

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from _____ to _____

333-126751

(Commission File Number)

LAZARD GROUP LLC

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation
or Organization)

51-0278097

(I.R.S. Employer Identification No.)

30 Rockefeller Plaza

New York, NY 10112

(Address of principal executive offices)

Registrant's telephone number: (212) 632-6000

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

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of October 20, 2017, in addition to profit participation interests, there were two managing member interests outstanding.

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When we use the terms “Lazard Group”, “Lazard”, “we”, “us”, “our” and “the Company”, we mean Lazard Group LLC, a Delaware limited liability company that is the current holding company for the subsidiaries that conduct our businesses. Lazard Ltd is a Bermuda exempt company whose shares of Class A common stock (the “Class A common stock”) are publicly traded on the New York Stock Exchange under the symbol “LAZ”. Lazard Ltd’s subsidiaries include Lazard Group and their respective subsidiaries. Lazard Ltd’s primary operating asset is its indirect ownership as of September 30, 2017 of all of the common membership interests in Lazard Group and its controlling interest in Lazard Group. Lazard Ltd controls Lazard Group through two of its indirect wholly-owned subsidiaries that are co-managing members of Lazard Group.

Lazard Group has granted profit participation interests in Lazard Group to certain of its managing directors. The profit participation interests are discretionary profits interests that are intended to enable Lazard Group to compensate its managing directors in a manner consistent with historical practices.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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LAZARD GROUP LLC
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
SEPTEMBER 30, 2017 AND DECEMBER 31, 2016
(UNAUDITED)
(dollars in thousands)

| | September 30, 2017 | December 31, 2016 |
|---|----------------------------|----------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 1,241,702 | \$ 1,131,440 |
| Deposits with banks and short-term investments | 652,484 | 419,668 |
| Cash deposited with clearing organizations and other segregated cash | 35,369 | 29,030 |
| Receivables (net of allowance for doubtful accounts of \$27,464 and \$16,386 at September 30, 2017 and December 31, 2016, respectively): | | |
| Fees | 450,968 | 564,291 |
| Customers and other | 100,617 | 73,991 |
| Lazard Ltd subsidiaries | 19,434 | 28,702 |
| | <u>571,019</u> | <u>666,984</u> |
| Investments | 426,948 | 459,422 |
| Property (net of accumulated amortization and depreciation of \$314,708 and \$285,997 at September 30, 2017 and December 31, 2016, respectively) | 200,702 | 208,997 |
| Goodwill and other intangible assets (net of accumulated amortization of \$60,918 and \$59,618 at September 30, 2017 and December 31, 2016, respectively) | 368,331 | 358,982 |
| Deferred tax assets | 59,814 | 59,767 |
| Other assets | 219,731 | 181,694 |
| Total Assets | <u>\$ 3,776,100</u> | <u>\$ 3,515,984</u> |

See notes to condensed consolidated financial statements.

LAZARD GROUP LLC
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
SEPTEMBER 30, 2017 AND DECEMBER 31, 2016
(UNAUDITED)
(dollars in thousands)

| | September 30, 2017 | December 31, 2016 |
|--|-----------------------|----------------------|
| LIABILITIES AND MEMBERS' EQUITY | | |
| Liabilities: | | |
| Deposits and other customer payables | \$ 702,014 | \$ 472,283 |
| Accrued compensation and benefits | 488,858 | 539,944 |
| Senior debt | 1,189,936 | 1,188,600 |
| Payable to Lazard Ltd subsidiaries | 64,166 | 60,898 |
| Deferred tax liabilities | 4,009 | 8,625 |
| Other liabilities | 549,233 | 509,494 |
| Total Liabilities | 2,998,216 | 2,779,844 |
| Commitments and contingencies | | |
| MEMBERS' EQUITY | | |
| Members' equity (net of 8,716,667 and 6,697,790 shares of Lazard Ltd Class A common stock, at a cost of \$353,972 and \$244,518 at September 30, 2017 and December 31, 2016, respectively) | 942,454 | 949,669 |
| Accumulated other comprehensive loss, net of tax | (224,632) | (270,775) |
| Total Lazard Group LLC Members' Equity | 717,822 | 678,894 |
| Noncontrolling interests | 60,062 | 57,246 |
| Total Members' Equity | 777,884 | 736,140 |
| Total Liabilities and Members' Equity | \$ 3,776,100 | \$ 3,515,984 |

See notes to condensed consolidated financial statements.

LAZARD GROUP LLC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016
(UNAUDITED)
(dollars in thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-------------------|------------------------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| REVENUE | | | | |
| Investment banking and other advisory fees | \$ 305,530 | \$ 343,154 | \$ 1,050,471 | \$ 894,906 |
| Asset management fees | 301,719 | 254,551 | 868,522 | 729,679 |
| Interest income | 1,615 | 1,146 | 4,959 | 3,881 |
| Other | 29,155 | 22,094 | 81,092 | 49,318 |
| Total revenue | 638,019 | 620,945 | 2,005,044 | 1,677,784 |
| Interest expense | 14,248 | 13,068 | 42,770 | 38,592 |
| Net revenue | 623,771 | 607,877 | 1,962,274 | 1,639,192 |
| OPERATING EXPENSES | | | | |
| Compensation and benefits | 359,294 | 353,468 | 1,134,142 | 958,962 |
| Occupancy and equipment | 29,082 | 26,962 | 87,334 | 81,114 |
| Marketing and business development | 20,045 | 16,891 | 63,463 | 60,456 |
| Technology and information services | 31,371 | 24,175 | 87,329 | 71,402 |
| Professional services | 11,005 | 9,672 | 31,559 | 29,488 |
| Fund administration and outsourced services | 18,292 | 17,097 | 52,539 | 46,427 |
| Amortization and other acquisition-related costs | 335 | 746 | 1,946 | 1,720 |
| Other | 9,153 | 9,233 | 30,510 | 28,609 |
| Total operating expenses | 478,577 | 458,244 | 1,488,822 | 1,278,178 |
| OPERATING INCOME | 145,194 | 149,633 | 473,452 | 361,014 |
| Provision for income taxes | 27,367 | 21,653 | 81,802 | 49,110 |
| NET INCOME | 117,827 | 127,980 | 391,650 | 311,904 |
| LESS - NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS | 2,261 | 83 | 5,660 | 4,989 |
| NET INCOME ATTRIBUTABLE TO LAZARD GROUP LLC | <u>\$ 115,566</u> | <u>\$ 127,897</u> | <u>\$ 385,990</u> | <u>\$ 306,915</u> |

See notes to condensed consolidated financial statements.

LAZARD GROUP LLC

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016
(UNAUDITED)
(dollars in thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-------------------|------------------------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| NET INCOME | \$ 117,827 | \$ 127,980 | \$ 391,650 | \$ 311,904 |
| OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX: | | | | |
| Currency translation adjustments (including a tax expense of \$3 for the three months ended September 30, 2016 and \$9 for the nine months ended September 30, 2016) | 17,818 | (1,828) | 56,440 | (10,106) |
| Employee benefit plans: | | | | |
| Actuarial loss (net of tax benefit of \$1,197 and \$17 for the three months ended September 30, 2017 and 2016, respectively, and \$3,673 and \$315 for the nine months ended September 30, 2017 and 2016, respectively) | (4,715) | (33) | (13,819) | (649) |
| Adjustment for items reclassified to earnings (net of tax expense of \$204 and \$375 for the three months ended September 30, 2017 and 2016, respectively, and \$676 and \$1,171 for the nine months ended September 30, 2017 and 2016, respectively) | 1,081 | 1,134 | 3,523 | 3,441 |
| OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX | <u>14,184</u> | <u>(727)</u> | <u>46,144</u> | <u>(7,314)</u> |
| COMPREHENSIVE INCOME | 132,011 | 127,253 | 437,794 | 304,590 |
| LESS - COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS | <u>2,261</u> | <u>82</u> | <u>5,661</u> | <u>4,989</u> |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO LAZARD GROUP LLC | <u>\$ 129,750</u> | <u>\$ 127,171</u> | <u>\$ 432,133</u> | <u>\$ 299,601</u> |

See notes to condensed consolidated financial statements.

LAZARD GROUP LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016
(UNAUDITED)
(dollars in thousands)

| | Nine Months Ended September 30, | |
|---|------------------------------------|-------------------|
| | 2017 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 391,650 | \$ 311,904 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization of property | 23,203 | 24,586 |
| Amortization of deferred expenses and share-based incentive compensation | 283,995 | 275,894 |
| Amortization and other acquisition-related costs | 1,946 | 1,720 |
| Deferred tax provision (benefit) | 2,413 | (4,537) |
| (Increase) decrease in operating assets: | | |
| Deposits with banks and short-term investments | (171,734) | (135,152) |
| Cash deposited with clearing organizations and other segregated cash | (5,138) | 115 |
| Receivables-net | 122,056 | 38,482 |
| Investments | 27,927 | 68,499 |
| Other assets | (70,944) | (54,409) |
| Increase (decrease) in operating liabilities: | | |
| Deposits and other payables | 164,784 | 32,186 |
| Accrued compensation and benefits and other liabilities | (75,202) | (225,337) |
| Net cash provided by operating activities | <u>694,956</u> | <u>333,951</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Additions to property | (15,387) | (22,070) |
| Disposals of property | 285 | 865 |
| Net cash used in investing activities | <u>(15,102)</u> | <u>(21,205)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from: | | |
| Contributions from noncontrolling interests | - | 93 |
| Excess tax benefits from share-based incentive compensation | - | 2,343 |
| Other financing activities | - | 30,518 |
| Payments for: | | |
| Capital lease obligations | (7,329) | (1,234) |
| Distributions to noncontrolling interests | (3,049) | (966) |
| Purchase of Lazard Ltd Class A common stock | (252,538) | (228,865) |
| Distributions to members | (294,966) | (248,742) |
| Settlement of vested share-based incentive compensation | (67,384) | (55,562) |
| Other financing activities | (10,083) | (3,080) |
| Net cash used in financing activities | <u>(635,349)</u> | <u>(505,495)</u> |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | <u>65,757</u> | <u>48</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 110,262 | (192,701) |
| CASH AND CASH EQUIVALENTS—January 1 | 1,131,440 | 1,025,844 |
| CASH AND CASH EQUIVALENTS—September 30 | <u>\$ 1,241,702</u> | <u>\$ 833,143</u> |

See notes to condensed consolidated financial statements.

LAZARD GROUP LLC

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2016(UNAUDITED)
(dollars in thousands)

| | Members' Equity | Accumulated Other Comprehensive Income (Loss), Net of Tax | Total Lazard Group Members' Equity | Noncontrolling Interests | Total Members' Equity |
|--|--------------------|---|---|-----------------------------|-----------------------------|
| Balance - January 1, 2016 (*) | \$ 839,517 | \$ (189,758) | \$ 649,759 | \$ 53,141 | \$ 702,900 |
| Comprehensive income (loss): | | | | | |
| Net income | 306,915 | | 306,915 | 4,989 | 311,904 |
| Other comprehensive loss - net of tax | | (7,314) | (7,314) | - | (7,314) |
| Amortization of share-based incentive compensation | 213,144 | | 213,144 | | 213,144 |
| Distributions to members and noncontrolling interests, net | (248,742) | | (248,742) | (873) | (249,615) |
| Purchase of Lazard Ltd Class A common stock | (228,865) | | (228,865) | | (228,865) |
| Delivery of Lazard Ltd Class A common stock in connection with share-based incentive compensation and related tax benefit of \$140 | (55,422) | | (55,422) | | (55,422) |
| Business acquisitions and related equity transactions: | | | | | |
| Delivery of Lazard Ltd Class A common stock and related tax benefit of \$144 | 2,984 | | 2,984 | | 2,984 |
| Other | 6,479 | | 6,479 | | 6,479 |
| Balance - September 30, 2016 (*) | \$ 836,010 | \$ (197,072) | \$ 638,938 | \$ 57,257 | \$ 696,195 |

(*) At both January 1, 2016 and September 30, 2016, in addition to profit participation interests, there were two managing member interests.

See notes to condensed consolidated financial statements.

LAZARD GROUP LLC

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2017(UNAUDITED)
(dollars in thousands)

| | Members' Equity | Accumulated Other Comprehensive Income (Loss), Net of Tax | Total Lazard Group Members' Equity | Noncontrolling Interests | Total Members' Equity |
|--|--------------------|---|---|-----------------------------|-----------------------------|
| Balance - January 1, 2017 (*) | \$ 949,669 | \$ (270,775) | \$ 678,894 | \$ 57,246 | \$ 736,140 |
| Adjustment for the cumulative effect on prior years from the adoption of new accounting guidance related to share-based incentive compensation | 4,945 | | 4,945 | | 4,945 |
| Balance, as adjusted - January 1, 2017 | 954,614 | (270,775) | 683,839 | 57,246 | 741,085 |
| Comprehensive income: | | | | | |
| Net income | 385,990 | | 385,990 | 5,660 | 391,650 |
| Other comprehensive income - net of tax | | 46,143 | 46,143 | 1 | 46,144 |
| Amortization of share-based incentive compensation | 220,648 | | 220,648 | | 220,648 |
| Distributions to members and noncontrolling interests, net | (294,966) | | (294,966) | (3,049) | (298,015) |
| Purchase of Lazard Ltd Class A common stock | (252,538) | | (252,538) | | (252,538) |
| Delivery of Lazard Ltd Class A common stock in connection with share-based incentive compensation | (67,384) | | (67,384) | | (67,384) |
| Business acquisitions and related equity transactions: | | | | | |
| Lazard Ltd Class A common stock issuable (including related amortization) | 278 | | 278 | | 278 |
| Delivery of Lazard Ltd Class A common stock and related tax benefit of \$10 | 615 | | 615 | | 615 |
| Other | (4,803) | | (4,803) | 204 | (4,599) |
| Balance - September 30, 2017 (*) | \$ 942,454 | \$ (224,632) | \$ 717,822 | \$ 60,062 | \$ 777,884 |

(*) At both January 1, 2017 and September 30, 2017, in addition to profit participation interests, there were two managing member interests.

See notes to condensed consolidated financial statements.

LAZARD GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in thousands, unless otherwise noted)

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

The accompanying condensed consolidated financial statements are those of Lazard Group LLC and its subsidiaries (collectively referred to as “Lazard Group” or the “Company”). Lazard Group is a Delaware limited liability company and is governed by an Amended and Restated Operating Agreement dated as of October 26, 2015, as amended (the “Operating Agreement”).

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

Lazard Ltd indirectly held 100% of all outstanding Lazard Group common membership interests as of September 30, 2017 and December 31, 2016. Lazard Ltd, through its control of the managing members of Lazard Group, controls Lazard Group.

Lazard Group’s principal operating activities are included in two business segments:

- Financial Advisory, which offers corporate, partnership, institutional, government, sovereign and individual clients across the globe a wide array of financial advisory services regarding mergers and acquisitions (“M&A”) and other strategic matters, restructurings, capital structure, capital raising, shareholder advisory, and various other financial matters, and
- Asset Management, which offers a broad range of global investment solutions and investment management services in equity and fixed income strategies, asset allocation strategies, alternative investments and private equity funds to corporations, public funds, sovereign entities, endowments and foundations, labor funds, financial intermediaries and private clients.

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

Basis of Presentation

The accompanying condensed consolidated financial statements of Lazard Group 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 Group’s Annual Report on Form 10-K for the year ended December 31, 2016. The accompanying December 31, 2016 unaudited condensed consolidated statement of financial condition data was derived from audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP for annual financial statement purposes. The accompanying condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented.

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

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

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

(dollars in thousands, unless otherwise noted)

The condensed consolidated financial statements include 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, specifically by including capital lease obligations, previously presented separately, in other liabilities on the condensed consolidated statements of financial condition.

2. RECENT ACCOUNTING DEVELOPMENTS

Compensation—Stock Compensation: Improvements to Employee Share-Based Payment Accounting—In March 2016, the Financial Accounting Standards Board (the "FASB") issued new guidance regarding share-based incentive compensation. The new guidance includes several amendments which affect various aspects of the accounting for share-based incentive compensation transactions, including the income tax consequences, estimation of forfeitures, effect on earnings per share, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new guidance is effective for annual and interim periods beginning after December 15, 2016. The Company adopted this new guidance on January 1, 2017. The new guidance has since January 1, 2017 affected, and the Company expects that in future periods the new guidance will affect, the provision for income taxes for the delivery of stock under share-based incentive compensation arrangements, as well as the effective tax rate in the relevant periods, which could be material to the condensed consolidated statements of operations and the classification of cash flows in the relevant periods. The inclusion of excess tax benefits as an operating activity within the statement of cash flows was adopted on a prospective basis, with prior periods unadjusted. Upon adoption of the new guidance, the Company also recorded deferred tax assets of \$4,945, net of a valuation allowance of \$12,090, for previously unrecognized excess tax benefits (including tax benefits from dividends or dividend equivalents) on share-based incentive compensation arrangements, with an offsetting adjustment to retained earnings. With respect to forfeiture rates, the Company will continue to estimate the number of awards expected to be forfeited, rather than electing the option to account for forfeitures as they occur. See Note 14.

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

The Company continues to evaluate the potential impact of the new guidance including (i) the timing of revenue recognition for Financial Advisory fees and (ii) the presentation of certain contract costs. With respect to revenue recognition, the Company is assessing the potential impact of the new guidance on the Company's recognition of certain M&A Advisory fees (e.g., transaction completion, transaction announcement and retainer fees), including whether the Company's fulfillment of its performance obligations

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

(dollars in thousands, unless otherwise noted)

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

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

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

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

Compensation—Stock Compensation: Scope of Modification Accounting—In May 2017, the FASB issued updated guidance on modifications to share-based payment awards. The updated guidance requires entities to account for the effects of a modification to a share-based payment award unless the following are all the same immediately before and after the modification: (i) the fair value of the award, (ii) the vesting conditions of the award, and (iii) the classification of the award as an equity instrument or a liability instrument. This new guidance is effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted. The new guidance is to be applied on a prospective basis. The Company is currently evaluating the new guidance.

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

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

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

3. RECEIVABLES

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

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

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

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

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

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

Of the Company’s fee receivables at September 30, 2017 and December 31, 2016, \$64,965 and \$76,133, respectively, represented interest-bearing financing receivables. In addition, at September 30, 2017 and December 31, 2016, the Company had interest-bearing receivables from Lazard Ltd subsidiaries of \$3,742 and \$20,365, respectively. 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 \$502,312 and \$570,486 at September 30, 2017 and December 31, 2016, respectively, approximates fair value.

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4. INVESTMENTS

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

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

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

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

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

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

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

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

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---------------------------------|-------------------------------------|----------|------------------------------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Net unrealized investment gains | \$ 6,949 | \$ 9,975 | \$ 27,932 | \$ 15,221 |

5. FAIR VALUE MEASUREMENTS

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

Level 1. Assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that Lazard has the ability to access.

Level 2. Assets and liabilities whose values are based on (i) quoted prices for similar assets or liabilities in an active market, or quoted prices for identical or similar assets or liabilities in non-active markets, or (ii) inputs other than quoted prices that are directly observable or derived principally from, or corroborated by, market data.

Level 3. Assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect our own assumptions about the assumptions a market participant would use in pricing the asset or liability. Items included in Level 3 include securities or other financial assets whose trading volume and level of activity have significantly decreased when compared with normal market activity and there is no longer sufficient frequency or volume to provide pricing information on an ongoing basis.

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

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

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

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

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

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

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

| | September 30, 2017 | | | | |
|------------------------------------|--------------------|-------------------|-----------------|-------------------|-------------------|
| | Level 1 | Level 2 | Level 3 | NAV | Total |
| Assets: | | | | | |
| Investments: | | | | | |
| Debt | \$ 6 | \$ - | \$ - | \$ - | \$ 6 |
| Equities | 44,634 | - | 1,547 | - | 46,181 |
| Funds: | | | | | |
| Alternative investments | 15,798 | - | - | 7,720 | 23,518 |
| Debt | 86,894 | - | - | 6 | 86,900 |
| Equity | 191,144 | - | - | 49 | 191,193 |
| Private equity | - | - | - | 78,376 | 78,376 |
| Derivatives | - | 3,443 | - | - | 3,443 |
| Total | <u>\$ 338,476</u> | <u>\$ 3,443</u> | <u>\$ 1,547</u> | <u>\$ 86,151</u> | <u>\$ 429,617</u> |
| Liabilities: | | | | | |
| Securities sold, not yet purchased | \$ 5,921 | \$ - | \$ - | \$ - | \$ 5,921 |
| Contingent consideration liability | - | - | 4,010 | - | 4,010 |
| Derivatives | - | 189,142 | - | - | 189,142 |
| Total | <u>\$ 5,921</u> | <u>\$ 189,142</u> | <u>\$ 4,010</u> | <u>\$ -</u> | <u>\$ 199,073</u> |
| | | | | | |
| | December 31, 2016 | | | | |
| | Level 1 | Level 2 | Level 3 | NAV | Total |
| Assets: | | | | | |
| Investments: | | | | | |
| Equities | \$ 39,509 | \$ - | \$ 1,508 | \$ - | \$ 41,017 |
| Funds: | | | | | |
| Alternative investments | 25,316 | - | - | 7,125 | 32,441 |
| Debt | 74,591 | - | - | 6 | 74,597 |
| Equity | 188,229 | - | - | 39 | 188,268 |
| Private equity | - | - | - | 122,421 | 122,421 |
| Derivatives | - | 1,993 | - | - | 1,993 |
| Total | <u>\$ 327,645</u> | <u>\$ 1,993</u> | <u>\$ 1,508</u> | <u>\$ 129,591</u> | <u>\$ 460,737</u> |
| Liabilities: | | | | | |
| Securities sold, not yet purchased | \$ 4,482 | \$ - | \$ - | \$ - | \$ 4,482 |
| Contingent consideration liability | - | - | 3,364 | - | 3,364 |
| Derivatives | - | 182,223 | - | - | 182,223 |
| Total | <u>\$ 4,482</u> | <u>\$ 182,223</u> | <u>\$ 3,364</u> | <u>\$ -</u> | <u>\$ 190,069</u> |

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

| | Three Months Ended September 30, 2017 | | | | | |
|------------------------------------|---------------------------------------|--|----------------------------|------------------------|---|-------------------|
| | Beginning Balance | Net Unrealized/ Realized Gains/Losses Included In Earnings (a) | Purchases/ Acquisitions | Sales/ Dispositions | Foreign Currency Translation Adjustments | Ending Balance |
| Assets: | | | | | | |
| Investments: | | | | | | |
| Equities | \$ 3,072 | \$ 130 | \$ - | \$ (1,661) | \$ 6 | \$ 1,547 |
| Total Level 3 Assets | <u>\$ 3,072</u> | <u>\$ 130</u> | <u>\$ -</u> | <u>\$ (1,661)</u> | <u>\$ 6</u> | <u>\$ 1,547</u> |
| Liabilities: | | | | | | |
| Contingent consideration liability | \$ 4,108 | \$ (98) | \$ - | \$ - | \$ - | \$ 4,010 |
| Total Level 3 Liabilities | <u>\$ 4,108</u> | <u>\$ (98)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,010</u> |

| | Nine Months Ended September 30, 2017 | | | | | |
|------------------------------------|--------------------------------------|--|----------------------------|------------------------|---|-------------------|
| | Beginning Balance | Net Unrealized/ Realized Gains/Losses Included In Earnings (a) | Purchases/ Acquisitions | Sales/ Dispositions | Foreign Currency Translation Adjustments | Ending Balance |
| Assets: | | | | | | |
| Investments: | | | | | | |
| Equities | \$ 1,508 | \$ 4 | \$ 1,661 | \$ (1,669) | \$ 43 | \$ 1,547 |
| Total Level 3 Assets | <u>\$ 1,508</u> | <u>\$ 4</u> | <u>\$ 1,661</u> | <u>\$ (1,669)</u> | <u>\$ 43</u> | <u>\$ 1,547</u> |
| Liabilities: | | | | | | |
| Contingent consideration liability | \$ 3,364 | \$ 646 | \$ - | \$ - | \$ - | \$ 4,010 |
| Total Level 3 Liabilities | <u>\$ 3,364</u> | <u>\$ 646</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,010</u> |

| | Three Months Ended September 30, 2016 | | | | | |
|----------------------|---------------------------------------|--|----------------------------|------------------------|---|-------------------|
| | Beginning Balance | Net Unrealized/ Realized Gains/Losses Included In Earnings (a) | Purchases/ Acquisitions | Sales/ Dispositions | Foreign Currency Translation Adjustments | Ending Balance |
| Assets: | | | | | | |
| Investments: | | | | | | |
| Equities | \$ 1,298 | \$ 2 | \$ - | \$ - | \$ 21 | \$ 1,321 |
| Total Level 3 Assets | <u>\$ 1,298</u> | <u>\$ 2</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 21</u> | <u>\$ 1,321</u> |

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

(a) Earnings recorded in “other revenue” for investments in equities for the three month and nine month periods ended September 30, 2017 and the three month and nine month periods ended September 30, 2016 include net unrealized gains of \$130, \$2, \$2 and \$7, respectively. Earnings recorded in “amortization and other acquisition-related costs” for the contingent consideration liability for the three month and nine month periods ended September 30, 2017 include unrealized gains (losses) of \$98 and \$(646), respectively.

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

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

| | September 30, 2017 | | | | | | | |
|--------------------------------------|--------------------|----------------------|--------------------------------|--|--------------|--------------|------------------------|--------------------------|
| | Fair Value | Unfunded Commitments | % of Fair Value Not Redeemable | Estimated Liquidation Period of Investments Not Redeemable | | | Investments Redeemable | |
| | | | | % Next 5 Years | % 5-10 Years | % Thereafter | Redemption Frequency | Redemption Notice Period |
| Alternative investment funds: | | | | | | | | |
| Hedge funds | \$ 6,617 | \$ - | NA | NA | NA | NA | (a) | <30-60 days |
| Funds of funds | 517 | - | NA | NA | NA | NA | (b) | <30-90 days |
| Other | 586 | - | NA | NA | NA | NA | (c) | <30-60 days |
| Debt funds | 6 | - | NA | NA | NA | NA | (d) | 30 days |
| Equity funds | 49 | - | NA | NA | NA | NA | (e) | <30-90 days |
| Private equity funds: | | | | | | | | |
| Equity growth | 78,376 | 10,085 (f) | 100% | 16% | 39% | 45% | NA | NA |
| Total | <u>\$ 86,151</u> | <u>\$ 10,085</u> | | | | | | |

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

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

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

(d) daily (100%)

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

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

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

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

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

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

(d) daily (100%)

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

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

Investment Capital Funding Commitments—At September 30, 2017, the Company’s maximum unfunded commitments for capital contributions to investment funds primarily arose from commitments to EGCP III, which amounted to \$8,613. The investment period for EGCP III ended on October 12, 2016, after which point the Company’s obligation to fund capital contributions for new investments in EGCP III expired. The Company remains obligated until October 12, 2023 (or any earlier liquidation of EGCP III) to make capital contributions necessary to fund follow-on investments and to pay for fund expenses.

6. DERIVATIVES

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

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

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

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

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------------------|------------------------------------|--------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Forward foreign currency exchange rate contracts | \$ (2,991) | \$ (1,591) | \$ (8,149) | \$ (8,445) |
| LFI and other similar deferred compensation arrangements | (4,875) | (6,909) | (17,981) | (4,707) |
| Total return swaps and other | (3,890) | (3,674) | (12,872) | (3,880) |
| Total | <u>\$ (11,756)</u> | <u>\$ (12,174)</u> | <u>\$ (39,002)</u> | <u>\$ (17,032)</u> |

7. **PROPERTY**

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

| | Estimated Depreciable Life in Years | September 30, 2017 | December 31, 2016 |
|--|---|-----------------------|----------------------|
| Buildings | 33 | \$ 149,548 | \$ 132,821 |
| Leasehold improvements | 3-20 | 174,129 | 175,810 |
| Furniture and equipment | 3-10 | 179,890 | 172,325 |
| Construction in progress | | 11,843 | 14,038 |
| Total | | <u>515,410</u> | <u>494,994</u> |
| Less - Accumulated depreciation and amortization | | 314,708 | 285,997 |
| Property | | <u>\$ 200,702</u> | <u>\$ 208,997</u> |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
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(dollars in thousands, unless otherwise noted)

8. GOODWILL AND OTHER INTANGIBLE ASSETS

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

| | September 30, 2017 | December 31, 2016 |
|---|-----------------------|----------------------|
| Goodwill | \$ 362,773 | \$ 352,124 |
| Other intangible assets (net of accumulated amortization) | 5,558 | 6,858 |
| | <u>\$ 368,331</u> | <u>\$ 358,982</u> |

At September 30, 2017 and December 31, 2016, goodwill of \$298,232 and \$287,583, respectively, was attributable to the Company's Financial Advisory segment and, at each such respective date, \$64,541 of goodwill was attributable to the Company's Asset Management segment.

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

| | Nine Months Ended September 30, | |
|--|------------------------------------|-------------------|
| | 2017 | 2016 |
| Balance, January 1 | \$ 352,124 | \$ 320,761 |
| Foreign currency translation adjustments | 10,649 | 4,906 |
| Balance, September 30 | <u>\$ 362,773</u> | <u>\$ 325,667</u> |

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

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

| | September 30, 2017 | | | December 31, 2016 | | |
|---|--------------------|-----------------------------|---------------------------|-------------------|-----------------------------|---------------------------|
| | Gross Cost | Accumulated Amortization | Net Carrying Amount | Gross Cost | Accumulated Amortization | Net Carrying Amount |
| Success/performance fees | \$ 33,040 | \$ 27,693 | \$ 5,347 | \$ 33,040 | \$ 26,543 | \$ 6,497 |
| Management fees, customer relationships and non-compete agreements | 33,436 | 33,225 | 211 | 33,436 | 33,075 | 361 |
| | <u>\$ 66,476</u> | <u>\$ 60,918</u> | <u>\$ 5,558</u> | <u>\$ 66,476</u> | <u>\$ 59,618</u> | <u>\$ 6,858</u> |

Amortization expense of intangible assets, included in "amortization and other acquisition-related costs" in the condensed consolidated statements of operations, for the three month and nine month periods ended September 30, 2017 was \$433 and \$1,300, respectively, and for the three month and nine month periods ended September 30, 2016 was \$746 and \$1,720, respectively. Estimated future amortization expense is as follows:

| <u>Year Ending December 31,</u> | <u>Amortization Expense (a)</u> |
|--------------------------------------|-------------------------------------|
| 2017 (October 1 through December 31) | \$ 284 |
| 2018 | 5,274 |
| Total amortization expense | <u>\$ 5,558</u> |

(a) Approximately 38% of intangible asset amortization is attributable to a noncontrolling interest.

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9. SENIOR DEBT

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

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

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

On September 25, 2015, Lazard Group entered into an Amended and Restated Credit Agreement for a five-year \$150,000 senior revolving credit facility with a group of lenders (the "Amended and Restated Credit Agreement"), which expires in September 2020. The Amended and Restated Credit Agreement amended and restated the previous credit agreement dated September 25, 2012. Borrowings under the Amended and Restated Credit Agreement generally will bear interest at LIBOR plus an applicable margin for specific interest periods determined based on Lazard Group's highest credit rating from an internationally recognized credit agency. At September 30, 2017 and December 31, 2016, no amounts were outstanding under the Amended and Restated Credit Agreement.

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

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

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

10. COMMITMENTS AND CONTINGENCIES

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

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

Business Acquisitions—For a business acquired in 2016, consideration consists of (i) previously paid one-time cash payment and 60,817 shares of Class A common stock subject to non-compete provisions and (ii) up to 210,431 additional shares of Class A common stock that are subject to certain performance thresholds. As of September 30, 2017, none of the contingent shares had been earned.

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

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

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

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

11. MEMBERS' EQUITY

Lazard Group Distributions—Distributions in respect of Lazard Group's common membership interests are allocated to the holders of such interests in accordance with the provisions of the Operating Agreement. Such distributions primarily represent amounts necessary to fund (i) any dividends Lazard Ltd may declare on its Class A common stock and (ii) tax distributions in respect of income taxes that Lazard Ltd's subsidiaries incur.

During the nine month periods ended September 30, 2017 and 2016, Lazard Group distributed \$294,966 and \$248,742, respectively, to the subsidiaries of Lazard Ltd.

Pursuant to Lazard Group's Operating Agreement, Lazard Group allocates and distributes to its members a substantial portion of its distributable profits in installments as soon as practicable after the end of each fiscal year. Such installment distributions usually begin in February.

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

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

The Company expects that the share repurchase program will primarily be used to offset a portion of the shares that have been or will be issued under the Lazard Ltd 2008 Incentive Compensation Plan (the "2008 Plan"). Pursuant to the share repurchase program, purchases have been made in the open market or through privately negotiated transactions. The rate at which the Company purchases shares in connection with the share repurchase program may vary from quarter to quarter due to a variety of factors. Purchases with respect to such program are set forth in the table below:

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

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

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

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

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

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

| | Three Months Ended September 30, 2017 | | | | |
|--|---|---------------------------------------|-----------------------|--|--|
| | Currency Translation Adjustments | Employee Benefit Plans | Total AOCI | Amount Attributable to Noncontrolling Interests | Total Lazard Group AOCI |
| Balance, July 1, 2017 | \$ (70,684) | \$ (168,133) | \$ (238,817) | \$ (1) | \$ (238,816) |
| Activity: | | | | | |
| Other comprehensive income (loss) before reclassifications | 17,818 | (4,715) | 13,103 | - | 13,103 |
| Adjustments for items reclassified to earnings, net of tax | - | 1,081 | 1,081 | - | 1,081 |
| Net other comprehensive income (loss) | 17,818 | (3,634) | 14,184 | - | 14,184 |
| Balance, September 30, 2017 | <u>\$ (52,866)</u> | <u>\$ (171,767)</u> | <u>\$ (224,633)</u> | <u>\$ (1)</u> | <u>\$ (224,632)</u> |
| | Nine Months Ended September 30, 2017 | | | | |
| | Currency Translation Adjustments | Employee Benefit Plans | Total AOCI | Amount Attributable to Noncontrolling Interests | Total Lazard Group AOCI |
| Balance, January 1, 2017 | \$ (109,306) | \$ (161,471) | \$ (270,777) | \$ (2) | \$ (270,775) |
| Activity: | | | | | |
| Other comprehensive income (loss) before reclassifications | 56,440 | (13,819) | 42,621 | 1 | 42,620 |
| Adjustments for items reclassified to earnings, net of tax | - | 3,523 | 3,523 | - | 3,523 |
| Net other comprehensive income (loss) | 56,440 | (10,296) | 46,144 | 1 | 46,143 |
| Balance, September 30, 2017 | <u>\$ (52,866)</u> | <u>\$ (171,767)</u> | <u>\$ (224,633)</u> | <u>\$ (1)</u> | <u>\$ (224,632)</u> |

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| | Three Months Ended September 30, 2016 | | | | |
|--|---------------------------------------|------------------------|--------------|---|-------------------------|
| | Currency Translation Adjustments | Employee Benefit Plans | Total AOCI | Amount Attributable to Noncontrolling Interests | Total Lazard Group AOCI |
| Balance, July 1, 2016 | \$ (60,965) | \$ (135,382) | \$ (196,347) | \$ (1) | \$ (196,346) |
| Activity: | | | | | |
| Other comprehensive loss before reclassifications | (1,828) | (33) | (1,861) | (1) | (1,860) |
| Adjustments for items reclassified to earnings, net of tax | - | 1,134 | 1,134 | - | 1,134 |
| Net other comprehensive income (loss) | (1,828) | 1,101 | (727) | (1) | (726) |
| Balance, September 30, 2016 | \$ (62,793) | \$ (134,281) | \$ (197,074) | \$ (2) | \$ (197,072) |

| | Nine Months Ended September 30, 2016 | | | | |
|--|--------------------------------------|------------------------|--------------|---|-------------------------|
| | Currency Translation Adjustments | Employee Benefit Plans | Total AOCI | Amount Attributable to Noncontrolling Interests | Total Lazard Group AOCI |
| Balance, January 1, 2016 | \$ (52,687) | \$ (137,073) | \$ (189,760) | \$ (2) | \$ (189,758) |
| Activity: | | | | | |
| Other comprehensive loss before reclassifications | (10,106) | (649) | (10,755) | - | (10,755) |
| Adjustments for items reclassified to earnings, net of tax | - | 3,441 | 3,441 | - | 3,441 |
| Net other comprehensive income (loss) | (10,106) | 2,792 | (7,314) | - | (7,314) |
| Balance, September 30, 2016 | \$ (62,793) | \$ (134,281) | \$ (197,074) | \$ (2) | \$ (197,072) |

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

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

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

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

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

| | Net Income Attributable to Noncontrolling Interests | | | |
|--------------|---|--------------|------------------------------------|-----------------|
| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Edgewater | \$ 2,260 | \$ 81 | \$ 5,657 | \$ 4,988 |
| Other | 1 | 2 | 3 | 1 |
| Total | \$ 2,261 | \$ 83 | \$ 5,660 | \$ 4,989 |

| | Noncontrolling Interests as of | |
|--------------|--------------------------------|----------------------|
| | September 30, 2017 | December 31, 2016 |
| Edgewater | \$ 60,050 | \$ 57,238 |
| Other | 12 | 8 |
| Total | \$ 60,062 | \$ 57,246 |

12. INCENTIVE PLANS

Share-Based Incentive Plan Awards

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

Shares Available Under the 2008 Plan and 2005 Plan

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

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------------|-------------------------------------|------------------|------------------------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Share-based incentive awards: | | | | |
| RSUs | \$ 39,898 | \$ 39,447 | \$ 150,193 | \$ 134,419 |
| PRSUs | 9,896 | 11,252 | 38,095 | 38,276 |
| Restricted Stock | 7,697 | 7,015 | 30,507 | 38,833 |
| DSUs | 78 | 53 | 926 | 808 |
| Total | <u>\$ 57,569</u> | <u>\$ 57,767</u> | <u>\$ 219,721</u> | <u>\$ 212,336</u> |

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

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

RSUs and DSUs

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

RSUs generally include a dividend participation right that provides that during vesting periods each RSU is attributed additional RSUs (or fractions thereof) equivalent to any dividends paid on Class A common stock during such period. During the nine month periods ended September 30, 2017 and 2016, dividend participation rights required the issuance of 866,914 and 969,054 RSUs, respectively.

Non-executive members of the Board of Directors of Lazard Group, who are the same Non-Executive Directors of Lazard Ltd (“Non-Executive Directors”), receive approximately 55% of their annual compensation for service on the Board of Directors and its committees in the form of DSUs, which resulted in 31,280 and 38,771 DSUs granted during the nine month periods ended September 30, 2017 and 2016, respectively. Their remaining compensation is payable in cash, which they may elect to receive in the form of additional DSUs under the Directors’ Fee Deferral Unit Plan described below. DSUs are convertible into shares of Class A common stock at the time of cessation of service to the Board of Directors. DSUs include a cash dividend participation right equivalent to dividends paid on Class A common stock.

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

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

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

| | RSUs | | DSUs | |
|---|-------------------|--|----------------|--|
| | Units | Weighted Average Grant Date Fair Value | Units | Weighted Average Grant Date Fair Value |
| Balance, January 1, 2017 | 11,698,138 | \$ 40.65 | 276,725 | \$ 36.05 |
| Granted (including 866,914 RSUs relating to dividend participation) | 5,294,156 | \$ 43.01 | 41,821 | \$ 44.30 |
| Forfeited | (162,320) | \$ 39.97 | - | - |
| Vested | (3,977,477) | \$ 45.27 | (43,465) | \$ 35.77 |
| Balance, September 30, 2017 | <u>12,852,497</u> | <u>\$ 40.20</u> | <u>275,081</u> | <u>\$ 37.35</u> |
| Balance, January 1, 2016 | 9,599,658 | \$ 44.06 | 312,670 | \$ 35.98 |
| Granted (including 969,054 RSUs relating to dividend participation) | 6,649,625 | \$ 34.64 | 46,178 | \$ 34.98 |
| Forfeited | (181,337) | \$ 39.79 | - | - |
| Vested | (4,527,559) | \$ 39.16 | (84,759) | \$ 35.30 |
| Balance, September 30, 2016 | <u>11,540,387</u> | <u>\$ 40.62</u> | <u>274,089</u> | <u>\$ 36.02</u> |

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

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

Restricted Stock

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

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

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

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

PRsUs

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

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

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

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

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

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

LFI and Other Similar Deferred Compensation Arrangements

Commencing in February 2011, the Company granted LFI to eligible employees. In connection with LFI and other similar deferred compensation arrangements, which generally require future service as a condition for vesting, the Company recorded a prepaid compensation asset and a corresponding compensation liability on the grant date based upon the fair value of the award. The prepaid asset is amortized on a straight-line basis over the applicable vesting periods or requisite service periods (which are generally similar to the comparable periods for RSUs), and is charged to "compensation and benefits" expense within the Company's condensed

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

(dollars in thousands, unless otherwise noted)

consolidated statement of operations. LFI and similar deferred compensation arrangements that do not require future service are expensed immediately. The related compensation liability is accounted for at fair value as a derivative liability, which contemplates the impact of estimated forfeitures, and is adjusted for changes in fair value primarily related to changes in value of the underlying investments.

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

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

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

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

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

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

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

(dollars in thousands, unless otherwise noted)

13. EMPLOYEE BENEFIT PLANS

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

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

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

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

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

14. INCOME TAXES

Although a portion of Lazard Group’s income is subject to U.S. federal income taxes, Lazard Group primarily operates in the U.S. as a limited liability company that is treated as a partnership for U.S. federal income tax purposes. As a result, Lazard Group’s income from its U.S. operations is generally not subject to U.S. federal income taxes because such income is attributable to its partners. Lazard Group, through its subsidiaries, is subject to state and local taxes on its income apportioned to various state and local jurisdictions. Outside the U.S., Lazard Group operates principally through subsidiary corporations that are subject to local income taxes in foreign jurisdictions. Lazard Group is also subject to New York City Unincorporated Business Tax (“UBT”) attributable to its operations apportioned to New York City.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
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(dollars in thousands, unless otherwise noted)

The Company recorded income tax provisions of \$27,367 and \$81,802 for the three month and nine month periods ended September 30, 2017, respectively, and \$21,653 and \$49,110 for the three month and nine month periods ended September 30, 2016, respectively, representing effective tax rates of 18.8%, 17.3%, 14.5% and 13.6%, respectively. The difference between the U.S. federal statutory rate of 35.0% and the effective tax rates reflected above principally relates to (i) Lazard Group primarily operating as a limited liability company in the U.S., (ii) change in the valuation allowance affecting the provision for income taxes, (iii) taxes payable to foreign jurisdictions, (iv) excess net tax benefit for share-based incentive compensation, and (v) U.S. state and local taxes, which are incremental to the U.S. federal statutory tax rate.

On January 1, 2017, the Company adopted new accounting guidance on share-based incentive compensation. As a result of the adoption of this new guidance, the Company recognized excess tax benefits of \$2,047 from the vesting of share-based incentive compensation in the provision for income taxes in the condensed consolidated statements of operations for the nine month period ended September 30, 2017. The Company also recorded deferred tax assets of \$4,945, net of a valuation allowance of \$12,090, as of January 1, 2017, for previously unrecognized excess tax benefits (including tax benefits from dividends or dividend equivalents) on share-based incentive compensation, with an offsetting adjustment to retained earnings. See Note 2 for further information on the adoption of this new guidance.

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

15. RELATED PARTIES***Receivable from and Payable to Lazard Ltd Subsidiaries***

Lazard Group's receivables from subsidiaries of Lazard Ltd at September 30, 2017 and December 31, 2016 included interest-bearing loans of \$3,742 and \$20,365, respectively, including accrued interest thereon. Interest income relating to interest-bearing loans with subsidiaries of Lazard Ltd amounted to \$5 and \$148 for the three month and nine month periods ended September 30, 2017, respectively, and \$23 and \$233 for the three month and nine month periods ended September 30, 2016, respectively.

Lazard Group's payables to subsidiaries of Lazard Ltd at September 30, 2017 and December 31, 2016 included interest-bearing loans, including interest thereon, of \$63,726 and \$60,500, respectively. Interest expense relating to interest-bearing loans with subsidiaries of Lazard Ltd amounted to \$976 and \$2,851 for the three month and nine month periods ended September 30, 2017, respectively, and \$875 and \$2,604 for the three month and nine month periods ended September 30, 2016, respectively.

Sponsored Funds

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

Other

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

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

(dollars in thousands, unless otherwise noted)

16. REGULATORY AUTHORITIES

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

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

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

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

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

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

17. SEGMENT INFORMATION

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

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

(dollars in thousands, unless otherwise noted)

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

- Revenue and expenses directly associated with each segment are included in determining operating income.
- Expenses not directly associated with specific segments are allocated based on the most relevant measures applicable, including headcount, square footage and other factors.
- Segment assets are based on those directly associated with each segment, and include an allocation of certain assets relating to various segments, based on the most relevant measures applicable, including headcount, square footage and other factors.

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

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

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

| | | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---------------------------|--------------------|-------------------------------------|-------------|------------------------------------|--------------|
| | | 2017 | 2016 | 2017 | 2016 |
| Financial Advisory | Net Revenue | \$ 305,890 | \$ 343,488 | \$ 1,052,206 | \$ 896,467 |
| | Operating Expenses | 243,421 | 257,561 | 814,068 | 718,366 |
| | Operating Income | \$ 62,469 | \$ 85,927 | \$ 238,138 | \$ 178,101 |
| Asset Management | Net Revenue | \$ 320,487 | \$ 267,725 | \$ 913,728 | \$ 767,610 |
| | Operating Expenses | 217,233 | 185,753 | 621,885 | 543,616 |
| | Operating Income | \$ 103,254 | \$ 81,972 | \$ 291,843 | \$ 223,994 |
| Corporate | Net Revenue | \$ (2,606) | \$ (3,336) | \$ (3,660) | \$ (24,885) |
| | Operating Expenses | 17,923 | 14,930 | 52,869 | 16,196 |
| | Operating Loss | \$ (20,529) | \$ (18,266) | \$ (56,529) | \$ (41,081) |
| Total | Net Revenue | \$ 623,771 | \$ 607,877 | \$ 1,962,274 | \$ 1,639,192 |
| | Operating Expenses | 478,577 | 458,244 | 1,488,822 | 1,278,178 |
| | Operating Income | \$ 145,194 | \$ 149,633 | \$ 473,452 | \$ 361,014 |

| | As Of | |
|---------------------|---------------------|---------------------|
| | September 30, 2017 | December 31, 2016 |
| Total Assets | | |
| Financial Advisory | \$ 808,564 | \$ 883,384 |
| Asset Management | 668,410 | 645,653 |
| Corporate | 2,299,126 | 1,986,947 |
| Total | \$ 3,776,100 | \$ 3,515,984 |

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

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

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

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

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

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

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

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

- financial goals, including the ratio of awarded compensation and benefits expense to operating revenue;
- ability to deploy surplus cash through distributions to members, purchases of Lazard Ltd Class A common stock and debt repurchases;
- possible or assumed future results of operations and operating cash flows;
- strategies and investment policies;
- financing plans and the availability of short-term borrowing;
- competitive position;
- future acquisitions, including the consideration to be paid and the timing of consummation;
- potential growth opportunities available to our businesses;
- recruitment and retention of our managing directors and employees;

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

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

Business Summary

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

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

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

Our principal sources of revenue are derived from activities in the following business segments:

- Financial Advisory, which offers corporate, partnership, institutional, government, sovereign and individual clients across the globe a wide array of financial advisory services regarding M&A and other strategic matters, restructurings, capital structure, capital raising, shareholder advisory, and various other financial matters, and
- Asset Management, which offers a broad range of global investment solutions and investment management services in equity and fixed income strategies, asset allocation strategies, alternative investments and private equity funds to corporations, public funds, sovereign entities, endowments and foundations, labor funds, financial intermediaries and private clients.

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

Our consolidated net revenue was derived from the following segments:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------|-------------------------------------|------|------------------------------------|------|
| | 2017 | 2016 | 2017 | 2016 |
| Financial Advisory | 49% | 57% | 54% | 55% |
| Asset Management | 51 | 44 | 46 | 47 |
| Corporate | - | (1) | - | (2) |
| Total | 100% | 100% | 100% | 100% |

We also invest our own capital from time to time, generally alongside capital of qualified institutional and individual investors in alternative investments or private equity investments, and, since 2005, we have engaged in a number of alternative investments and private equity activities, including, historically, investments through (i) Edgewater, our Chicago-based private equity firm, (ii) a fund targeting significant noncontrolling-stake investments in established private companies and (iii) until the second quarter of 2017, a mezzanine fund (the "Mezzanine Fund"), which invests in mezzanine debt of a diversified selection of small- to mid-cap European companies. Lazard sold its interest in the Mezzanine Fund in May 2017. We also make investments to seed our Asset Management strategies.

Business Environment and Outlook

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

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

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

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

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

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

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

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

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

Financial Advisory

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

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|--|-------------------------------------|--------|--------------------|------------------------------------|----------|--------------------|
| | 2017 | 2016 | Incr / (Decr) % | 2017 | 2016 | Incr / (Decr) % |
| | (\$ in billions) | | | | | |
| Completed M&A Transactions: | | | | | | |
| All deals: | | | | | | |
| Value | \$ 860 | \$ 932 | (8)% | \$ 2,632 | \$ 2,781 | (5)% |
| Number | 9,467 | 9,296 | 2% | 29,260 | 29,035 | 1% |
| Deals Greater than \$500 million: | | | | | | |
| Value | \$ 655 | \$ 696 | (6)% | \$ 1,990 | \$ 2,093 | (5)% |
| Number | 258 | 280 | (8)% | 826 | 821 | 1% |
| Announced M&A Transactions: | | | | | | |
| All deals: | | | | | | |
| Value | \$ 886 | \$ 868 | 2% | \$ 2,505 | \$ 2,523 | (1)% |
| Number | 9,822 | 9,214 | 7% | 29,970 | 28,975 | 3% |
| Deals Greater than \$500 million: | | | | | | |
| Value | \$ 663 | \$ 641 | 3% | \$ 1,831 | \$ 1,837 | (0)% |
| Number | 311 | 302 | 3% | 887 | 843 | 5% |

Source: Dealogic as of October 5, 2017.

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

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

Asset Management

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

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

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

Financial Statement Overview

Net Revenue

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

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

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

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

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

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

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

Although Corporate segment net revenue during 2017 is not significant compared to Lazard's net revenue, total assets in the Corporate segment represented 61% of Lazard's consolidated total assets as of September 30, 2017, which are attributable to cash and cash equivalents, investments in debt and equity securities, interests in alternative investment, debt, equity and private equity funds, deferred tax assets and certain assets associated with LFB. LFB, as a registered bank, is engaged primarily in commercial and private banking services for clients and funds managed by LFG and other clients, and asset-liability management.

Operating Expenses

The majority of Lazard's operating expenses relate to compensation and benefits for managing directors and employees. Our compensation and benefits expense includes (i) salaries and benefits, (ii) amortization of the relevant portion of previously granted deferred incentive compensation awards, including (a) share-based incentive compensation under the Lazard Ltd 2008 Incentive Compensation Plan (the "2008 Plan"), and (b) LFI and other similar deferred compensation arrangements (see Note 12 of Notes to Condensed Consolidated Financial Statements), (iii) a provision for discretionary or guaranteed cash bonuses and profit pools and (iv) when applicable, severance payments. Compensation expense in any given period is dependent on many factors, including general economic and market conditions, our actual and forecasted operating and financial performance, staffing levels, estimated forfeiture rates, competitive pay conditions and the nature of revenues earned, as well as the mix between current and deferred compensation.

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

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

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

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

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

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

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

Provision for Income Taxes

Lazard Group primarily operates in the U.S. as a limited liability company that is treated as a partnership for U.S. federal income tax purposes. As a result, Lazard Group’s income pertaining to the limited liability company is not subject to U.S. federal income tax because taxes associated with such income represent obligations of the individual partners. Lazard Group, through its subsidiaries, is subject to state and local taxes on its income apportioned to various state and local jurisdictions. Outside the U.S., Lazard Group operates principally through subsidiary corporations that are subject to local income taxes in foreign jurisdictions. Lazard Group is also subject to Unincorporated Business Tax (“UBT”) attributable to its operations apportioned to New York City (see Note 14 of Notes to Condensed Consolidated Financial Statements for additional information).

Noncontrolling Interests

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

Consolidated Results of Operations

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

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|--------------|
| | 2017 | 2016 | 2017 | 2016 |
| | (\$ in thousands) | | | |
| Net Revenue | \$ 623,771 | \$ 607,877 | \$ 1,962,274 | \$ 1,639,192 |
| Operating Expenses: | | | | |
| Compensation and benefits | 359,294 | 353,468 | 1,134,142 | 958,962 |
| Non-compensation | 118,948 | 104,030 | 352,734 | 317,496 |
| Amortization and other acquisition-related costs | 335 | 746 | 1,946 | 1,720 |
| Total operating expenses | 478,577 | 458,244 | 1,488,822 | 1,278,178 |
| Operating Income | 145,194 | 149,633 | 473,452 | 361,014 |
| Provision for income taxes | 27,367 | 21,653 | 81,802 | 49,110 |
| Net Income | 117,827 | 127,980 | 391,650 | 311,904 |
| Less - Net Income Attributable to Noncontrolling Interests | 2,261 | 83 | 5,660 | 4,989 |
| Net Income Attributable to Lazard Group | \$ 115,566 | \$ 127,897 | \$ 385,990 | \$ 306,915 |
| Operating Income, as a % of net revenue | 23.3% | 24.6% | 24.1% | 22.0% |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-------------------|------------------------------------|---------------------|
| | 2017 | 2016 | 2017 | 2016 |
| (\$ in thousands) | | | | |
| Operating Revenue: | | | | |
| Net revenue | \$ 623,771 | \$ 607,877 | \$ 1,962,274 | \$ 1,639,192 |
| Adjustments: | | | | |
| Interest expense (a) | 13,356 | 12,304 | 40,253 | 36,851 |
| Revenue related to noncontrolling interests (b) | (5,039) | (2,661) | (13,079) | (12,271) |
| Gains on investments pertaining to LFI (c) | (4,875) | (6,909) | (17,981) | (4,707) |
| Operating revenue | <u>\$ 627,213</u> | <u>\$ 610,611</u> | <u>\$ 1,971,467</u> | <u>\$ 1,659,065</u> |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-------------------|------------------------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| (\$ in thousands) | | | | |
| Adjusted Compensation and Benefits Expense: | | | | |
| Total compensation and benefits expense | \$ 359,294 | \$ 353,468 | \$ 1,134,142 | \$ 958,962 |
| Adjustments: | | | | |
| Noncontrolling interests (a) | (2,473) | (1,763) | (6,084) | (5,109) |
| Charges pertaining to LFI (b) | (4,875) | (6,909) | (17,981) | (4,707) |
| Adjusted compensation and benefits expense | <u>\$ 351,946</u> | <u>\$ 344,796</u> | <u>\$ 1,110,077</u> | <u>\$ 949,146</u> |
| Adjusted compensation and benefits expense, as a % of operating revenue | <u>56.1%</u> | <u>56.5%</u> | <u>56.3%</u> | <u>57.2%</u> |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| (\$ in thousands) | | | | |
| Adjusted Non-Compensation Expense: | | | | |
| Total non-compensation expense | \$ 118,948 | \$ 104,030 | \$ 352,734 | \$ 317,496 |
| Adjustments: | | | | |
| Expenses associated with ERP system implementation (a) | (6,530) | - | (15,391) | - |
| Expenses related to office space reorganization (b) | (1,412) | - | (4,573) | - |
| Noncontrolling interests (c) | (239) | (465) | (1,338) | (1,500) |
| Adjusted non-compensation expense | \$ 110,767 | \$ 103,565 | \$ 331,432 | \$ 315,996 |
| Adjusted non-compensation expense, as a % of operating revenue | 17.7% | 17.0% | 16.8% | 19.0% |

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

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|--------------|
| | 2017 | 2016 | 2017 | 2016 |
| (\$ in thousands) | | | | |
| Earnings From Operations: | | | | |
| Operating revenue | \$ 627,213 | \$ 610,611 | \$ 1,971,467 | \$ 1,659,065 |
| Deduct: | | | | |
| Adjusted compensation and benefits expense | (351,946) | (344,796) | (1,110,077) | (949,146) |
| Adjusted non-compensation expense | (110,767) | (103,565) | (331,432) | (315,996) |
| Earnings from operations | \$ 164,500 | \$ 162,250 | \$ 529,958 | \$ 393,923 |
| Earnings from operations, as a % of operating revenue | 26.2% | 26.6% | 26.9% | 23.7% |

Headcount information is set forth below:

| | As of | | |
|---|-----------------------|----------------------|-----------------------|
| | September 30, 2017 | December 31, 2016 | September 30, 2016 |
| Headcount: | | | |
| Managing Directors: | | | |
| Financial Advisory | 150 | 147 | 142 |
| Asset Management | 98 | 92 | 92 |
| Corporate | 21 | 20 | 20 |
| Total Managing Directors | 269 | 259 | 254 |
| Other Employees: | | | |
| Business segment professionals | 1,313 | 1,270 | 1,247 |
| All other professionals and support staff | 1,264 | 1,242 | 1,218 |
| Total | 2,846 | 2,771 | 2,719 |

Operating Results

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

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

The Company reported net income attributable to Lazard Group of \$116 million, as compared to net income of \$128 million in the 2016 period.

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

Compensation and benefits expense increased \$6 million, or 2%, as compared to the 2016 period, primarily associated with increased operating revenue.

Adjusted compensation and benefits expense (which excludes certain items and which we believe allows for improved comparability between periods, as described above) was \$352 million, an increase of \$7 million, or 2%, as compared to \$345 million in the 2016 period. The ratio of adjusted compensation and benefits expense to operating revenue was 56.1% for the 2017 period, as compared to 56.5% for the 2016 period and 56.5% for full-year 2016.

Non-compensation expense increased \$15 million, or 14%, as compared to the 2016 period, primarily due to expenses associated with the ERP system implementation and expenses related to office space reorganization, as well as higher mutual fund service fees related to the growth in AUM and higher marketing and business development expenses. Adjusted non-compensation expense, which excludes non-compensation costs related to the ERP system implementation, office space reorganization and noncontrolling interests, increased \$7 million, or 7%, as compared to the 2016 period. The ratio of adjusted non-compensation expense to operating revenue was 17.7% for the 2017 period, as compared to 17.0% in the 2016 period.

Amortization and other acquisition-related costs was substantially unchanged as compared to the 2016 period.

Operating income decreased \$4 million, or 3%, as compared to the 2016 period.

Earnings from operations increased \$2 million, or 1%, as compared to the 2016 period, and, as a percentage of operating revenue, was 26.2%, as compared to 26.6% in the 2016 period.

The provision for income taxes reflects an effective tax rate of 18.8%, as compared to 14.5% for the 2016 period. The effective tax rate increased primarily due to the change in the geographic mix of earnings.

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

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

The Company reported net income attributable to Lazard Group of \$386 million, as compared to net income of \$307 million in the 2016 period.

Net revenue increased \$323 million, or 20%, with operating revenue increasing \$312 million, or 19%, as compared to the 2016 period. Fee revenue from investment banking and other advisory activities increased \$156 million, or 17%, as compared to the 2016 period, due to an increase in M&A and Strategic Advisory and Restructuring revenue. Asset management fees, including incentive fees, increased \$139 million, or 19%, as compared to the 2016 period, primarily due to an increase in average AUM. In the aggregate, interest income, other revenue and interest expense increased \$28 million as compared to the 2016 period, primarily due to gains in the 2017 period attributable to investments held in connection with LFI.

Compensation and benefits expense increased \$175 million, or 18%, as compared to the 2016 period, primarily associated with increased operating revenue.

Adjusted compensation and benefits expense (which excludes certain items and which we believe allows for improved comparability between periods, as described above) was \$1,110 million, an increase of \$161 million, or 17%, as compared to \$949 million in the 2016 period. The ratio of adjusted compensation and benefits expense to operating revenue was 56.3% for the 2017 period, as compared to 57.2% for the 2016 period and 56.5% for full-year 2016.

Non-compensation expense increased \$35 million, or 11%, as compared to the 2016 period, primarily due to expenses associated with the ERP system implementation and expenses related to office space reorganization, as well as higher mutual fund service fees related to the growth in AUM and higher marketing and business development expenses. Adjusted non-compensation expense, which excludes non-compensation costs related to the ERP system implementation, office space reorganization and noncontrolling interests, increased \$15 million, or 5%, as compared to the 2016 period. The ratio of adjusted non-compensation expense to operating revenue was 16.8% for the 2017 period, as compared to 19.0% in the 2016 period.

Amortization and other acquisition-related costs was substantially unchanged as compared to the 2016 period.

Operating income increased \$112 million, or 31%, as compared to the 2016 period.

Earnings from operations increased \$136 million, or 35%, as compared to the 2016 period, and, as a percentage of operating revenue, was 26.9%, as compared to 23.7% in the 2016 period.

The provision for income taxes reflects an effective tax rate of 17.3% as compared to 13.6% for the 2016 period. The effective tax rate reflects the Company's adoption of new accounting guidance on share-based incentive compensation and the change in the geographic mix of earnings. See Notes 2 and 14 of Notes to Condensed Consolidated Financial Statements.

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

Business Segments

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

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

Financial Advisory

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

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| | (\$ in thousands) | | | |
| Net Revenue | \$ 305,890 | \$ 343,488 | \$ 1,052,206 | \$ 896,467 |
| Operating Expenses | 243,421 | 257,561 | 814,068 | 718,366 |
| Operating Income | \$ 62,469 | \$ 85,927 | \$ 238,138 | \$ 178,101 |
| Operating Income, as a % of net revenue | 20.4% | 25.0% | 22.6% | 19.9% |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------|------------------------------------|------|
| | 2017 | 2016 | 2017 | 2016 |
| Lazard Statistics: | | | | |
| Number of clients with fees greater than \$1 million: | | | | |
| Total Financial Advisory | 77 | 74 | 229 | 200 |
| M&A and Strategic Advisory | 68 | 62 | 198 | 164 |
| Percentage of total Financial Advisory net revenue from top 10 clients | | | | |
| | 37% | 43% | 27% | 25% |
| Number of M&A transactions completed with values greater than \$500 million (a) | | | | |
| | 15 | 22 | 65 | 64 |

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

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

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

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

Financial Advisory Results of Operations

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

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

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

Operating expenses decreased \$14 million, or 5%, as compared to the 2016 period, primarily due to a decrease in compensation associated with decreased operating revenue.

Financial Advisory operating income was \$62 million, a decrease of \$24 million, or 27%, as compared to operating income of \$86 million in the 2016 period and, as a percentage of net revenue, was 20.4%, as compared to 25.0% in the 2016 period.

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

Financial Advisory net revenue increased \$156 million, or 17%, as compared to the 2016 period. M&A and Strategic Advisory net revenue was \$823 million, an increase of \$93 million, or 13%, as compared to \$730 million in the 2016 period. Restructuring revenue was \$229 million, an increase of \$63 million, or 38%, as compared to \$166 million in the 2016 period. The increase in M&A and Strategic Advisory revenue was primarily due to an increase in the number of completed transactions involving fees greater than \$1 million as compared to the 2016 period.

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

Operating expenses increased \$96 million, or 13%, as compared to the 2016 period, primarily due to an increase in compensation associated with increased operating revenue.

Financial Advisory operating income was \$238 million, an increase of \$60 million, or 34%, as compared to operating income of \$178 million in the 2016 period and, as a percentage of net revenue, was 22.6%, as compared to 19.9% in the 2016 period.

Asset Management

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

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

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

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

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

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

Three Months Ended September 30, 2017

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

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

Nine Months Ended September 30, 2017

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

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

Three Months Ended September 30, 2016

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

Nine Months Ended September 30, 2016

| | AUM Beginning Balance | Inflows | Outflows | Net Flows | Market Value Appreciation/ (Depreciation) | Foreign Exchange Appreciation/ (Depreciation) | AUM Ending Balance |
|--------------|-----------------------------|------------------|--------------------|-----------------|---|--|--------------------------|
| | (\$ in millions) | | | | | | |
| Equity | \$ 151,495 | \$ 24,161 | \$ (21,497) | \$ 2,664 | \$ 10,427 | \$ 2,746 | \$ 167,332 |
| Fixed Income | 30,387 | 5,158 | (4,463) | 695 | 2,155 | 722 | 33,959 |
| Other | 4,498 | 708 | (1,202) | (494) | 206 | (61) | 4,149 |
| Total | <u>\$ 186,380</u> | <u>\$ 30,027</u> | <u>\$ (27,162)</u> | <u>\$ 2,865</u> | <u>\$ 12,788</u> | <u>\$ 3,407</u> | <u>\$ 205,440</u> |

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

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

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

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

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

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

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

Asset Management Results of Operations

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

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

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

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

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

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

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

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

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

Corporate

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-----------------------------|-------------------------------------|-------------|------------------------------------|-------------|
| | 2017 | 2016 | 2017 | 2016 |
| | (\$ in thousands) | | | |
| Interest Income | \$ 1,706 | \$ 751 | \$ 3,731 | \$ 2,450 |
| Interest Expense | (13,976) | (12,918) | (41,290) | (38,238) |
| Net Interest (Expense) | (12,270) | (12,167) | (37,559) | (35,788) |
| Other Revenue (Expense) | 9,664 | 8,831 | 33,899 | 10,903 |
| Net Revenue (Expense) | (2,606) | (3,336) | (3,660) | (24,885) |
| Operating Expenses (Credit) | 17,923 | 14,930 | 52,869 | 16,196 |
| Operating Income (Loss) | \$ (20,529) | \$ (18,266) | \$ (56,529) | \$ (41,081) |

Corporate Results of Operations

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

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

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

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

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

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

Net interest expense increased \$2 million, or 5%, as compared to the 2016 period.

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

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

Cash Flows

The Company's cash flows are influenced primarily by the timing of the receipt of Financial Advisory and Asset Management fees, the timing of distributions to members, payments of incentive compensation to managing directors and employees and purchases of Lazard Ltd Class A common stock. M&A and Strategic Advisory and Asset Management fees are generally collected within 60 days of billing, while Restructuring fee collections may extend beyond 60 days, particularly those that involve bankruptcies with court-ordered holdbacks. Fees from our Private Capital Advisory (which we historically referred to as Private Fund Advisory) activities are generally collected over a four-year period from billing and typically include an interest component.

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

Summary of Cash Flows:

| | Nine Months Ended September 30, | |
|--|------------------------------------|--------------|
| | 2017 | 2016 |
| | (\$ in millions) | |
| Cash Provided By (Used In): | | |
| Operating activities: | | |
| Net income | \$ 392 | \$ 312 |
| Adjustments to reconcile net income to net cash provided by operating activities (a) | 311 | 298 |
| Other operating activities (b) | (8) | (276) |
| Net cash provided by (used in) operating activities | 695 | 334 |
| Investing activities | (15) | (21) |
| Financing activities (c) | (635) | (506) |
| Effect of exchange rate changes | 66 | - |
| Net Increase (Decrease) in Cash and Cash Equivalents | 111 | (193) |
| Cash and Cash Equivalents: | | |
| Beginning of Period | 1,131 | 1,026 |
| End of Period | \$ 1,242 | \$ 833 |

(a) Consists of the following:

| | Nine Months Ended September 30, | |
|---|------------------------------------|---------------|
| | 2017 | 2016 |
| | (\$ in millions) | |
| Depreciation and amortization of property | \$ 23 | \$ 25 |
| Amortization of deferred expenses and stock units | 284 | 276 |
| Deferred tax provision (benefit) | 2 | (5) |
| Amortization and other acquisition-related costs | 2 | 2 |
| Total | \$ 311 | \$ 298 |

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

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

Liquidity and Capital Resources

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

Operating Activities

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

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

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

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

We regularly monitor our liquidity position, including cash levels, credit lines, principal investment commitments, interest and principal payments on debt, capital expenditures, distributions to members, purchases of shares of Lazard Ltd Class A common stock and matters relating to liquidity and to compliance with regulatory net capital requirements. At September 30, 2017, Lazard had approximately \$1,242 million of cash, with such amount including approximately \$606 million held at Lazard’s operations outside the U.S. Since Lazard provides for U.S. income taxes on substantially all of its unrepatriated foreign earnings, we expect that no material amount of additional U.S. income taxes would be recognized upon receipt of dividends or distributions of such earnings from our foreign operations.

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

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

Financing Activities

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

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

Lazard's annual cash flow generated from operations historically has been sufficient to enable it to meet its annual obligations. We believe that our cash flows from operating activities, along with the use of our credit lines as needed, should be sufficient for us to fund our current obligations for the next 12 months.

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

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

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

Members' Equity

At September 30, 2017, total members' equity was \$778 million, as compared to \$736 million at December 31, 2016, including \$718 million and \$679 million attributable to Lazard Group on the respective dates. The net activity in members' equity during the nine month period ended September 30, 2017 is reflected in the table below (in millions of dollars):

| | |
|--|---------------|
| Members' Equity - January 1, 2017 | \$ 736 |
| Adjustment for the cumulative effect on prior years from the adoption of new accounting guidance related to share-based incentive compensation | 5 |
| Balance, as adjusted, January 1, 2017 | 741 |
| Increase (decrease) due to: | |
| Net income | 392 |
| Other comprehensive income | 46 |
| Amortization of share-based incentive compensation | 221 |
| Purchase of Lazard Ltd Class A common stock | (253) |
| Settlement of share-based incentive compensation (a) | (67) |
| Distributions to members and noncontrolling interests, net | (298) |
| Other - net | (4) |
| Members' Equity - September 30, 2017 | <u>\$ 778</u> |

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

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

| <u>Nine Months Ended September 30:</u> | <u>Number of Shares</u> | <u>Average Price Per Share</u> | |
|--|-------------------------|--------------------------------|-------|
| 2016 | 6,656,250 | \$ | 34.38 |
| 2017 | 5,838,520 | \$ | 43.25 |

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

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

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

The Company plans to continue to deploy excess cash and may do so in a variety of ways, which may include repurchasing outstanding shares of Lazard Ltd Class A common stock, distributions to members and noncontrolling interest holders and repurchasing its outstanding debt.

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

Regulatory Capital

We actively monitor our regulatory capital base. Our principal subsidiaries are subject to regulatory requirements in their respective jurisdictions to ensure their general financial soundness and liquidity, which require, among other things, that we comply with certain minimum capital requirements, record-keeping, reporting procedures, relationships with customers, experience and training requirements for employees and certain other requirements and procedures. These regulatory requirements may restrict the flow of funds to and from affiliates. See Note 16 of Notes to Condensed Consolidated Financial Statements for further information. These regulations differ in the U.S., the U.K., France and other countries in which we operate. Our capital structure is designed to provide each of our subsidiaries with capital and liquidity consistent with its business and regulatory requirements. For a discussion of regulations relating to us, see Item 1, "Business—Regulation" included in our Form 10-K.

Contractual Obligations

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

| | <u>Contractual Obligations Payment Due by Period</u> | | | | |
|---|--|-------------------------|-------------------|-------------------|--------------------------|
| | <u>Total</u> | <u>Less than 1 Year</u> | <u>1-3 Years</u> | <u>3-5 Years</u> | <u>More than 5 Years</u> |
| | (\$ in thousands) | | | | |
| Senior debt (including interest) (a) | \$ 1,489,479 | \$ 47,125 | \$ 94,250 | \$ 562,375 | \$ 785,729 |
| Operating leases (exclusive of \$42,410 of committed sublease income) | 813,656 | 84,656 | 144,277 | 130,499 | 454,224 |
| Investment capital funding commitments (b) | 10,085 | 10,085 | | | |
| Total (c) | <u>\$ 2,313,220</u> | <u>\$ 141,866</u> | <u>\$ 238,527</u> | <u>\$ 692,874</u> | <u>\$ 1,239,953</u> |

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

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

- (c) The table above excludes contingent obligations, as well as any possible payments for uncertain tax positions given the inability to make a reasonably reliable estimate of the timing of the amounts of any such payments. See also Notes 10, 12, 13 and 14 of Notes to Condensed Consolidated Financial Statements regarding information in connection with commitments, incentive plans, employee benefit plans and income taxes, respectively.

Critical Accounting Policies and Estimates

Management's discussion and analysis of our condensed consolidated financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in conformity with U.S. GAAP. The preparation of Lazard's condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, Lazard evaluates its estimates, including those related to revenue recognition, income taxes, investing activities and goodwill. Lazard bases these estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments, including judgments regarding the carrying values of assets and liabilities, that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Revenue Recognition

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

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

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

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

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

Compensation Liabilities

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

Income Taxes

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

We recognize a deferred tax asset if it is more likely than not (defined as a likelihood of greater than 50%) that a tax benefit will be accepted by a taxing authority. The measurement of deferred tax assets and liabilities is based upon currently enacted tax rates in the applicable jurisdictions. At December 31, 2016, on a consolidated basis, we recorded gross deferred tax assets of approximately \$138 million, with such amount partially offset by a valuation allowance of approximately \$55 million (as described below).

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

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

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

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

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

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

Certain of our tax-paying entities have individually experienced losses on a cumulative three year basis. In addition, one of our tax-paying entities has recorded a valuation allowance on substantially all of its deferred tax assets due to the combined effect of operating losses in certain subsidiaries of that entity as well as foreign taxes that together substantially offset any U.S. tax liability. Taking into account all available information, we cannot determine that it is more likely than not that deferred tax assets held by these entities will be realized. Consequently, we have recorded valuation allowances on \$55 million of deferred tax assets held by these entities as of December 31, 2016.

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

On January 1, 2017, we adopted new accounting guidance on share-based incentive compensation. As a result of the adoption of this new guidance, we recognized excess tax benefits of \$2.0 million from the vesting of share-based incentive compensation in the provision for income taxes in the condensed consolidated statements of operations for the nine month period ended September 30, 2017. Upon adoption of the new guidance, we also recorded deferred tax assets of \$4.9 million, net of a valuation allowance of \$12.1 million, for previously unrecognized excess tax benefits (including tax benefits from dividends or dividend equivalents) on share-based incentive compensation, with an offsetting adjustment to retained earnings. See Notes 2 and 14 of Notes to Condensed Consolidated Financial Statements for further information on the adoption of this new guidance. The new guidance has since January 1, 2017 affected, and the Company expects that in future periods the new guidance will affect, the provision for income taxes for the delivery of stock under share-based incentive compensation arrangements, as well as the effective tax rate in the relevant periods, which could be material to the condensed consolidated statements of operations and the classification of cash flows in the relevant periods.

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

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

Investments

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

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

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

Data relating to investments is set forth below:

| | September 30, 2017 | December 31, 2016 |
|--|-----------------------|----------------------|
| | (\$ in thousands) | |
| Seed investments by asset class: | | |
| Equities (a) | \$ 110,835 | \$ 99,669 |
| Fixed income | 17,972 | 16,406 |
| Alternative investments | 8,293 | 18,172 |
| Total seed investments | <u>137,100</u> | <u>134,247</u> |
| Other investments owned: | | |
| Private equity (b) | 58,371 | 96,089 |
| Interest-bearing deposits (c) | 552 | 456 |
| Fixed income and other | 23,827 | 22,908 |
| Total other investments owned | <u>82,750</u> | <u>119,453</u> |
| Subtotal | <u>219,850</u> | <u>253,700</u> |
| Add: | | |
| Equity method (d) | 222 | 222 |
| Private equity consolidated, not owned (e) | 20,005 | 26,332 |
| LFI (f) | 186,871 | 179,168 |
| Total investments | <u>\$ 426,948</u> | <u>\$ 459,422</u> |

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

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

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

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

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

As of September 30, 2017 and December 31, 2016, the Company did not consolidate or deconsolidate any seed investment entities or LFI investment entities. As such, 100% of the recorded balance of seed investments and LFI investments as of September 30, 2017 and December 31, 2016 represented the Company’s economic interest in the seed investments. See “—Consolidation of Variable Interest Entities” below for more information on the Company’s policy regarding the consolidation of seed investment entities.

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

Assets Under Management

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

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

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

Goodwill

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

Consolidation

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

- **Voting Interest Entities.** VOEs are entities in which (i) the total equity investment at risk is sufficient to enable the entity to finance itself independently and (ii) the equity holders have the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. Lazard is required to consolidate a VOE if it holds a majority of the voting interest in such VOE.
- **Variable Interest Entities.** VIEs are entities that lack one or more of the characteristics of a VOE. If Lazard has a variable interest, or a combination of variable interests, in a VIE, it is required to analyze whether it needs to consolidate such VIE. Lazard is required to consolidate a VIE if we are the primary beneficiary having (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of, or receive benefits from, the VIE that could be potentially significant to the VIE.

Lazard's involvement with various entities that are VOEs or VIEs primarily arises from investment management contracts with fund entities in our Asset Management business. Lazard is not required to consolidate such entities because, with the exception of certain seed investments, as discussed below, we do not hold more than an inconsequential equity interest in such entities and we do not hold other variable interests (including our investment management agreements, which do not meet the definition of variable interests) in such entities.

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

Generally, when the Company initially invests to seed an investment entity, the Company is the majority owner of the entity. Our majority ownership in seed investment entities represents a controlling interest, except when we are the general partner in such entities and the third-party investors have the right to replace the general partner. To the extent material, we consolidate seed investment entities in which we own a controlling interest, and we would deconsolidate any such entity when we no longer have a controlling interest in such entity.

Risk Management

Investments

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

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

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

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

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

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

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

Risks Related to Receivables

We maintain an allowance for doubtful accounts to provide coverage for probable losses from our receivables. We determine the adequacy of the allowance by estimating the probability of loss based on our analysis of the client's creditworthiness, among other things, and specifically provide for exposures where we determine the receivables are impaired. At September 30, 2017, total receivables amounted to \$571 million, net of an allowance for doubtful accounts of \$27 million. As of that date, Financial Advisory and Asset Management fees, receivables from Lazard Ltd subsidiaries and customer receivables comprised 79%, 3% and 18% of total receivables, respectively. At December 31, 2016, total receivables amounted to \$667 million, net of an allowance for doubtful accounts of \$16 million. As of that date, Financial Advisory and Asset Management fees, receivables from Lazard Ltd subsidiaries and customer receivables comprised 85%, 4% and 11% of total receivables, respectively. At September 30, 2017 and December 31, 2016, the Company had receivables past due or deemed uncollectible of approximately \$44 million and \$22 million, respectively. See also "Critical Accounting Policies and Estimates—Revenue Recognition" above and Note 3 of Notes to Condensed Consolidated Financial Statements for additional information regarding receivables.

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

Credit Concentrations

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

Risks Related to Derivatives

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

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

Risks Related to Cash and Cash Equivalents and Corporate Indebtedness

A significant portion of the Company's indebtedness has fixed interest rates, while its cash and cash equivalents generally have market interest rates. Based on account balances as of September 30, 2017, Lazard estimates that its annual operating income relating to cash and cash equivalents would increase by approximately \$12 million in the event interest rates were to increase by 1% and decrease by approximately \$12 million if rates were to decrease by 1%.

As of September 30, 2017, the Company's cash and cash equivalents totaled approximately \$1,242 million. Substantially all of the Company's cash and cash equivalents were invested in (i) highly liquid institutional money market funds (a significant majority of which were invested solely in U.S. Government or agency money market funds), (ii) in short-term interest bearing and non-interest bearing accounts at a number of leading banks throughout the world, and (iii) in short-term certificates of deposit from such banks. Cash and cash equivalents are constantly monitored. On a regular basis, management reviews its investment profile as well as the credit profile of its list of depositor banks in order to adjust any deposit or investment thresholds as necessary.

Operational Risk

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

Recent Accounting Developments

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Risk Management

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

Item 4. Controls and Procedures

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

Not applicable.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

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

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

PART IV

Item 6. Exhibits

- 3.1 [Certificate of Formation of the Registrant \(incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement \(File No. 333-126751\) on Form S-4 filed on July 21, 2005\).](#)
- 3.2 [Certificate of Amendment of Certificate of Formation of the Registrant, changing name to Lazard Group LLC \(incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement \(File No. 333-126751\) on Form S-4 filed on July 21, 2005\).](#)
- 3.3 [Amended and Restated Operating Agreement of the Registrant, dated as of October 26, 2015 \(incorporated by reference to Exhibit 3.3 to the Registrant's Quarterly Report \(File No. 333-126751\) on Form 10-Q filed on October 28, 2015\).](#)
- 3.4 [Amendment No.1 to Amended and Restated Operating Agreement of the Registrant, dated as of October 27, 2016 \(incorporated by reference to Exhibit 3.4 to the Registrant's Quarterly Report on Form 10-Q filed on October 28, 2016\).](#)
- 4.1 [Indenture, dated as of May 10, 2005, by and between the Registrant and The Bank of New York, as Trustee \(incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement \(File No. 333-126751\) on Form S-4 filed on July 21, 2005\).](#)
- 4.2 [Fourth Supplemental Indenture, dated as of June 21, 2007, between the Registrant and The Bank of New York, as trustee \(incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K \(File No. 333-126751\) filed on June 22, 2007\).](#)
- 4.3 [Fifth Supplemental Indenture, dated as of November 14, 2013, between the Registrant and The Bank of New York Mellon, as trustee \(incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K \(File No 333-126751\) filed on November 14, 2013\).](#)
- 4.4 [Sixth Supplemental Indenture, dated as of February 13, 2015, between the Registrant and The Bank of New York Mellon, as trustee \(incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K \(File No. 333-126751\) filed on February 13, 2015\).](#)
- 4.5 [Seventh Supplemental Indenture, dated as of November 4, 2016, between Lazard Group LLC and the Bank of New York Mellon, as trustee \(incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K \(File No. 333-126751\) filed on November 7, 2016\).](#)
- 4.6 Form of Senior Note (included in Exhibits [4.2](#), [4.3](#), [4.4](#) and [4.5](#)).
- 10.1 [Lease, dated as of January 27, 1994, by and between Rockefeller Center Properties and Lazard Frères & Co. LLC \(incorporated by reference to Exhibit 10.19 to Lazard Ltd's Registration Statement \(File No. 333-121407\) on Form S-1/A filed on February 11, 2005\).](#)
- 10.2 [Fourth Amendment dated as of February 16, 2011, by and among RCPI Landmark Properties, L.L.C. \(as the successor in interest to Rockefeller Center Properties\), RCPI 30 Rock 22234849, L.L.C. and Lazard Group LLC \(as the successor in interest to Lazard Frères & Co. LLC\), to the Lease dated as of January 27, 1994, by and among Rockefeller Center Properties and Lazard Frères & Co. LLC \(incorporated by reference to Exhibit 10.15 to the Registrant's Quarterly Report \(File No. 333-126751\) on Form 10-Q filed on April 29, 2011\).](#)
- 10.3 [Occupational Lease, dated as of August 9, 2002, by and among Burford \(Stratton\) Nominee 1 Limited, Burford \(Stratton\) Nominee 2 Limited, Burford \(Stratton\) Limited, Lazard & Co., Limited and Lazard LLC \(incorporated by reference to Exhibit 10.21 to Lazard Ltd's Registration Statement \(File No. 333-121407\) on Form S-1/A filed on February 11, 2005\).](#)
- 10.4* [Lazard Ltd's 2005 Equity Incentive Plan \(incorporated by reference to Exhibit 10.21 to Lazard Ltd's Registration Statement \(File No. 333-121407\) on Form S-1/A filed on May 2, 2005\).](#)
- 10.5* [Lazard Ltd's 2008 Incentive Compensation Plan \(incorporated by reference to Annex B to Lazard Ltd's Definitive Proxy Statement on Schedule 14A \(File No. 001-32492\) filed on March 24, 2008\).](#)
- 10.6* [Lazard Ltd's 2016 French Sub-plan \(incorporated by reference to Annex B to Lazard Ltd's Definitive Proxy Statement on Schedule 14A \(File No. 001-32492\) filed on March 10, 2016\).](#)
- 10.7* [Amended and Restated Agreement relating to Retention and Noncompetition and Other Covenants, dated as of March 9, 2016, by and among the Registrant, Lazard Ltd and Kenneth M. Jacobs \(incorporated by reference to Exhibit 10.7 to the Registrant's Quarterly Report \(File No. 333-126751\) on Form 10-Q filed on April 27, 2016\).](#)

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| 10.8* | <u>Amended and Restated Agreement relating to Retention and Noncompetition and Other Covenants, dated as of March 9, 2016, by and among the Registrant, Lazard Ltd and Ashish Bhutani (incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report (File No. 333-126751) on Form 10-Q filed on April 27, 2016).</u> |
| 10.9* | <u>Amended and Restated Agreement relating to Retention and Noncompetition and Other Covenants, dated as of March 9, 2016, by and among the Registrant, Lazard Ltd and Matthieu Bucaille (incorporated by reference to Exhibit 10.9 to the Registrant's Quarterly Report (File No 333-126751) on Form 10-Q filed on April 27, 2016).</u> |
| 10.10* | <u>Amended and Restated Agreement relating to Retention and Noncompetition and Other Covenants, dated as of March 9, 2016, by and among the Registrant, Lazard Ltd and Scott D. Hoffman (incorporated by reference to Exhibit 10.10 to Registrant's Quarterly Report (File No. 333-126751) on Form 10-Q filed on April 27, 2016</u> |
| 10.11* | <u>Amendment, dated as of October 30, 2017, to Amended and Restated Agreement relating to Retention and Noncompetition and Other Covenants, dated as of March 9, 2016, by and among Lazard Ltd, the Registrant and Scott D. Hoffman.</u> |
| 10.12* | <u>Agreement relating to Retention and Noncompetition and Other Covenants, dated as of October 30, 2017, by and among Lazard Ltd, the Registrant and Evan L. Russo.</u> |
| 10.13* | <u>Amended and Restated Agreement relating to Retention and Noncompetition and Other Covenants, dated as of March 9, 2016, by and among the Registrant, Lazard Ltd and Alexander F. Stern (incorporated by reference to Exhibit 10.11 to Registrant's Quarterly Report (File No 333-126751) on Form 10-Q filed on April 27, 2016).</u> |
| 10.14* | <u>Form of Award Letter for Annual Grant of Deferred Stock Units to Non-Executive Directors (incorporated by reference to Exhibit 99.1 to Lazard Ltd's Current Report on Form 8-K (File No. 001-32492) filed on September 8, 2005).</u> |
| 10.15* | <u>Form of Agreement evidencing a grant of Restricted Stock Units to Executive Officers under the 2008 Incentive Compensation Plan (incorporated by reference to Exhibit 10.41 to Lazard Ltd's Annual Report (File No. 001-32492) on Form 10-K filed on March 2, 2009).</u> |
| 10.16* | <u>Form of Agreement evidencing a grant of Deferred Cash Award to Executive Officers (incorporated by reference to Exhibit 10.42 to Lazard Ltd's Annual Report (File No. 001-32492) on Form 10-K filed on March 2, 2009).</u> |
| 10.17* | <u>Directors' Fee Deferral Unit Plan (incorporated by reference to Exhibit 10.39 to Lazard Ltd's Quarterly Report (File No.001-32492) on Form 10-Q filed on May 11, 2006).</u> |
| 10.18 | <u>Amended and Restated Credit Agreement, dated as of September 25, 2015, among the Registrant, the Banks from time to time parties thereto, and Citibank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.25 to the Registrant's Quarterly Report (File No. 333-126751) on Form 10-Q filed on October 28, 2015).</u> |
| 10.19* | <u>Form of Agreement evidencing a grant of Lazard Fund Interests to Named Executive Officers (incorporated by reference to Exhibit 10.54 to the Registrant's Quarterly Report (File No. 333-126751) on Form 10-Q filed on May 1, 2013).</u> |
| 10.20* | <u>Form of Agreement evidencing a February 20, 2014 grant of Performance-Based Stock Units under the 2008 Incentive Compensation Plan (incorporated by reference to Exhibit 10.54 to the Registrant's Quarterly Report (File No. 333-126751) on Form 10-Q filed on May 6, 2014).</u> |
| 10.21* | <u>Agreement between Lazard Ltd and Kenneth M. Jacobs, dated as of February 20, 2014, evidencing a grant of Performance-Based Stock Units under the 2008 Incentive Compensation Plan (incorporated by reference to Exhibit 10.55 to the Registrant's Quarterly Report (File No. 333-126751) on Form 10-Q filed on May 6, 2014).</u> |
| 12.1 | <u>Computation of Ratio of Earnings to Fixed Charges.</u> |
| 31.1 | <u>Rule 13a-14(a) Certification of Kenneth M. Jacobs.</u> |
| 31.2 | <u>Rule 13a-14(a) Certification of Evan L. Russo.</u> |
| 32.1 | <u>Section 1350 Certification for Kenneth M. Jacobs.</u> |
| 32.2 | <u>Section 1350 Certification for Evan L. Russo.</u> |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase |

101.DEF XBRL Taxonomy Extension Definition Linkbase
101.LAB XBRL Taxonomy Extension Label Linkbase
101.PRE XBRL Taxonomy Extension Presentation Linkbase

* Management contract or compensatory plan or arrangement.

SIGNATURES

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

Dated: October 30, 2017

LAZARD GROUP LLC

By: /s/ Evan L. Russo

Name: Evan L. Russo

Title: Chief Financial Officer

By: /s/ Dominick Ragone

Name: Dominick Ragone

Title: Chief Accounting Officer

October 30, 2017

Mr. Scott D. Hoffman
Lazard Frères & Co. LLC
30 Rockefeller Plaza
New York, NY 10020

Re: Amendment to Retention Agreement to Reflect Chief Administrative Officer Position

Dear Mr. Hoffman:

In connection with your appointment as Chief Administrative Officer of Lazard Ltd ("Lazard") and Lazard Group LLC ("Lazard Group"), effective July 26, 2017, Lazard, Lazard Group and you desire to amend the Amended and Restated Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of March 9, 2016, by and among Lazard, Lazard Group and you (the "Retention Agreement") to reflect such new position. Accordingly, Lazard, Lazard Group and you hereby agree that, effective as of the date hereof, clause (i) of Section 3(b) of the Retention Agreement shall be amended to read as follows: "(i) serve as the General Counsel of Lazard and Lazard Group and as the Chief Administrative Officer of Lazard and Lazard Group, with such authority, duties and responsibilities as are consistent with the authority, duties and responsibilities exercised by the Executive on October 30, 2017,".

Except as specifically set forth herein, this letter amendment shall not, by implication or otherwise, alter, amend or modify in any way any terms of the Retention Agreement, all of which shall continue in full force and effect.

[Remainder of the page intentionally left blank]

Very truly yours,

LAZARD LTD,

by /s/ Kenneth M. Jacobs
Name: Kenneth M. Jacobs
Title: Chairman and Chief Executive Officer

LAZARD GROUP LLC,

by /s/ Kenneth M. Jacobs
Name: Kenneth M. Jacobs
Title: Chairman and Chief Executive Officer

AGREED TO AND ACCEPTED:

/s/ Scott D. Hoffman
Scott D. Hoffman
Date: October 30, 2017

AGREEMENT RELATING TO RETENTION AND
NONCOMPETITION AND OTHER COVENANTS

AGREEMENT, dated as of October 30, 2017 (this “Agreement”), by and among Lazard Ltd, a company incorporated under the laws of Bermuda (“Lazard”), Lazard Group LLC, a Delaware limited liability company (“Lazard Group”), on its behalf and on behalf of its subsidiaries and affiliates (collectively with Lazard and Lazard Group, and its and their predecessors and successors, the “Firm”), and Evan L. Russo (the “Executive”).

WHEREAS, as of the date hereof, the Executive is the Chief Financial Officer of Lazard and Lazard Group.

NOW, THEREFORE, in consideration of the premises contained herein and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Executive, Lazard and Lazard Group hereby agree as follows:

1. Term. Subject to Section 10(c) and to Section 16(b), the “Term” of this Agreement shall commence as of the date hereof and, except as set forth in the remainder of this Section 1, shall continue indefinitely until terminated in accordance with this Section 1. Notwithstanding the foregoing, certain provisions of this Agreement will expire upon March 31, 2019, subject to earlier termination in accordance with this Agreement (the date of termination of such terms, the “Specified Expiration Date”), provided that, upon a Change in Control (as defined in Lazard’s 2008 Incentive Compensation Plan, as it may be amended from time to time, or any successor plan thereto (the “Plan”)), the Specified Expiration Date shall automatically be extended so that it occurs not less than two years from the effective date of such Change in Control. Any party to this Agreement may terminate the Term (and the Executive’s employment) upon three months’ prior written notice to the other party; provided, however, that such notice (or pay in lieu of notice) shall not be required in the event of the termination of the Executive’s employment by reason of the Executive’s death or “disability” (within the meaning of the long-term disability plan of the Firm applicable to the Executive) (“Disability”) or by the Firm for Cause (as defined in Section 3(e) below), may be waived by the Firm in the event of receipt of notice of a termination by the Executive or may, if the Firm wishes to terminate the Term with immediate effect, be satisfied by providing the Executive with his base salary during such three-month period in lieu of such notice; provided further that such notice requirements shall not apply in the event the Executive terminates his employment for any of the circumstances described in clauses (i)-(iii) of the definition of Good Reason provided in Section 3(e) below.

2. [Reserved]

3. Continued Employment. (a) Employment. The Executive hereby agrees to continue in the employ of the Firm, subject to the terms and conditions of this Agreement.

(b) Duties and Responsibilities; Code of Conduct. During the Term until the Specified Expiration Date, the Executive shall continue to (i) serve as the Chief Financial Officer of Lazard and Lazard Group, with such authority, duties and responsibilities as are consistent with the authority, duties and responsibilities exercised by the Executive on the date hereof, (ii) report directly to the Firm's Chief Executive Officer and the Audit Committee of the Board of Directors of Lazard and (iii) other than in respect of charitable, educational and similar activities that do not materially affect the Executive's duties to the Firm (or in respect of directorships, trusteeships, or similar posts, in each case, that are approved by the Firm's Chief Executive Officer), devote his entire working time, labor, skill and energies to the business and affairs of the Firm. During the Term, the Executive shall comply with the Firm's professional code of conduct as in effect from time to time and shall execute on an annual basis and at such additional times as the Firm may reasonably request such code as set forth in the Firm's "Professional Conduct Manual" or other applicable manual or handbook of the Firm as in effect from time to time and applicable to managing directors in the same geographic location as the Executive.

(c) Compensation.

(i) Base Salary. During the period commencing on October 1, 2017 and ending on the Specified Expiration Date, subject to the Executive's continued employment hereunder, the Executive shall be entitled to receive an annual base salary of not less than \$750,000 ("Base Salary"). For purposes of this Agreement, the term Base Salary shall refer to Base Salary as in effect from time to time, including any increases thereto. During the portion of the Term commencing after the Specified Expiration Date, subject to the Executive's continued employment hereunder, the Executive shall be paid an annualized base salary in the amount of the Executive's base salary as in effect on the Specified Expiration Date, payable in the same manner as other managing directors in the same geographic location are paid. The Executive's base salary shall be subject to annual review and increase, but not decrease, unless such decrease is in line with an across-the-board base salary decrease to all managing directors in the same geographic location as the Executive.

(ii) Annual Bonus. During the Term, subject to the Executive's continued employment hereunder through the date of payment, the Executive may be awarded an annual bonus in an amount determined in the sole discretion of the Compensation Committee of the Board of Directors of Lazard (the "Compensation Committee"). A portion of any such annual bonus may be satisfied in the form of equity compensation or deferred awards which may be subject to vesting conditions or restrictive covenants. Notwithstanding the foregoing, prior to the Specified Expiration Date, so long as the Executive remains employed by the Firm through the end of the applicable fiscal year of Lazard (except as otherwise provided below in this Section 3), Executive shall be entitled to receive an annual bonus to be determined under the terms of the applicable annual bonus plan of Lazard Group on the same basis as annual bonuses are determined for other executive officers of Lazard, with such annual bonus to be paid at the same time(s) and in the same ratio of cash to equity and deferred awards as is applicable to executives of the Firm receiving annual bonuses at a level comparable to the annual bonus of the Executive.

(iii) Long-term Incentive Compensation. Subject to the Executive's continued employment hereunder, the Executive shall be eligible to participate in any equity incentive plan for executives of the Firm as may be in effect from time to time, in accordance with the terms of any such plan.

(iv) Employee Benefit Plans. Subject to the Executive's continued employment, the Executive shall continue to be eligible to participate in the employee retirement and welfare benefit plans and programs of the type made available to the Firm's managing directors generally (or, until the period ending on the Specified Expiration Date, those made available to the senior most executives of the Firm generally), in accordance with their terms and as such plans and programs may be in effect from time to time, including savings, profit-sharing and other retirement plans or programs, 401(k), medical, dental, flexible spending account, hospitalization, short-term and long-term disability and life insurance plans.

(d) Severance Pay and Benefits under Certain Circumstances. (i) Except as set forth in Section 3(d)(ii) below, the Executive's employment hereunder shall be at-will and not for a definite period or duration. Except as set forth in Section 3(d)(ii) below, subject to the Executive's right to continue to receive his base salary during the three-month notice period (to the extent not waived by the Firm) provided in Section 1, the Executive shall not be entitled under this Agreement to any severance payments or benefits or, in the absence of a breach of this Agreement by the Firm, any other damages under this Agreement upon termination of the Term or his employment with the Firm for any reason.

(ii) Notwithstanding anything to the contrary contained in Section 3(d)(i), in the event that prior to the Specified Expiration Date the Executive's employment with the Firm is terminated by the Firm without Cause or by the Executive for Good Reason (in each case, as defined in Section 3(e) below) (a "Qualifying Termination"), the terms of this Section 3(d)(ii) shall apply. Lazard Group shall pay the Executive (subject to the Executive delivering a waiver and release in accordance with Section 3(d)(iii) in the event such Qualifying Termination occurs prior to a Change in Control), in a lump sum in cash on the 61st day after the Date of Termination (as defined in Section 3(e) below), the aggregate of the following amounts: (A) any unpaid Base Salary through the Date of Termination; (B) any earned and unpaid bonus amounts for fiscal years of Lazard completed prior to the Date of Termination (determined in accordance with Section 3(c)(ii) and with any such bonus to be paid in full in cash); and (C) two times the sum of (x) the Base Salary and (y) the average annual bonus (or, to the extent applicable, cash distributions, and including any bonuses paid in the form of equity-based or fund interest awards based on the grant date value of such awards in accordance with the normal valuation methodology used by Lazard) paid or payable (including any such amounts that may be deferred under any plan or arrangement of the Firm) to the Executive for the two completed fiscal years of Lazard immediately preceding the fiscal year during which occurs the Date of Termination (the "Average Bonus"). In addition, upon a Qualifying Termination, for 24 months (the "Benefit Continuation Period"), the Executive and his eligible dependents shall continue to be eligible to participate in the medical and dental benefit plans of Lazard Group on the same basis as the Executive participated in such plans immediately prior to the Date of Termination, to the extent that the applicable plan permits such continued participation for all or any portion of such period (it being agreed that Lazard Group will use its reasonable best efforts to cause such continued coverage to be permitted under the applicable plan for the entire Benefit Continuation Period),

which Benefit Continuation Period shall not run concurrently with or reduce the Executive's right to continued coverage under COBRA and to the extent permitted under the applicable plan, the Executive will receive additional years of age and service credit equal to the Severance Multiple for purposes of determining his eligibility for and right to commence receiving benefits under the retiree health care benefit plans of Lazard Group. For purposes of the provision of the health care benefits as provided above, the amount of such health care benefits provided in any given calendar year shall not affect the amount of such benefits provided in any other calendar year, and the Executive's right to the health care benefits may not be liquidated or exchanged for any other benefit. In addition, in the case of (1) a Qualifying Termination prior to the Specified Expiration Date or (2) the Executive's death or termination due to Disability prior to the Specified Expiration Date, with respect to the fiscal year of Lazard during which the Date of Termination occurs, the Executive or his estate, as applicable, shall receive a pro-rata annual bonus payable in cash determined as follows:

I. if, with respect to the fiscal year during which the Date of Termination occurs (other than (x) as a result of the Executive's death or Disability or (y) following a Change in Control), (a) the Executive was reasonably expected by Lazard to be a "covered employee" (within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended and the regulations promulgated thereunder (the "Code")) prior to his Date of Termination, and (b) the annual bonus that the Executive was eligible to receive for such year was originally intended by Lazard to satisfy the performance-based exception under Section 162(m) of the Code (without regard to any entitlement to payment upon termination of employment), then the Executive's pro-rata annual bonus shall equal the product of (i) the amount determined by the Compensation Committee based on the Firm's actual performance for the fiscal year of the Firm in which the Date of Termination occurs on the same basis as annual bonuses are determined for other executive officers of the Firm (which, subject to the limits on any such bonus due to the level of satisfaction of the performance goals previously established for purposes of Section 162(m) of the Code, shall not represent (on an annualized basis) a percentage of the Executive's bonus for the fiscal year preceding the fiscal year in which the Date of Termination occurs that is lower than the average corresponding percentage applicable to active executives of Lazard Group who received bonuses for such prior fiscal year in amounts within 5% of the Executive's bonus for such prior fiscal year), and (ii) a fraction, the numerator of which is the number of days elapsed in the fiscal year of Lazard in which occurs the Date of Termination through the Date of Termination, and the denominator of which is 365 (the "Pro-Ration Fraction"); or

II. if, either (x) with respect to the fiscal year during which the Date of Termination occurs, (a) the Executive is not reasonably expected by Lazard to be a "covered employee" (within the meaning of Section 162(m) of the Code) prior to his Date of Termination or (b) such termination is a result of the Executive's death or Disability or occurs following a Change in Control or (y) the annual bonus that the Executive was eligible to receive for the year in which the Date of Termination occurs was not originally intended by Lazard to satisfy the performance-based exception under Section 162(m) of the Code, then the pro-rata annual bonus shall equal the product of (i) the Average Bonus and (ii) the Pro-Ration Fraction.

The pro-rata annual bonus determined pursuant to clause (I) or (II) above, as applicable, shall be paid at such time or times as Lazard Group otherwise makes incentive payments for such fiscal year (and in all events no earlier than January 1st, and no later than March 15th, of the year following the year in which the Date of Termination occurs).

(iii) Notwithstanding any provision of Section 3(d)(ii), the payments and benefits (other than any earned and unpaid compensation described in clauses (A) and (B) of Section 3(d)(ii)) payable to the Executive pursuant to Section 3(d)(ii) upon a Qualifying Termination prior to a Change in Control shall be subject to and conditioned upon the Executive having delivered to the Firm, no later than the 60th day after the Date of Termination, a waiver and general release of claims in favor of the Firm and its affiliates in the form attached hereto as Exhibit A that has become effective and irrevocable in accordance with its terms (such requirement to execute a release, the "Release Requirement"). Notwithstanding the foregoing, the Release Requirement shall lapse upon a Change in Control.

(iv) For all purposes of this Agreement, including Section 5(a), and for all purposes of the outstanding equity-based awards, fund interest awards and any similar awards (collectively, the "Awards") held by the Executive as of the Date of Termination (as defined in this Agreement), a resignation by the Executive for Good Reason during the Term shall be treated as a termination of the Executive by the Firm without Cause or as a Termination of Employment by the Firm other than for Cause (as such phrase or similar phrases are defined in the Plan) or the award agreements governing the Awards (each, an "Award Agreement")), as applicable.

(v) In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Section 3(d) and such amounts shall not be reduced whether or not the Executive obtains other employment. Except as provided in Section 16(f) of this Agreement, the Firm's obligation to make the payments and provide the benefits provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Firm may have against the Executive.

(e) Certain Definitions. For purposes of this Agreement, as applicable, the following terms shall have the following meanings:

"Cause" shall mean: (i) conviction of the Executive of, or a guilty or nolo contendere plea (or the equivalent in a non-United States jurisdiction) by the Executive to, a felony (or the equivalent in a non-United States jurisdiction), or of any other crime that legally prohibits the Executive from working for the Firm; (ii) breach by the Executive of a regulatory rule that materially adversely affects the Executive's ability to perform his duties to the Firm; (iii) willful and deliberate failure on the part of the Executive (other than any such failure resulting from incapacity due to physical or mental illness or following the Firm's termination of the Executive other than for Cause or, prior to the Scheduled Expiration Date, the Executive's termination for Good Reason in accordance with this Agreement) (A) to perform his employment duties in any material respect or (B) to follow specific reasonable directions received from the Firm's Chief Executive Officer or the Audit Committee of the Board of Directors of Lazard, in each case following written notice to the Executive of such failure and, if such failure is curable, the

Executive's failing to cure such failure within a reasonable time (but in no event less than thirty (30) days after actual receipt by the Executive of such written notice); or (iv) a breach of the Covenants (as defined in Section 10(a) below) that is (individually or combined with other such breaches) demonstrably and materially injurious to Lazard or any of its affiliates. No act or failure to act, on the part of the Executive, shall be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive's action or omission was in the best interests of the Firm. Notwithstanding the foregoing, with respect to the events described in clauses (ii), (iii)(A) and (iv) hereof, the Executive's acts or failure to act shall not constitute Cause to the extent taken (or not taken) based upon the direct instructions of the Firm's Chief Executive Officer or the Audit Committee of the Board of Directors of Lazard or upon the direct advice of counsel to the Firm. Except in the case of a termination of the Executive's employment under clause (i) of the definition of Cause, the cessation of employment of the Executive following a Change in Control shall not be deemed to be for Cause unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than two-thirds of the entire membership of the board of directors or similar governing body of the entity that is the ultimate parent of the Firm (such board, referred to as the "Applicable Board") finding that, in the good faith opinion of the Applicable Board, circumstances constituting Cause exist.

"Date of Termination" shall mean (i) if the Executive's employment is terminated by the Firm for Cause, the date of receipt of the written notice of termination from the Firm or any later date specified therein within thirty (30) days after the Executive's receipt of such notice, as the case may be, (ii) if the Executive's employment is terminated by the Firm other than for Cause or Disability, the date that is three months following the date on which the Firm notifies the Executive in writing of such termination (provided that if the Firm wishes to terminate the Term with immediate effect and provide the Executive with three months' base salary in lieu of notice in accordance with Section 1 above, then the Date of Termination shall be the date on which the Firm notifies the Executive in writing of such termination), (iii) if the Executive's employment is voluntarily terminated by the Executive without Good Reason, the date as specified by the Executive in the notice of termination, which date shall not be less than three months after the Executive notifies the Firm in writing of such termination, unless waived in writing by the Firm, (iv) if the Executive's employment is terminated by the Executive for Good Reason, the earlier of (A) the last day of the cure period (assuming no cure has occurred) and (B) the date Lazard Group formally notifies the Executive in writing that it does not intend to cure, unless Lazard Group and the Executive agree to a later date, which shall in no event be later than thirty (30) days following the first to occur of the dates set forth in clauses (A) and (B) of this clause (iv), and (v) if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the date on which the Executive's termination due to Disability is effective for purposes of the applicable long-term disability plan of the Firm, as the case may be. The Firm and the Executive shall take all steps necessary (including with regard to any post-termination services by the Executive) to ensure that any termination of the Executive's employment described in this Agreement constitutes a "separation from service" within the meaning of Section 409A of the Code, and notwithstanding anything contained herein to the contrary, (x) to the extent that any amounts owed to the Executive under this Agreement are payable upon his termination of employment and are subject to Section 409A of the Code, then to the extent required in order to comply with Section 409A of the Code, such amounts shall not be payable to the Executive unless and until his termination of employment constitutes a "separation from service," within the meaning of Section 409A of the Code, including the default presumptions thereof and (y) the date on which such separation from service takes place shall be the "Date of Termination."

“Good Reason” shall mean (i) the assignment to the Executive of any duties inconsistent in any material respect with the Executive’s positions (including status, offices, titles and reporting requirements), authority, duties or responsibilities from those contemplated by Section 3(b) of this Agreement (without regard to whether or not the Specified Expiration Date has passed), or any other action by the Firm which results in a material diminution in such positions (including status, offices, titles and reporting requirements), authority, duties or responsibilities from those contemplated by Section 3(b) of this Agreement (without regard to whether or not the Specified Expiration Date has passed), (ii) a material breach by the Firm of the terms of this Agreement, including any material failure by the Firm to comply with Section 3(c) of this Agreement or the nondisparagement covenant in Section 8 of this Agreement, or (iii) without the Executive’s written consent, any requirement that the Executive’s principal place of employment be relocated to a location that increases the Executive’s commute from his primary residence by more than thirty (30) miles. In the event of a termination for Good Reason, the notice requirements of Section 1 of this Agreement shall not apply. Notwithstanding the foregoing, a termination for Good Reason shall not have occurred unless (A) the Executive gives written notice to Lazard Group of termination of employment within ninety (90) days after the Executive first becomes aware of the occurrence of the circumstances constituting Good Reason, specifying in reasonable detail the circumstances constituting Good Reason, and Lazard Group has failed within thirty (30) days after receipt of such notice to cure (if capable of cure) the circumstances constituting Good Reason, and (B) the Executive’s “separation from service” (within the meaning of Section 409A of the Code) occurs no later than the earlier of (x) the last day of the cure period (assuming no cure has occurred) and (y) the date Lazard Group formally notifies the Executive in writing that it does not intend to cure, unless Lazard Group and the Executive agree to a later date, which later date shall in no event be more than two years following the initial existence of one or more of the circumstances giving rise to Good Reason.

(f) **Certain Limitations on Payments.** In the event that it is determined by the reasonable computation by a nationally recognized certified public accounting firm that shall be selected by the Firm prior to any transaction constituting a change of control (which accounting firm shall in no event be the accounting firm for the entity seeking to effectuate such change of control) and reasonably acceptable to the Executive (the “Accountant”), which determination shall be certified by the Accountant and set forth in a certificate delivered to the Executive setting forth in reasonable detail the basis of the Accountant’s determinations, that the aggregate amount of the payments, distributions, benefits and entitlements in the nature of compensation (within the meaning of Section 280G(B)(2) of the Code) by the Firm or any affiliate to or for the Executive’s benefit (including any payment, distribution, benefit or entitlement made by any person or entity effecting a change of control), in each case, that constitute “parachute payments” within the meaning of Section 280G of the Code (such payments, the “Parachute Payments”) that, but for this Section 3(f), would be payable to the Executive, exceeds the greatest amount of Parachute Payments that could be paid to the Executive without giving rise to any liability for any excise tax imposed by Section 4999 of the Code (or any successor provision thereto) or any similar tax imposed by state or local law (such tax or taxes being hereafter collectively referred to as the “Excise Tax”), then the aggregate amount of Parachute Payments payable to the Executive shall equal the amount that produces the greatest after-tax benefit to the Executive after taking into account first any positions to mitigate such Excise Tax (including mitigation under a “reasonable compensation” analysis) and second any Excise Tax payable by the Executive. For the avoidance of doubt, this provision shall reduce the amount of Parachute

Payments otherwise payable to the Executive, only if doing so would place the Executive in a better net after-tax economic position as compared with not doing so (taking into account the Excise Tax payable in respect of such Parachute Payments). The Firm shall reduce or eliminate the Parachute Payments, as necessary, by first reducing or eliminating the portion of the Parachute Payments provided under this Agreement (the “Agreement Payments”) that are payable in cash and then by reducing or eliminating the non-cash portion of the Agreement Payments, in each case, in reverse order beginning with payments or benefits that are to be paid the furthest in time from the Date of Termination. For purposes of reducing the Parachute Payments to the Executive, only the Agreement Payments (and no other Parachute Payments) shall be reduced.

In connection with making determinations under this Section 3(f) and determining the Excise Tax (if any), the Accountant shall take into account the value of any reasonable compensation for services to be rendered by the Executive before or after the change of control, including the restrictive covenants applicable to the Executive under this Agreement and any other non-competition provisions that may apply to the Executive, and the Firm shall cooperate in the valuation of any such services, including any restrictive covenants. The Firm and the Executive agree that the severance payments payable to the Executive in connection with a Change in Control pursuant to Section 3(d) are in consideration for, among other things, the restrictions and obligations set forth in Sections 4, 5, 6, 7, 8 and 9 of this Agreement, and that, for purposes of any such restrictions, the notice period (if any) prior to the Date of Termination is intended to and functions as an extension of the period of restriction on the Executive. All fees and expenses of the Accountant in implementing the provisions of this Section 3(f) shall be borne by the Firm, and the Firm shall reimburse the Executive for all reasonable legal fees incurred with respect to the calculations under this Section 3(f) and any reasonable legal and accounting fees incurred with respect to disputes related thereto.

(g) Section 409A. It is the intention of the parties that the payments and benefits to which the Executive could become entitled pursuant to this Agreement, as well as the termination of the Executive’s employment under this Agreement, comply with or are exempt from Section 409A of the Code. Any payments that qualify for the “short-term deferral” exception, the “separation pay” exception or another exception under Section 409A of the Code shall be paid pursuant to the applicable exception. For purposes of the limitations on nonqualified deferred compensation under Section 409A of the Code, each payment of compensation under this Agreement shall be treated as a separate payment of compensation for purposes of Section 409A of the Code. In this regard, notwithstanding anything in this Agreement to the contrary, all cash amounts (and cash equivalents) that become payable under Section 3(d) on account of the Executive’s termination of employment which is an “involuntary separation from service” (within the meaning of Treasury Regulation Section 1.409A-1(n)) shall be paid as provided under Section 3(d) and in no event later than March 15 of the year following the year in which the Date of Termination occurs. In the event the parties determine that the terms of this Agreement do not comply with Section 409A of the Code, they will negotiate reasonably and in good faith to amend the terms of this Agreement such that they comply with, or are exempt from, Section 409A of the Code (in a manner that attempts to minimize the economic impact of such amendment on the Executive and the Firm) within the time period permitted by the applicable Treasury Regulations and in accordance with IRS Notice 2010-6 and other applicable guidance. All expenses or other reimbursements owed to the Executive under

this Agreement shall be for expenses incurred during the Executive's lifetime or within ten years after his death, shall be payable in accordance with the Firm's policies in effect from time to time, but in any event, to the extent required in order to comply with Section 409A of the Code, and shall be made on or prior to the last day of the taxable year following the taxable year in which such expenses were incurred by the Executive. In addition, to the extent required in order to comply with Section 409A of the Code, no such reimbursement or expenses eligible for reimbursement in any taxable year shall in any way affect the expenses eligible for reimbursement in any other taxable year and the Executive's right to reimbursement or in-kind benefits shall not be subject to liquidation or exchanged for another benefit. Notwithstanding any other provision of this Agreement, if (i) the Executive is to receive payments or benefits by reason of his separation from service (as such term is defined in Section 409A of the Code) other than as a result of his death, (ii) the Executive is a "specified employee" within the meaning of Section 409A of the Code (as determined in accordance with the methodology established by the Firm as in effect on the date of the Executive's separation from service) for the period in which the payment or benefit would otherwise commence, and (iii) such payment or benefit would otherwise subject the Executive to any tax, interest or penalty imposed under Section 409A of the Code (or any regulation promulgated thereunder) if the payment or benefit would commence within six months of a termination of the Executive's employment, then such payment or benefit will instead be paid, with interest at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Code ("Interest") determined as of the Date of Termination, as provided below in this Section 3(g). Such payments or benefits that would have otherwise been required to be made during such six-month period will be paid to the Executive (or his estate, as the case may be) in one lump sum payment or otherwise provided to the Executive (or his estate, as the case may be) on the earlier of (A) the first business day that is six months and one day after the Executive's separation from service or (B) the fifth business day following the Executive's death. Thereafter, the payments and benefits will continue, if applicable, for the relevant period set forth in this Agreement, as the case may be.

4. Confidential Information. In the course of involvement in the Firm's activities or otherwise, the Executive has obtained or may obtain confidential information concerning the Firm's businesses, strategies, operations, financial affairs, organizational and personnel matters (including information regarding any aspect of the Executive's tenure as a managing director, member, partner or employee of the Firm or of the termination of such position, partnership or employment), policies, procedures and other non-public matters, or concerning those of third parties. The Executive shall not at any time (whether during or after the Executive's employment with the Firm) disclose or use for the Executive's own benefit or purposes or the benefit or purposes of any other person, firm, partnership, joint venture, association, corporation or other business organization, entity or enterprise other than the Firm, any trade secrets, information, data, or other confidential or proprietary information relating to customers, development programs, costs, marketing, trading, investment, sales activities, promotion, credit and financial data, financing methods, plans, or the business and affairs of the Firm, provided that the foregoing shall not apply to information which is not unique to the Firm or which is generally known to the industry or the public other than as a result of the Executive's breach of this covenant or as required pursuant to an order of a court, governmental agency or other authorized tribunal. The Executive agrees that upon termination of the Executive's employment with the Firm for any reason, the Executive or, in the event of the Executive's death, the Executive's heirs or estate at the request of the Firm, shall return to the Firm immediately all memoranda, books,

papers, plans, information, letters and other data, and all copies thereof or therefrom, in any way relating to the business of the Firm, except that the Executive (or the Executive's heirs or estate) may retain personal notes, notebooks and diaries. The Executive further agrees that the Executive shall not retain or use for the Executive's account at any time any trade names, trademark or other proprietary business designation used or owned in connection with the businesses of the Firm. Without limiting the foregoing, the existence of, and any information concerning, any dispute between the Executive and the Firm shall be subject to the terms of this Section 4, except that the Executive may disclose information concerning such dispute to the arbitrator or court that is considering such dispute, and to the Executive's legal counsel, spouse or domestic partner, and tax and financial advisors (provided that such persons agree not to disclose any such information other than as necessary to the prosecution or defense of the dispute).

5. Noncompetition. (a) The Executive acknowledges and recognizes the highly competitive nature of the businesses of the Firm. The Executive further acknowledges and agrees that in the course of the Executive's employment with the Firm, the Executive has been and shall be provided with access to sensitive and proprietary information about the clients, prospective clients, knowledge capital and business practices of the Firm, and has been and shall be provided with the opportunity to develop relationships with clients, prospective clients, consultants, employees, representatives and other agents of the Firm, and the Executive further acknowledges that such proprietary information and relationships are extremely valuable assets in which the Firm has invested and shall continue to invest substantial time, effort and expense. Accordingly, the Executive hereby reaffirms and agrees that while employed by the Firm (including during any applicable notice period) and thereafter until (i) six months after the Date of Termination for any reason other than a termination by the Firm without Cause or by the Executive for Good Reason or (ii) three months after the Date of Termination by the Firm without Cause or by the Executive for Good Reason (such period, the "Noncompete Restriction Period"), the Executive shall not, directly or indirectly, on the Executive's behalf or on behalf of any other person, firm, corporation, association or other entity, as an employee, director, advisor, partner, consultant or otherwise, engage in a "Competing Activity," or acquire or maintain any ownership interest in, a "Competitive Enterprise". For purposes of this Agreement, (A) "Competing Activity," means the providing of services or performance of activities for a Competitive Enterprise in a line of business that is similar to any line of business to which the Executive provided services to the Firm in a capacity that is similar to the capacity in which the Executive acted for the Firm while employed by the Firm, and (B) "Competitive Enterprise" shall mean a business (or business unit) that (1) engages in any activity or (2) owns or controls a significant interest in any entity that engages in any activity, that in either case, competes anywhere with any activity in which the Firm is engaged up to and including the Executive's Date of Termination. Further, notwithstanding anything in this Section 5, the Executive shall not be considered to be in violation of this Section 5 solely by reason of owning, directly or indirectly, any stock or other securities of a Competitive Enterprise (or comparable interest, including a voting or profit participation interest, in any such Competitive Enterprise) if the Executive's interest does not exceed 5% of the outstanding capital stock of such Competitive Enterprise (or comparable interest, including a voting or profit participation interest, in such Competitive Enterprise).

(b) The Executive acknowledges that the Firm is engaged in business throughout the world. Accordingly, and in view of the nature of the Executive's position and responsibilities, the Executive agrees that the provisions of this Section 5 shall be applicable to each jurisdiction, foreign country, state, possession or territory in which the Firm may be engaged in business while the Executive is employed by the Firm.

6. Nonsolicitation of Clients. The Executive hereby agrees that during the Noncompete Restricted Period, the Executive shall not, in any manner, directly or indirectly, (a) Solicit a Client to transact business with a Competitive Enterprise or to reduce or refrain from doing any business with the Firm, to the extent the Executive is soliciting a Client to provide them with services that would be considered a Competing Activity if such services were provided by the Executive, or (b) interfere with or damage (or attempt to interfere with or damage) any relationship between the Firm and a Client. For purposes of this Agreement, the term "Solicit" means any direct or indirect communication of any kind whatsoever, regardless of by whom initiated, inviting, advising, persuading, encouraging or requesting any person or entity, in any manner, to take or refrain from taking any action, and the term "Client" means any client or prospective client of the Firm, whether or not the Firm has been engaged by such Client pursuant to a written agreement; provided that an entity which is not a client of the Firm shall be considered a "prospective client" for purposes of this sentence only if the Firm made a presentation or written proposal to such entity during the 12-month period preceding the Date of Termination or was preparing to make such a presentation or proposal at the time of the Date of Termination.

7. No Hire of Employees. The Executive hereby agrees that while employed by the Firm (including during any applicable notice period) and thereafter until nine months after the Executive's Date of Termination (such period, the "No Hire Restriction Period"), the Executive shall not, directly or indirectly, for himself or on behalf of any third party at any time in any manner, Solicit, hire, or otherwise cause any employee who is at the associate level or above, officer or agent of the Firm to apply for, or accept employment with, any Competitive Enterprise, or to otherwise refrain from rendering services to the Firm or to terminate his or her relationship, contractual or otherwise, with the Firm, other than in response to a general advertisement or public solicitation not directed specifically to employees of the Firm.

8. Nondisparagement; Transfer of Client Relationships. The Executive shall not at any time (whether during or after the Executive's employment with the Firm), and shall instruct his spouse, domestic partner, parents, and any of their lineal descendants (it being agreed that in any dispute between the parties regarding whether the Executive breached such obligation to instruct, the Firm shall bear the burden of demonstrating that the Executive breached such obligation) not to, make any comments or statements to the press, employees of the Firm, any individual or entity with whom the Firm has a business relationship or any other person, if such comment or statement is disparaging to the Firm, its reputation, any of its affiliates or any of its current or former officers, members or directors, except for truthful statements as may be required by law. The Firm (including any designated spokespersons) and the directors and executive officers of the Firm shall not make any comments or statements to the press, other employees of the Firm, any individual or entity with whom the Firm has a business relationship or any other person that is disparaging to the Executive or his reputation, except for truthful statements as may be required by law. The Firm acknowledges that the nondisparagement

provision in favor of the Executive under this Section 8 is reasonable in light of all of the circumstances and imposes no undue hardship on the Firm. Accordingly, the Executive shall have the same enforcement rights and remedies with respect to such nondisparagement provision as the Firm has with respect to the Covenants (including, for the avoidance of doubt, the rights and remedies set forth in Sections 11 and 13). Further, such nondisparagement provision shall be subject to reformation on the same basis as the Covenants pursuant to Section 10(a). During the period commencing on the Executive's Date of Termination and ending 90 days thereafter, the Executive hereby agrees to take all actions and do all such things as may be reasonably requested by the Firm from time to time to maintain for the Firm the business, goodwill, and business relationships with any of the Firm's Clients with whom the Executive worked during the term of the Executive's employment, provided that such actions and things do not materially interfere with other employment of the Executive. Notwithstanding any provision of this Agreement to the contrary (including Section 4 or this Section 8), the Covenants are not intended to, and shall be interpreted in a manner that does not, limit or restrict the Executive from exercising any legally protected whistleblower rights (including pursuant to Rule 21F under the Securities Exchange Act of 1934).

9. Notice of Termination Required. Pursuant to Section 1 and subject to Section 3(e), the Executive has agreed to provide three months' written notice to the Firm prior to his termination of employment. The Executive hereby agrees that, if, during the three-month period after the Executive has provided notice of termination to the Firm or prior thereto, the Executive enters (or has entered into) a written agreement to perform Competing Activities for a Competitive Enterprise, such action shall be deemed a violation of Section 5.

10. Covenants Generally. (a) The Executive's covenants as set forth in Sections 4 through 9 of this Agreement are from time to time referred to herein as the "Covenants". If any of the Covenants is finally held to be invalid, illegal or unenforceable (whether in whole or in part), such Covenant shall be deemed modified to the extent, but only to the extent, of such invalidity, illegality or unenforceability and the remaining such Covenants shall not be affected thereby; provided, however, that if any of such Covenants is finally held to be invalid, illegal or unenforceable because it exceeds the maximum scope determined to be acceptable to permit such provision to be enforceable, such Covenant shall be deemed to be modified to the minimum extent necessary to modify such scope in order to make such provision enforceable hereunder.

(b) The Executive acknowledges that the Executive's compliance with the Covenants is an important factor to the continued success of the Firm's operations and its future prospects. The Executive understands that the provisions of the Covenants may limit the Executive's ability to work in a business similar to the business of the Firm; however, the Executive agrees that in light of the Executive's education, skills, abilities and financial resources, the Executive shall not assert, and it shall not be relevant nor admissible as evidence in any dispute arising in respect of the Covenants, that any provisions of the Covenants prevent the Executive from earning a living. In connection with the enforcement of or any dispute arising in connection with the Covenants, the wishes or preferences of a Client or prospective Client of the Firm as to who shall perform its services, or the fact that the Client or prospective Client of the Firm may also be a Client of a third party with whom the Executive is or becomes associated, shall neither be relevant nor admissible as evidence. The Executive hereby agrees that prior to accepting employment with any other person or entity during his employment with the Firm or during the Noncompete

Restriction Period or the No Hire Restriction Period, the Executive shall provide such prospective employer with written notice of the provisions of this Agreement, with a copy of such notice delivered no later than the date of the Executive's commencement of such employment with such prospective employer, to the General Counsel of Lazard.

(c) The provisions of Sections 4 through 11 shall remain in full force and effect from the date hereof through the expiration of the period specified therein notwithstanding the earlier termination of the Term or the Executive's employment. Without limiting the generality of the foregoing, in the event that any current or future Award Agreement includes restrictive covenants with a duration that is shorter than the duration of the Covenants, the duration of any longer Covenants shall be deemed to be automatically incorporated into such Award Agreement, unless otherwise specifically set forth therein. For the avoidance of doubt, (i) in no event shall a violation of the Covenants or any restrictive covenants set forth in any Award Agreement serve as a basis for the forfeiture of any Awards (including any dividend equivalents or shares delivered or amounts payable in respect of settled Awards) from and after a Change in Control, regardless of when the Date of Termination occurs; and (ii) the duration of the Covenants or any restrictive covenants set forth in any Award Agreement shall be for the period specified in the applicable provision (as modified by the immediately preceding sentence), without regard to whether the vesting or settlement date of an Award occurs after the expiration of such period (other than to the extent any such restrictive covenant is extended in connection with the Executive's receipt of "retirement" treatment as provided in an Award Agreement).

11. Remedies. The Firm and the Executive acknowledge that the time, scope, geographic area and other provisions of the Covenants have been specifically negotiated by sophisticated commercial parties and agree that all such provisions are reasonable under the circumstances of the activities contemplated by this Agreement. The Executive acknowledges and agrees that the terms of the Covenants: (a) are reasonable in light of all of the circumstances, (b) are sufficiently limited to protect the legitimate interests of the Firm, (c) impose no undue hardship on the Executive and (d) are not injurious to the public. The Executive further acknowledges and agrees that the Executive's breach of the Covenants will cause the Firm irreparable harm, which cannot be adequately compensated by money damages. The Executive also agrees that the Firm shall be entitled to injunctive relief for any actual or threatened violation of any of the Covenants in addition to any other remedies it may have, including money damages. The Executive acknowledges and agrees that any such injunctive relief or other remedies shall be in addition to, and not in lieu of, any forfeitures of awards (required pursuant to the terms of any such awards) that may be granted to the Executive in the future under one or more of the Firm's compensation and benefit plans.

12. Arbitration. Subject to the provisions of Sections 13 and 14, any dispute, controversy or claim between the Executive and the Firm arising out of or relating to or concerning the provisions of this Agreement, any agreement between the Executive and the Firm relating to or arising out of the Executive's employment with the Firm or otherwise concerning any rights, obligations or other aspects of the Executive's employment relationship in respect of the Firm ("Employment Related Matters"), shall be finally settled by arbitration in New York City before, and in accordance with the rules then obtaining of, the Financial Industry Regulatory Authority ("FINRA") or, if FINRA declines to arbitrate the matter, the American Arbitration Association (the "AAA") in accordance with the commercial arbitration rules of the AAA. Prior

to a Change in Control, each party shall bear its own costs and expenses of any such arbitration. Following a Change in Control, Lazard Group shall pay to the Executive, as incurred, all legal fees and expenses reasonably incurred by the Executive or with respect to the Executive during his lifetime or within ten years after his death in connection with any contest by Lazard Group, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including any action to compel arbitration or enforce any arbitration award or as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement, and whether or not any such contest is under this Section 12 or Section 13 of this Agreement or otherwise), plus Interest determined as of the date such legal fees and expenses were incurred; provided that, the Executive shall promptly repay to Lazard Group all such amounts if the Executive fails to prevail on at least one material issue in dispute in any such contest.

13. Injunctive Relief; Submission to Jurisdiction. Notwithstanding the provisions of Section 12, and in addition to its right to submit any dispute or controversy to arbitration, the Firm may bring an action or special proceeding in a state or federal court of competent jurisdiction sitting in the City of New York, whether or not an arbitration proceeding has theretofore been or is ever initiated, for the purpose of temporarily, preliminarily, or permanently enforcing the provisions of the Covenants, or to enforce an arbitration award, and, for the purposes of this Section 13, the Executive (a) expressly consents to the application of Section 14 to any such action or proceeding, (b) agrees that proof shall not be required that monetary damages for breach of the provisions of the Covenants or this Agreement would be difficult to calculate and that remedies at law would be inadequate, and (c) irrevocably appoints the General Counsel of Lazard as the Executive's agent for service of process in connection with any such action or proceeding, who shall promptly advise the Executive of any such service of process.

14. Choice of Forum. (a) THE EXECUTIVE AND THE FIRM HEREBY IRREVOCABLY SUBMIT TO THE EXCLUSIVE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED IN THE CITY OF NEW YORK OVER ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO OR CONCERNING THIS AGREEMENT OR ANY EMPLOYMENT RELATED MATTERS THAT IS NOT OTHERWISE REQUIRED TO BE ARBITRATED OR RESOLVED ACCORDING TO THE PROVISIONS OF SECTION 12. This includes any suit, action or proceeding to compel arbitration or to enforce an arbitration award. This also includes any suit, action, or proceeding arising out of or relating to any post-employment Employment Related Matters. The Executive and the Firm acknowledge that the forum designated by this Section 14 has a reasonable relation to this Agreement, and to the Executive's relationship to the Firm. Notwithstanding the foregoing, nothing herein shall preclude the Firm or the Executive from bringing any action or proceeding in any other court for the purpose of enforcing the provisions of Sections 13, 14 or 15.

(b) The agreement of the Executive and the Firm as to forum is independent of the law that may be applied in the action, and the Executive and the Firm agree to such forum even if the forum may under applicable law choose to apply non-forum law. The Executive and the Firm hereby waive, to the fullest extent permitted by applicable law, any objection which the Executive or the Firm now or hereafter may have to personal jurisdiction or to the laying of venue of any such suit, action or proceeding in any court referred to in Section 14(a). The

Executive and the Firm undertake not to commence any action arising out of or relating to or concerning this Agreement in any forum other than a forum described in this Section 14, or, to the extent applicable, Section 12. The Executive and the Firm agree that, to the fullest extent permitted by applicable law, a final and non-appealable judgment in any such suit, action or proceeding in any such court shall be conclusive and binding upon the Executive and the Firm.

15. Choice of Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK (UNITED STATES OF AMERICA), WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS WHICH COULD CAUSE THE APPLICATION OF THE LAW OF ANY JURISDICTION OTHER THAN THE STATE OF NEW YORK.

16. Miscellaneous. (a) This Agreement shall supersede any other agreement, written or oral, pertaining to the matters covered herein.

(b) Sections 3(c), 3(d), 3(e), 3(f), 3(g), 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15 and 16 shall survive the termination of this Agreement and the Executive's employment and shall inure to the benefit of and be binding and enforceable by the Firm and the Executive.

(c) Notices hereunder shall be delivered to Lazard at its principal executive office directed to the attention of its General Counsel, and to the Executive at the Executive's last address appearing in the Firm's employment records. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid.

(d) This Agreement may not be amended or modified, other than by a written agreement executed by the Executive and the Firm, nor may any provision hereof be waived other than by a writing executed by the Executive or the Firm; provided, that any waiver, consent, amendment or modification of any of the provisions of this Agreement shall not be effective against the Firm without the written consent of the Compensation Committee of Lazard or its successors. The Executive may not, directly or indirectly (including by operation of law), assign the Executive's rights or obligations hereunder without the prior written consent of the Compensation Committee of Lazard or its successors, and any such assignment by the Executive in violation of this Agreement shall be void. This Agreement shall be binding upon the Executive's permitted successors and assigns. Without the Executive's consent, Lazard or Lazard Group may at any time and from time to time assign its rights and obligations hereunder to any of its subsidiaries or affiliates (and have such rights and obligations reassigned to it or to any other subsidiary or affiliate), provided that no such assignment shall relieve Lazard or Lazard Group, as the case may be, from its obligations under this Agreement or impair Lazard's or Lazard Group's right to enforce this Agreement against the Executive. This Agreement shall be binding upon and inure to the benefit of the Firm and its successors and assigns.

(e) Without limiting the provisions of Section 10(a), if any provision of this Agreement is finally held to be invalid, illegal or unenforceable (whether in whole or in part), such provision shall be deemed modified to the extent, but only to the extent, of such invalidity, illegality or unenforceability and the remaining provisions shall not be affected thereby.

(f) The Firm may withhold from any amounts payable under this Agreement such Federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation, and may withhold from, and offset by, any amounts or benefits provided under this Agreement, any amounts owed to the Firm by the Executive, including any advances, expenses, loans, or other monies the Executive owes the Firm pursuant to a written agreement or any written policy of the Firm which has been communicated to the Executive, except to the extent such withholding or offset is not permitted under Section 409A of the Code without the imposition of additional taxes or penalties on the Executive.

(g) Except as expressly provided herein, this Agreement shall not confer on any person other than the Firm and the Executive any rights or remedies hereunder. There shall be no third-party beneficiaries to this Agreement.

(h) The captions in this Agreement are for convenience of reference only and shall not define or limit the provisions hereof. As used in this Agreement, words such as “herein,” “hereinafter,” “hereby” and “hereunder,” and the words of like import refer to this Agreement, unless the context requires otherwise. The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation”. The term “or” is not exclusive.

(i) Notwithstanding any provision of this Agreement to the contrary, to the minimum extent necessary to ensure the provision of non-taxable benefits under Section 105(h) of the Code or any similar law, the Firm shall be entitled to alter the manner in which medical benefits are provided to the Executive following termination of his employment; provided that, in no event shall the after-tax cost to the Executive of such benefits be greater than the cost applicable to similarly situated executives of the Firm who have not terminated employment or, following a Change in Control, the cost applicable to the Executive immediately prior to the Change in Control, if more favorable to the Executive.

(j) The Executive acknowledges and agrees that the Executive is subject to the Firm’s Compensation Recovery Policy Applicable to Named Executive Officers, as in effect as of the date hereof (a copy of which has been provided to the Executive).

(k) This Agreement, together with any applicable Award Agreements, constitutes the entire agreement and understanding of the parties with respect to the transactions contemplated hereby and subject matter hereof and supersedes and replaces any and all prior agreements, understandings, statements, representations and warranties, written or oral, express or implied or whenever and howsoever made, directly or indirectly relating to the subject matter hereof. Notwithstanding the foregoing, the Executive’s Covenants shall operate independently of, and shall be in addition to, any similar covenants to which the Executive is subject pursuant to any other agreement with the Firm.

(l) Upon termination of the Executive’s employment for any reason, Executive agrees to resign, effective as of the Date of Termination, from any positions that the Executive holds with any member of the Firm, including the Board of Directors of Lazard (and any committees thereof) and the board of directors (and any committees thereof) of any of Lazard’s or Lazard Group’s respective affiliates. The Executive hereby agrees to execute any and all documentation of such resignations upon request by the Firm; provided that the Executive shall

be treated for all purposes as having so resigned upon the Date of Termination, regardless of when or whether the Executive executes any such documentation. For the avoidance of doubt, the foregoing resignations shall not affect any rights the Executive may have to (i) indemnification from the Firm, including, as a director or officer of Lazard, Lazard Group or any of their respective affiliates, or (ii) any payments or benefits from the Firm in connection with termination of employment, whether pursuant to Section 3(d) of this Agreement or otherwise.

17. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original and all of which, when taken together, will constitute one and the same instrument. Delivery of an executed counterpart of a signature page of this Agreement by facsimile transmission or electronic means (including by “pdf”) shall be effective as delivery of a manually executed counterpart of this Agreement.

IN WITNESS WHEREOF, the Executive and the Firm hereto have caused this Agreement to be executed and delivered on the date first above written.

LAZARD LTD,

By: /s/ Scott D. Hoffman
Name: Scott D. Hoffman
Title: General Counsel and
Chief Administrative Officer

LAZARD GROUP LLC (on its behalf, and on
behalf of its subsidiaries and affiliates),

By: /s/ Scott D. Hoffman
Name: Scott D. Hoffman
Title: General Counsel and
Chief Administrative Officer

/s/ Evan L. Russo
Evan L. Russo

WAIVER AND GENERAL RELEASE

Waiver and General Release (“Agreement”), dated as of _____, by and between Evan L. Russo (“Employee” or “you”) and Lazard Group LLC (the “Company”) on behalf of itself and its past and/or present parent entities (including but not limited to Lazard Ltd), and its or their subsidiaries, divisions, controlled affiliates and related business entities (other than any entity that ceased to be an affiliate thereof prior to May 10, 2005) predecessors, successors and assigns, assets, employee benefit plans or funds, and any of its or their respective past and/or present directors, officers, fiduciaries, agents, trustees, administrators, attorneys, employees and assigns, in their capacities as agents for the Company (collectively, the “Company Entities”).

1. Concluding Employment. You acknowledge your separation from employment with the Company effective _____ (the “Separation Date”), and that after the Separation Date you shall not represent yourself as being a director, officer, employee, agent or representative of any Company Entity for any purpose. The Separation Date shall be the termination date of your employment for all purposes including participation in and coverage under all benefit plans and programs sponsored by or through the Company Entities except as otherwise provided herein. You agree that, other than with permission, you are not allowed on Company premises at any time after the Separation Date. Within 15 business days following the Separation Date, you will be paid for previously submitted un-reimbursed business expenses (in accordance with usual Company guidelines and practices), to the extent not theretofore paid. In addition, you will be paid for any accrued but unused vacation days.

2. Severance Benefits. In exchange for your waiver of claims against the Company Entities and your compliance with the other terms and conditions of this Agreement, the Company agrees to pay or provide to you the amounts and benefits as set forth in Section 3(d) to the Agreement Relating to Retention and Noncompetition and Other Covenants by and among the Company, Lazard Ltd and you, dated as of October 30, 2017 (such agreement, the “Retention Agreement”) that are conditioned on the Release Requirement (as defined in Section 3(d)(iii)) (the “Severance Benefits”).

3. Acknowledgement. You acknowledge and agree that the Severance Benefits: (a) except as expressly provided herein, are in full discharge of any and all liabilities and obligations of the Company Entities to you, monetarily or with respect to employee benefits or otherwise, including but not limited to any and all obligations arising under any alleged written or oral employment agreement, policy, plan or procedure of the Company Entities and/or any alleged understanding or arrangement between you and the Company Entities; and (b) would not be due to you if you did not execute this Agreement.

4. Release. a. In consideration for the Severance Benefits, except as expressly provided herein, you, for yourself and for your heirs, executors, administrators, trustees, legal representatives and assigns (hereinafter referred to collectively as “Releasers”), forever release and discharge the Company Entities from any and all claims, demands, causes of action, fees and liabilities of any kind whatsoever arising out of your employment and/or separation from that employment with the Company Entities, whether known or unknown, which you ever had, now

have, or may have against any of the Company Entities by reason of any act, omission, transaction, practice, plan, policy, procedure, conduct, occurrence, or other matter up to and including the date on which you sign this Agreement.

b. Without limiting the generality of the foregoing, except as expressly provided herein, this Agreement is intended to and shall release the Company Entities from any and all claims, whether known or unknown, which Releasers ever had, now have, or may have against the Company Entities arising out of your employment and/or your separation from that employment, including, but not limited to: (i) any claim under Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Employee Retirement Income Security Act of 1974 (excluding claims for accrued, vested benefits under any employee benefit or pension plan of the Company Entities subject to the terms and conditions of such plan and applicable law), the Family and Medical Leave Act, and the Sarbanes-Oxley Act of 2002, each as amended; (ii) any claim under the New York State Human Rights Law, or the New York City Administrative Code; (iii) any other claim (whether based on federal, state, or local law, statutory or decisional) relating to or arising out of your employment, the terms and conditions of such employment, or the separation from such employment, including but not limited to breach of contract (express or implied), fraud, misrepresentation, wrongful discharge, detrimental reliance, defamation, emotional distress or compensatory or punitive damages; and (iv) any claim for attorneys' fees, costs, disbursements and/or the like.

c. Notwithstanding the foregoing, nothing in this Agreement shall be a waiver of any of the following claims or rights: (i) any claims that may arise after the date on which you sign this Agreement, (ii) any rights you may have pursuant to this Agreement and the Retention Agreement (including, without limitation, any rights under Section 3(d) of the Retention Agreement) and Sections 8 and 12 of the Retention Agreement), (iii) any rights you may have to your vested and accrued compensation and benefits under the Retention Agreement, the Company's employee benefit plans, including compensation and benefits that vest or are required to be paid upon your Separation Date or in connection with your separation (including as described in Section 18 hereof), (iv) any rights you may have to indemnification (for the avoidance of doubt, including, without limitation, as a director or officer of any of the Company Entities) or expense reimbursement under the Company's organizational documents, any director's and officer's insurance policy or any other plan, agreement, policy or arrangement with any of the Company Entities, (v) your rights as a holder of stock, units or other equity of any of the Company Entities, (vi) your rights to obtain contribution in the event of the entry of judgment against you as a result of any act or failure to act for which both you and any of the Company Entities are jointly responsible and (vii) any claims that by law cannot be waived.

5. Waiver of Relief. You acknowledge and agree that by virtue of the foregoing, you have waived any relief available to you (including without limitation, monetary damages, equitable relief and reinstatement) under any of the claims and/or causes of action waived in this Agreement. Therefore you agree that you will not accept any award or settlement from any source or proceeding (including but not limited to any proceeding brought by any other person or by any government agency) with respect to any claim or right waived in this Agreement.

6. Cooperation. a. You agree that you will cooperate with the Company and/or the Company Entities and its or their respective counsel as may be reasonably requested taking into account your other obligations in connection with any investigation, administrative proceeding or litigation relating to any matter that occurred during your employment in which you were involved or of which you have knowledge, provided that the Company and/or the Company Entities shall bear all reasonable legal fees and other costs incurred by you in connection with your cooperation.

b. You agree that, in the event you are subpoenaed by any person or entity (including, but not limited to, any government agency) to give testimony (in a deposition, court proceeding or otherwise) which in any way relates to your employment by the Company and/or the Company Entities, to the extent reasonably practicable and subject to all applicable legal requirements, based on the written legal advice of your counsel, you will give prompt notice of such request to _____, Lazard Group LLC, 30 Rockefeller Plaza, New York, NY 10020 (or his or her successor or designee) and will make no disclosure until the Company and/or the Company Entities have had a reasonable opportunity to contest the right of the requesting person or entity to such disclosure.

7. Confidentiality. The terms and conditions of this Agreement are and shall be deemed to be confidential information and shall be subject to the restrictions and obligations set forth in Section 4 of the Retention Agreement, provided that the exceptions set forth in the last sentence thereof shall apply to this Agreement without regard to whether there is a dispute.

8. Return of Property. You represent that you have returned (or will return) to the Company all property belonging to the Company and/or the Company Entities, including but not limited to all proprietary and/or confidential information (as such terms are used and described in Section 4 of the Retention Agreement) and documents in any form belonging to the Company or in any way relating to the business of the Company that are not otherwise generally available, cell phone, smartphone, keys, card access to the building and office floors, Employee Handbook, phone card, computer user name and password, disks and/or voicemail code; provided, however, that an inadvertent failure to return property of the Company and/or the Company Entities shall not constitute a breach of this Agreement so long as you promptly return such property upon the written request of the Company and/or the Company Entities. For the avoidance of doubt, you may retain your rolodex (or other tangible or electronic equivalent), any personal electronic devices (after giving the Company the opportunity to cleanse them of all confidential information of the Company) and your mobile telephone number as your property. The obligation in this Section 8 is in lieu of, and not in addition to, the similar obligation relating to the return of property and documents in Section 4 of the Retention Agreement but in no way shall affect the other provisions of Section 4 of the Retention Agreement, including, without limitation, with respect to disclosure or use of confidential or proprietary information.

9. Severability. If any provision of this Agreement is held by a court of competent jurisdiction to be illegal, void or unenforceable, such provision shall have no effect; however, the remaining provisions shall be enforced to the maximum extent possible. Further, if a court should determine that any portion of this Agreement is overbroad or unreasonable, such provision shall be given effect to the maximum extent possible by narrowing or enforcing in part that aspect of the provision found overbroad or unreasonable.

10. Breach of Agreement. You agree that any breach of this Agreement shall constitute a material breach as to which the Company Entities may seek recoupment of the Severance Benefits.

11. Miscellaneous. a. This Agreement is not intended, and shall not be construed, as an admission that any of the Company Entities has violated any federal, state or local law (statutory or decisional), ordinance or regulation, breached any contract or committed any wrong whatsoever against you.

b. Should any provision of this Agreement require interpretation or construction, it is agreed by the parties that the entity interpreting or construing this Agreement shall not apply a presumption against one party by reason of the rule of construction that a document is to be construed more strictly against the party who prepared the document.

12. Assignment. This Agreement is binding upon, and shall inure to the benefit of, the parties and their respective heirs, executors, administrators, successors and assigns.

13. Governing Law; Arbitration. a. This Agreement shall be construed and enforced in accordance with the laws of the State of New York without regard to the principles of conflicts of law.

b. Any controversy or claim arising out of or relating to this Agreement or the breach thereof shall be settled consistent with the provisions of Section 12 of the Retention Agreement.

14. Entire Agreement. You understand that this Agreement and the Retention Agreement constitute the complete understanding between the Company and you, and supersede any and all agreements, understandings, and discussions, whether written or oral, between you and any of the Company Entities. No other promises or agreements shall be binding unless in writing and signed by both the Company and you after the Effective Date (as defined below).

15. Voluntary Agreement. You acknowledge that you: (a) have carefully read this Agreement in its entirety; (b) have been offered the opportunity to have at least 45 days to consider its terms[, and the disclosure information which will be provided as Exhibit A pursuant to the Older Workers Benefit Protection Act]; (c) are hereby advised by the Company in writing to consult with an attorney of your choosing in connection with this Agreement; (d) fully understand the significance of all of the terms and conditions of this Agreement and have discussed them with your independent legal counsel, or had a reasonable opportunity to do so; (e) have had answered to your satisfaction any questions you have asked with regard to the meaning and significance of any of the provisions of this Agreement; and (f) are signing this Agreement voluntarily and of your own free will and agree to abide by all the terms and conditions contained herein.

16. Acceptance. You may accept this Agreement by signing it and returning it to Lazard Group LLC, 30 Rockefeller Plaza, New York, NY 10020, Attention: _____, on or before _____. After executing this Agreement, you shall have seven (7) days (the "Revocation Period") to revoke it by indicating your desire to do so in writing delivered to _____ at the address above by no later than 5:00 p.m. on the seventh (7th) day after the

date you sign this Agreement. The effective date of this Agreement shall be the eighth (8th) day after you sign it (the “Effective Date”). If the last day of the Revocation Period falls on a Saturday, Sunday or holiday, the last day of the Revocation Period will be deemed to be the next business day. In the event you do not accept this Agreement as set forth above, or in the event you revoke this Agreement during the Revocation Period, this Agreement and the obligations of the Company to provide the Severance Benefits under Section 3 hereof shall be deemed automatically null and void.

17. Headings and Captions. The headings and captions herein are provided for reference and convenience only. They shall not be considered part of this Agreement and shall not be employed in the construction of this Agreement.

18. Treatment of Awards. You currently hold the awards listed on Annex I to this Agreement (the “Awards”). The Awards [(other than the _____)] were granted to you under the [Lazard Ltd 2008 Incentive Compensation Plan]. Notwithstanding any provision of this Agreement to the contrary, your Awards will be treated in accordance with the terms of the applicable agreement governing the Awards (for the avoidance of doubt, including but not limited to the Retention Agreement to the extent applicable). For the avoidance of doubt, the Company shall be entitled to withhold from your outstanding Awards the applicable amount of shares or interests (as applicable) needed to cover any federal, state, local and foreign taxes that are required by applicable laws and regulations to be withheld with respect to the vesting and settlement of your Awards, including any such taxes due upon your separation from employment with the Company.

Signature: _____
NAME

Date: _____

STATE OF _____)
COUNTY OF _____) ss

On this ___ day of _____ 20___, before me personally came [NAME] to me known and known to me to be the person described and who executed the foregoing Agreement, and [she/he] duly acknowledged to me that [she/he] executed the same.

Notary Public

LAZARD GROUP LLC

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES (a)

The following table sets forth the ratio of earnings to fixed charges for Lazard Group LLC and its subsidiaries on a consolidated basis.

| | Nine Months Ended September 30, 2017 | Year Ended December 31, | | | | |
|---------------------------------------|---|-------------------------|-------------------|-------------------|-------------------|-------------------|
| | | 2016 | 2015 | 2014 | 2013 | 2012 |
| | | (dollars in thousands) | | | | |
| Operating income | \$ 473,452 | \$ 521,993 | \$ 530,845 | \$ 540,975 | \$ 219,009 | \$ 121,593 |
| Add—Fixed charges | 60,207 | 77,071 | 78,826 | 91,691 | 111,317 | 116,255 |
| Operating income before fixed charges | <u>\$ 533,659</u> | <u>\$ 599,064</u> | <u>\$ 609,671</u> | <u>\$ 632,666</u> | <u>\$ 330,326</u> | <u>\$ 237,848</u> |
| Fixed Charges: | | | | | | |
| Interest (b) | \$ 42,770 | \$ 53,730 | \$ 54,885 | \$ 68,205 | \$ 87,039 | \$ 91,359 |
| Other (c) | 17,437 | 23,341 | 23,941 | 23,486 | 24,278 | 24,896 |
| Total fixed charges | <u>\$ 60,207</u> | <u>\$ 77,071</u> | <u>\$ 78,826</u> | <u>\$ 91,691</u> | <u>\$ 111,317</u> | <u>\$ 116,255</u> |
| Ratio of earnings to fixed charges | <u>8.86</u> (d) | <u>7.77</u> (e) | <u>7.73</u> (f) | <u>6.90</u> | <u>2.97</u> (g) | <u>2.05</u> (h) |

Notes (dollars in thousands):

(a) For purposes of computing the ratio of earnings to fixed charges:

- earnings for the periods presented represent income before income taxes and fixed charges, and
- fixed charges represent the interest expense and the portion of rental expense which represents an appropriate interest factor.

(b) The Company's policy is to include interest expense on unrecognized tax benefits in income tax expense. Accordingly, such interest expense is not included in the computations of the ratio of earnings to fixed charges.

(c) Other fixed charges consist of the interest factor in rentals.

(d) Operating income for the nine months ended September 30, 2017 is presented after giving effect to a charge of (i) \$646 of acquisition-related costs, (ii) \$15,391 of expenses associated with the ERP system implementation and (iii) \$4,573 of expenses related to office space reorganization. Excluding the impact of such charges, the ratio of earnings to fixed charges would have been 9.14.

(e) Operating income for the year ended December 31, 2016 is presented after giving effect to a charge of (i) \$3,148 associated with the redemption of the remaining portion of the 6.85% senior notes due June 2017 (the "2017 Notes"), (ii) \$599 excess interest expense due to the period of time between the issuance of the 2027 Notes and the settlement of the redemption of the 2017 Notes, (iii) \$30,991 of acquisition-related costs and (iv) \$12,668 gain on the acquisition of MBA Lazard (which resulted from the increase in the fair value of the Company's investment in MBA Lazard prior to the acquisition). Excluding the impact of such charges, the ratio of earnings to fixed charges would have been 8.11.

(f) Operating income for the year ended December 31, 2015 is presented after giving effect to a charge of (i) \$60,219 associated with the redemption of \$450 million of the 2017 Notes, (ii) \$2,655 excess interest expense due to the period of time between the issuance of the 2025 Notes and the settlement of the redemption of the 2017 Notes and (iii) \$12,203 relating to a private equity revenue adjustment. Excluding the impact of such items, the ratio of earnings to fixed charges would have been 8.64.

(g) Operating income for the year ended December 31, 2013 is presented after giving effect to a charge of (i) \$64,703 associated with the cost saving initiatives announced by the Company in October 2012, (ii) \$54,087 pertaining to the refinancing of the 7.125% senior notes due May 2015 and the issuance of the 2020 Notes and (iii) \$12,203 relating to private equity incentive compensation. Excluding the impact of such charge, the ratio of earnings to fixed charges would have been 4.14.

(h) Operating income for the year ended December 31, 2012 is presented after giving effect to (i) a charge in the first quarter of \$24,659 relating to severance costs and benefit payments associated with staff reductions, including the acceleration of unrecognized amortization expense of deferred incentive compensation previously granted to individuals being terminated, and (ii) a charge in the fourth quarter of \$102,576 associated with the cost saving initiatives announced by the Company in October 2012. Excluding the impact of such items, the ratio of earnings to fixed charges would have been 3.14.

I, Kenneth M. Jacobs, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 of Lazard Group LLC (the “Registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: October 30, 2017

/s/ Kenneth M. Jacobs

Kenneth M. Jacobs

Chairman and Chief Executive Officer

I, Evan L. Russo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 of Lazard Group LLC (the “Registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: October 30, 2017

/s/ Evan L. Russo

Evan L. Russo

Chief Financial Officer

October 30, 2017
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Pursuant to 18 U.S.C. § 1350, the undersigned officer of Lazard Group LLC (the “Registrant”) hereby certifies that the Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Kenneth M. Jacobs
Kenneth M. Jacobs
Chairman and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

October 30, 2017
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Pursuant to 18 U.S.C. § 1350, the undersigned officer of Lazard Group LLC (the “Registrant”) hereby certifies that the Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Evan L. Russo

Evan L. Russo
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.