating assets and increase (decrease) in		
operating liabilities:		
Receivables-net	(13,989)	(95,308)
Investments	(40,160)	74,124
Other assets	(84,225)	(137,635)
Accrued compensation and benefits and other liabilities	(256,048)	(157,941)
Net cash used in operating activities	(161,251)	(38,709)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property	(5,871)	(16,158)
Disposals of property	70	1,231
Net cash used in investing activities	(5,801)	(14,927)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from:		
Issuance of senior debt, net of expenses	491,875	
Customer deposits	185,871	-
Contributions from noncontrolling interests	996	
Payments for:		
Senior debt	(171,668)	-
Customer deposits	-	(100,341)
Distributions to noncontrolling interests	(615)	(1,451)
Payments under tax receivable agreement	(23,674)	(31,845)
Purchase of Class A common stock	(192,097)	(145,949)

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Class A common stock dividends	(103,402)	(202,384)
Settlement of share-based incentive compensation	(90,657)	(101,043)
Other financing activities	(3,057)	(3,775)
Net cash provided by (used in) financing activities	93,572	(586,788)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS AND		

RESTRICTED CASH	(29,740)	49,406
NET DECREASE IN CASH AND CASH EQUIVALENTS AND		

RESTRICTED CASH	(103,220)	(591,018)
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH—January 1	2,291,885	2,454,806
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH—March 31	\$2,188,665	\$ 1,863,788

RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

WITHIN THE CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL

CONDITION:

	March 31, 2019	December 31, 2018
Cash and cash equivalents	\$1,011,353	\$ 1,246,537
Deposits with banks and short-term investments	1,138,010	1,006,969
Cash deposited with clearing organizations and other segregated cash	39,302	38,379
TOTAL CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	\$2,188,665	\$ 2,291,885

See notes to condensed consolidated financial statements.

LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2018

(UNAUDITED)

(dollars in thousands)

	Common Stock Shares	Common Stock \$	Additional Paid-In- Capital	Retained Earnings	Accumulated		Total Lazard Ltd Stockholders' Equity	
					Other Comprehensive Income (Loss), Net of Tax	Class A Common Stock Held By Subsidiaries \$		
Balance - January 1, 2018	129,766,091	\$ 1,298	\$ 788,140	\$ 1,080,413	\$(232,518)	10,747,142	\$(437,530)	\$ 1,199,803
Comprehensive income:								
Net income				159,692				159,692
Other comprehensive income - net of tax					13,394			13,394
Amortization of share-based incentive compensation			82,820					82,820
Dividend-equivalents Class A common stock dividends (\$1.71 per share)			28,406	(32,173)				(3,767)
Purchase of Class A common stock				(202,384)				(202,384)
Delivery of Class A common stock in connection with share-based incentive compensation and related tax expense of \$6,150						2,662,286	(145,949)	(145,949)
			(280,020)			(4,048,104)	172,827	(107,193)

Business acquisitions
and related equity

transactions:

Delivery of Class A common stock	(61)	(1,858)	61	-				
Class A common stock issuable								
(including related amortization)	145			145				
Distributions to noncontrolling interests, net				-				
Balance - March 31, 2018	129,766,091	\$1,298	\$619,430	\$1,005,548	\$(219,124)	9,359,466	\$(410,591)	\$996,561

See notes to condensed consolidated financial statements.

LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2019

(UNAUDITED)

(dollars in thousands)

	Common Stock Shares	Common Stock \$	Additional Paid-In- Capital	Retained Earnings	Accumulated		Total Lazard Ltd Stockholders' Equity	Total Lazard Ltd Stockholders' Equity
					Other Comprehensive Income (Loss), Net of Tax	Class A Common Stock Held By Subsidiaries \$		
Balance - January 1, 2019	129,766,091	\$ 1,298	\$ 750,692	\$ 1,195,563	\$(273,818)	17,574,805	\$(756,884)	\$ 916,851
Comprehensive income (loss):								
Net income (loss)				97,042				97,042
Other comprehensive income - net of tax					4,960			4,960
Amortization of share-based incentive compensation			66,213					66,213
Dividend-equivalents Class A common stock dividends			15,512	(17,187)				(1,675)
(\$0.94 per share) Purchase of Class A common stock				(103,402)				(103,402)
Delivery of Class A common stock in connection with share-based incentive compensation and related tax benefit						5,177,948	(192,097)	(192,097)
of \$3,881			(296,858)			(4,906,631)	210,082	(86,776)

Business acquisitions
and related equity

transactions:
Class A common
stock issuable

(including related amortization)			105					105	
Dividend equivalents			262	(262)			-	
Contributions from noncontrolling interests,									
net								-	
Balance - March 31, 2019	129,766,091	\$1,298	\$535,926	\$1,171,754	\$(268,858)	17,846,122	\$(738,899)	\$701,221	\$

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)

I. 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 March 31, 2019 and December 31, 2018. Lazard Ltd, through its control of the managing members of Lazard Group, controls Lazard Group, which as of December 31, 2018, was governed by an Amended and Restated Operating Agreement dated as of October 26, 2015, as amended (the “Operating Agreement”). The Operating Agreement was subsequently amended and restated on February 4, 2019.

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, restructurings, shareholder advisory, sovereign advisory, capital raising 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, 2018. The accompanying December 31, 2018 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 period ended March 31, 2019 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 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.

2. RECENT ACCOUNTING DEVELOPMENTS

Leases—In February 2016, the Financial Accounting Standards Board (the "FASB") issued updated guidance for leases. The guidance requires a lessee to (i) recognize a right-of-use asset and a lease liability that is initially measured at the present value of the lease payments, in the condensed consolidated 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 straight-line basis and (iii) classify operating lease related cash payments within operating activities and finance lease related principal cash payments within financing activities (with interest included in interest paid) in the condensed consolidated statement of cash flows.

The Company adopted the new guidance on January 1, 2019 using the optional transition method, which allows such guidance to be applied initially at the adoption date with a cumulative-effect adjustment and without restating comparative periods. Lazard elected the package of practical expedients, which allows the carry-forward of the prior conclusions on lease definition, classification and initial direct costs related to the existing leases as of the adoption

date.

Substantially all of the Company's existing lease arrangements are operating leases. The adoption of the new guidance on January 1, 2019 resulted in a recognition of approximately \$500,000 of operating lease right-of-use assets ("ROU assets") and approximately \$580,000 of operating lease liabilities in the Company's condensed consolidated statements of financial condition. The operating lease liabilities at January 1, 2019 reflect any remaining lease payments discounted using an incremental borrowing rate (on a collateralized basis) based on the remaining lease term (the "Discount"), as an implicit rate was not readily determinable for any of the Company's existing operating leases. The operating lease ROU assets are lower than the operating lease liabilities primarily because lease incentives reduce the ROU assets (see Note 9).

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 Company adopted the new guidance on January 1, 2019 and its application did not have a material impact on 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. 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 Company adopted the new guidance on January 1, 2019 without reclassifying any amounts from AOCI to retained earnings. The application of the guidance did not have a material impact on the Company's financial statements.

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(UNAUDITED)

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

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 new guidance is required to be applied using a modified retrospective approach. 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.

Intangibles—Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract—In August 2018, the FASB issued updated guidance on the accounting for implementation costs incurred in a cloud computing arrangement. The new guidance requires the capitalization of the implementation costs incurred in a cloud computing arrangement to be aligned with the requirements for capitalizing costs incurred to develop or obtain internal-use software. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2019, with early adoption permitted. Upon adoption, the Company may elect to apply the new guidance on either a prospective or retrospective basis. The Company is currently evaluating the new guidance.

Related Party Guidance for Variable Interest Entities—In October 2018, the FASB issued updated guidance that requires consideration of indirect interest held through related parties under common control for determining whether fees paid to decision makers and service providers are variable interests. The new guidance is effective for fiscal years and interim periods beginning after December 15, 2019, with early adoption permitted. The amendments are required to be applied retrospectively with a cumulative-effect adjustment. The Company is currently evaluating the new guidance.

Fair Value Measurement: Changes to the Disclosure Requirements for Fair Value Measurement—In August 2018, the FASB issued updated guidance which modifies the disclosure requirements on fair value measurement. The updated guidance eliminates or modifies various required disclosures under the current guidance and includes additional requirements. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2019, with early adoption permitted. With certain exceptions, the guidance is required to be applied retrospectively. The Company is currently evaluating the new guidance.

Compensation—Retirement Benefits: Changes to the Disclosure Requirements for Defined Benefit Plans—In August 2018, the FASB issued updated guidance which modifies the disclosure requirements regarding defined benefit plans and other postretirement plans. The updated guidance eliminates or clarifies certain currently required disclosures and includes additional requirements. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2020, with early adoption permitted. A retrospective application is required. 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

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

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.

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
March 31,
2019 (d) 2018 (d)

Net Revenue:

Financial Advisory (a)	\$338,370	\$409,121
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Asset Management:

Management Fees and Other (b)	\$301,253	\$348,684
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Incentive Fees (c)	580	5,599
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Total Asset Management	\$301,833	\$354,283
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(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. Therefore, in any given period, advisory fees recognized for certain transactions will relate to services performed in prior periods. 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

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

(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.

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 periods ended March 31, 2019 and 2018 was as follows:

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	Three Months Ended March 31,	
	2019	2018
Beginning Balance	\$40,164	\$23,746
Bad debt expense, net of recoveries	3,829	15,952
Charge-offs, foreign currency translation and other adjustments	(735)	(1,141)
Ending Balance	\$43,258	\$38,557

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

At March 31, 2019 and December 31, 2018, the Company had receivables past due or deemed uncollectible of \$51,786 and \$42,309, respectively.

Of the Company’s fee receivables at March 31, 2019 and December 31, 2018, \$83,298 and \$90,966, 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 \$612,114 and \$594,568 at March 31, 2019 and December 31, 2018, respectively, approximates fair value.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

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5. INVESTMENTS

The Company's investments and securities sold, not yet purchased, consist of the following at March 31, 2019 and December 31, 2018:

	March 31, 2019	December 31, 2018
Interest-bearing deposits	\$ 516	\$ 510
Debt	248,632	202,874
Equities	36,670	32,261
Funds:		
Alternative investments (a)	38,944	17,752
Debt (a)	74,206	90,320
Equity (a)	161,262	175,088
Private equity	55,551	56,343
	329,963	339,503
Total investments	615,781	575,148
Less:		
Interest-bearing deposits	516	510
Investments, at fair value	\$ 615,265	\$ 574,638
Securities sold, not yet purchased, at fair value		
(included in "other liabilities")	\$ 1,844	\$ 3,929

(a) Interests in alternative investment funds, debt funds and equity funds include investments with fair values of \$6,592, \$43,264 and \$112,030, respectively, at March 31, 2019 and \$9,741, \$60,081 and \$132,038, respectively, at December 31, 2018, 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 14).

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 and (ii) a fund targeting significant noncontrolling-stake investments in established private companies.

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

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

During the three month periods ended March 31, 2019 and 2018, the Company reported in “revenue-other” on its condensed consolidated statements of operations net unrealized investment gains and losses pertaining to “equity securities and trading debt securities” still held as of the reporting date as follows:

	Three Months Ended March 31,	
	2019	2018
Net unrealized investment gains (losses)	\$ 19,923	\$(9,291)

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 debt is classified as Level 1 when the 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 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 12.

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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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

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

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

The following tables present, as of March 31, 2019 and December 31, 2018, 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:

	March 31, 2019				
	Level 1	Level 2	Level 3	NAV	Total
Assets:					
Investments:					
Debt	\$248,632	\$-	\$-	\$-	\$248,632
Equities	35,052	-	1,618	-	36,670
Funds:					
Alternative investments	13,967	-	-	24,977	38,944
Debt	74,199	-	-	7	74,206
Equity	161,224	-	-	38	161,262
Private equity	-	-	-	55,551	55,551
Derivatives	-	2,504	-	-	2,504
Total	\$533,074	\$2,504	\$1,618	\$80,573	\$617,769
Liabilities:					
Securities sold, not yet purchased	\$1,844	\$-	\$-	\$-	\$1,844
Contingent consideration liability	-	-	13,048	-	13,048
Derivatives	-	245,561	-	-	245,561
Total	\$1,844	\$245,561	\$13,048	\$-	\$260,453

	December 31, 2018				
	Level 1	Level 2	Level 3	NAV	Total
Assets:					
Investments:					
Debt	\$202,874	\$-	\$-	\$-	\$202,874
Equities	30,639	-	1,622	-	32,261
Funds:					
Alternative investments	16,863	-	-	889	17,752
Debt	90,313	-	-	7	90,320

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Equity	175,054	-	-	34	175,088
Private equity	-	-	-	56,343	56,343
Derivatives	-	11,967	-	-	11,967
Total	\$515,743	\$11,967	\$1,622	\$57,273	\$586,605
Liabilities:					
Securities sold, not yet purchased	\$3,929	\$-	\$-	\$-	\$3,929
Contingent consideration liability	-	-	10,009	-	10,009
Derivatives	-	188,962	-	-	188,962
Total	\$3,929	\$188,962	\$10,009	\$-	\$202,900

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

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

The following tables provide a summary of changes in fair value of the Company's Level 3 assets and liabilities for the three month periods ended March 31, 2019 and 2018:

	Three Months Ended March 31, 2019					
	Net Unrealized/					
	Realized		Foreign			
	Gains/Losses		Sales/		Currency	
	Beginning	Included	Purchases/	Dispositions/	Translation	Ending
	Balance	Earnings (a)	Acquisitions	Settlements	Adjustments	Balance
Assets:						
Investments:						
Equities	\$1,622	\$ (2)	\$ -	\$ -	\$ (2)	\$1,618
Total Level 3 Assets	\$1,622	\$ (2)	\$ -	\$ -	\$ (2)	\$1,618
Liabilities:						
Contingent consideration liability	\$10,009	\$ 3,039	\$ -	\$ -	\$ -	\$13,048
Total Level 3 Liabilities	\$10,009	\$ 3,039	\$ -	\$ -	\$ -	\$13,048

	Three Months Ended March 31, 2018					
	Net Unrealized/					
	Realized		Foreign			
	Gains/Losses		Sales/		Currency	
	Beginning	Included	Purchases/	Dispositions/	Translation	Ending
	Balance	Earnings (a)	Acquisitions	Settlements	Adjustments	Balance
Assets:						
Investments:						
Equities	\$1,592	\$ (1)	\$ 1	\$ -	\$ 7	\$1,599
Total Level 3 Assets	\$1,592	\$ (1)	\$ 1	\$ -	\$ 7	\$1,599
Liabilities:						

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Contingent consideration liability	\$28,941	\$	33	\$	-	\$	-	\$	-	\$28,974
Total Level 3 Liabilities	\$28,941	\$	33	\$	-	\$	-	\$	-	\$28,974

(a) Earnings recorded in “other revenue” for investments in equities for the three month periods ended March 31, 2019 and 2018 include net unrealized losses of \$2 and \$1, respectively. Earnings recorded in “amortization and other acquisition-related costs” for the contingent consideration liability for the three month periods ended March 31, 2019 and 2018 include unrealized losses of \$3,039 and \$33, respectively.

There were no transfers between any of the Level 1, 2 and 3 categories in the fair value measurement hierarchy during the three month periods ended March 31, 2019 and 2018.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

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

The following tables present, at March 31, 2019 and December 31, 2018, certain investments that are valued using NAV or its equivalent as a practical expedient in determining fair value:

	March 31, 2019			Estimated Liquidation Period of			Investments Not Redeemable		Investments Redeemable	
	Fair Value	Unfunded Commitments	% of Fair Value	%			Redemption Frequency	Redemption Notice Period		
				Not Redeemable	Next					
					5 Years	5-10 Years			Thereafter	
Alternative investment funds:										
Hedge funds	\$24,372	\$ -	NA	NA	NA	NA	(a)	30-60 days		
Funds of funds	24	-	NA	NA	NA	NA	(b)	>90 days		
Other	581	-	NA	NA	NA	NA	(c)	<30-30 days		
Debt funds	7	-	NA	NA	NA	NA	(d)	<30 days		
Equity funds	38	-	NA	NA	NA	NA	(e)	<30-90 days		
Private equity funds:										
Equity growth	55,551	8,338	(f) 100	% 14%	34 %	52 %	NA	NA		
Total	\$80,573	\$ 8,338								

(a) monthly (100%)

(b) quarterly (100%)

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

(d) daily (100%)

(e) daily (24%), monthly (72%) and annually (4%)

(f) Unfunded commitments to private equity investments consolidated but not owned by Lazard of \$14,437 are excluded. Such commitments are required to be funded by capital contributions from noncontrolling interest holders.

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December 31, 2018

	Fair Value	Unfunded Commitments	% of Fair Value	Estimated Liquidation Period of			Investments Redeemable	Investments Not Redeemable	Redemption Frequency	Redemption Notice Period
				Not Redeemable	5 Years	5-10 Years				
Alternative investment funds:										
Hedge funds	\$299	\$ -	NA	NA	NA	NA	NA	(a)	30-60 days	
Funds of funds	23	-	NA	NA	NA	NA	NA	(b)	>90 days	
Other	567	-	NA	NA	NA	NA	NA	(c)	<30-30 days	
Debt funds	7	-	NA	NA	NA	NA	NA	(d)	<30 days	
Equity funds	34	-	NA	NA	NA	NA	NA	(e)	<30-90 days	
Private equity funds:										