

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

**FACING PAGE**

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

<b>OMB APPROVAL</b>
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8-2595

REPORT FOR THE PERIOD BEGINNING January 1, 2019 AND ENDING December 31, 2019  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER - DEALER:

Lazard Frères & Co. LLC  
(Filed as Confidential Information)

OFFICIAL USE ONLY

FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

30 Rockefeller Plaza

(No. and Street)

New York

(City)

New York

(State)

10112

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

David D'Amore

212-632-6484

(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Deloitte & Touche LLP

(Name - if individual, state last, first, middle name)

30 Rockefeller Plaza

(Address)

New York

(City)

New York

(State)

10112

(Zip Code)

**CHECK ONE:**

☒ Certified Public Accountant

☐ Public Accountant

☐ Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

*\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2) SEC 1410(6-02).*

**Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

LAZARD FRÈRES & CO. LLC  
(S.E.C. I.D. No. 8-2595)

CONSOLIDATED FINANCIAL STATEMENTS AND  
UNCONSOLIDATED SUPPLEMENTAL SCHEDULES  
FOR THE YEAR ENDED DECEMBER 31, 2019  
AND REPORT OF INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM

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This report is deemed CONFIDENTIAL in accordance  
with Rule 17a-5(e)(3) under the Securities Exchange  
Act of 1934. A statement of financial condition,  
bound separately, has been filed with the Securities and  
Exchange Commission simultaneously herewith  
as a Public Document.

# LAZARD FRÈRES & CO. LLC

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**This report\*\* contains (check all applicable boxes):**

- ☒ (x) Report of Independent Registered Public Accounting Firm.
- ☒ (x) (a) Facing Page.
- ☒ (x) (b) Consolidated Statement of Financial Condition.
- ☒ (x) (c) Consolidated Statement of Income.
- ☒ (x) (d) Consolidated Statement of Comprehensive Income.
- ☒ (x) (e) Consolidated Statement of Cash Flows.
- ☒ (x) (f) Consolidated Statement of Changes in Member's Equity.
- ☐ ( ) (g) Consolidated Statement of Changes in Liabilities Subordinated to Claims of General Creditors (not applicable).
- ☒ (x) Notes to Consolidated Financial Statements.
- ☒ (x) (h) Unconsolidated Computation of Net Capital for Brokers and Dealers Pursuant to Rule 15c3-1 under the Securities Exchange Act of 1934.
- ☒ (x) (i) Unconsolidated Computation for Determination of Reserve Requirements for Brokers and Dealers Pursuant to Rule 15c3-3 Under the Securities Exchange Act of 1934.
- ☒ (x) (j) Unconsolidated Information Relating to the Possession or Control Requirements for Brokers and Dealers Pursuant to Rule 15c3-3 Under the Securities Exchange Act of 1934.
- ☐ ( ) (k) A Reconciliation, including appropriate explanations, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Rule 15c3-3 (not applicable).
- ☒ (x) (l) A Reconciliation between the audited and unaudited statements of Financial condition with respect to methods of consolidation (see Note 1 to the Consolidated Financial statements).
- ☒ (x) (m) An Affirmation.
- ☒ (x) (n) A Report Describing the Broker-Dealer Compliance with the Exemption Provision of Section K of SEC Rule 15c3-3 ("the Exemption Report") and Report of Independent Registered Public Accounting Firm Thereon (filed separately).
- ☐ ( ) (o) Unconsolidated Schedule of Segregation Requirements and Funds in Segregation for Customers Trading on U.S. Commodity Exchanges Pursuant to Section 4d(2) under the Commodity Exchange Act (not applicable).
- ☐ ( ) (p) Unconsolidated Schedule of Secured Amounts and Funds Held in Separate Accounts for Foreign Futures and Foreign Options Customers Pursuant to Regulation 30.7 under the Commodity Exchange Act (not applicable).
- ☐ ( ) (q) Unconsolidated Schedule of Segregation Requirements and Funds in Segregation for Commodity Dealer Options Accounts Pursuant to Regulation 32.6 of the Commodity Futures Trading Commission (not applicable).
- ☐ ( ) (r) Unconsolidated Schedule of Cleared Swaps Customer Segregation Requirements and Funds in Cleared Swaps Customer Accounts under 4d(f) of the Commodity Exchange Act (not applicable).

*\*\* For conditions of confidential treatment of certain portions of this filing, see Section 240.17a-5(e)(3).*

AFFIRMATION

I, David D'Amore, affirm that, to the best of my knowledge and belief, the accompanying consolidated financial statements and unconsolidated supplemental schedules pertaining to Lazard Frères & Co. LLC and subsidiaries (the "Company") as of and for the year ended December 31, 2019 are true and correct. I further affirm that neither the Company nor any officer or director has any proprietary interest in any account classified solely as that of a customer.



David D'Amore  
Chief Financial Officer  
Lazard Frères & Co. LLC

Subscribed and sworn  
to before me this 24th  
day of February, 2020



**MARK A. ROSENBERG**  
Notary Public State of New Jersey  
No. 2290713  
Qualified in Bergen County  
Commission Expires Aug. 13, 2022

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Management and Member of

Lazard Frères & Co. LLC:

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated statement of financial condition of Lazard Frères & Co. LLC and subsidiaries (the "Company") as of December 31, 2019, and the related consolidated statements of income, comprehensive income, cash flows, changes in shareholders' equity, and changes in liabilities subordinated to claims of general creditors for the year then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **Report on Supplemental Schedules**

The unconsolidated supplemental schedules (h), (i), and (j) listed in the accompanying table of contents have been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The supplemental schedules are the responsibility of the Company's management. Our audit procedures included determining whether the supplemental schedules reconcile to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental schedules. In forming our opinion on the supplemental schedules, we evaluated whether the supplemental schedules, including their form and content, are presented in compliance with Rule

17a-5 under the Securities Exchange Act of 1934. In our opinion, such schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

A handwritten signature in blue ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, flowing style.

February 24, 2020

We have served as the Company's auditor since 2000.

# LAZARD FRÈRES & CO. LLC

## CONSOLIDATED STATEMENT OF FINANCIAL CONDITION AS OF DECEMBER 31, 2019 (In Thousands)

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### ASSETS

Cash and cash equivalents	\$	605,736
Receivables, net:		
Fees		317,897
Affiliates		97,403
Other		30,198
Investments		163,817
Property, net		30,143
Right-of-use assets		16,154
Goodwill		128,451
Deferred tax assets		10,995
Other assets		<u>53,021</u>
TOTAL ASSETS	\$	<u><u>1,453,815</u></u>

### LIABILITIES AND MEMBER'S EQUITY

Accrued compensation and benefits	\$	281,644
Payables to affiliates		252,908
Accounts payable and accrued expenses		61,293
Operating lease liabilities		18,227
Income taxes payable		27,776
Obligations under pension and post employment benefit plans		10,363
Securities sold, not yet purchased		12,894
Derivative obligations		9,457
Other liabilities		<u>13,910</u>
TOTAL LIABILITIES		<u>688,472</u>

### COMMITMENTS AND CONTINGENCIES

Member's equity		828,822
Accumulated other comprehensive loss, net of tax		<u>(63,479)</u>
TOTAL MEMBER'S EQUITY		<u>765,343</u>
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$	<u><u>1,453,815</u></u>

**LAZARD FRÈRES & CO. LLC**  
**CONSOLIDATED STATEMENT OF INCOME**  
**YEAR ENDED DECEMBER 31, 2019**  
**(In Thousands)**

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REVENUES

Asset management and distribution fees	\$ 965,723
Investment banking and other advisory fees	816,850
Interest	8,118
Underwriting fees	2,358
Investment gains and (losses), net	5,588
Other	<u>21,350</u>
Total net revenues	<u>1,819,987</u>

EXPENSES

Compensation and benefits	938,737
Occupancy and equipment	71,994
Fund administration, distribution fees and outsourced services	87,909
Marketing and business development	65,727
Consulting and professional fees	31,200
Technology and information services	97,709
Other	<u>36,366</u>
Total expenses	<u>1,329,642</u>

INCOME BEFORE INCOME TAXES	<u>490,345</u>
Provision for income taxes	<u>23,931</u>
NET INCOME	<u>\$ 466,414</u>



# LAZARD FRÈRES & CO. LLC

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2019

(In Thousands)

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NET INCOME:	\$ <u>466,414</u>
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:	
Currency translation adjustments	1,965
Employee benefit plans:	
Actuarial loss (net of tax benefit of \$803)	(6,350)
Amortization of actuarial net loss reclassified to	
earnings (net of tax expense of \$(70))	<u>1,302</u>
OTHER COMPREHENSIVE LOSS, NET OF TAX	<u>(3,083)</u>
TOTAL COMPREHENSIVE INCOME	\$ <u><u>463,331</u></u>

**LAZARD FRÈRES & CO. LLC**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2019**  
**(In Thousands)**

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<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Net income	\$ 466,414
Adjustments to reconcile net income to net cash provided by operating activities	
Noncash items included in net income:	
Depreciation and amortization	16,869
Unrealized Gain/Loss on Derivatives	8,975
Bad debt expense	1,705
Amortization of deferred compensation and pension costs	2,575
Loss on disposal of property	6,031
Deferred tax benefit	(1,678)
(Increase) decrease in operating assets:	
Fees receivables	(2,853)
Affiliates receivables	(3,975)
Other receivables	(21,420)
Investments and securities owned, at fair value	(23,725)
Other assets	4,454
Increase (decrease) in operating liabilities:	
Accrued compensation and benefits	(2,532)
Payables to affiliates	83,233
Accounts payable and accrued expenses	7,071
Lease Liability	(6,141)
Income taxes payable	4,686
Obligations under pension and other post-employment plans	1,405
Securities sold, not yet purchased	8,965
Other liabilities	(375)
Net cash provided by operating activities	<u>549,684</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Additions to property	(13,864)
Proceeds from disposal of property	<u>5,687</u>
Net cash used in investing activities	<u>(8,177)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Payments for:	
Distributions to Lazard Group LLC	(465,000)
Settlement of share-based compensation	<u>(26,135)</u>
Net cash used in financing activities	<u>(491,135)</u>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<u>3,888</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>54,260</u>
<b>CASH AND CASH EQUIVALENTS—Beginning of year</b>	<u>551,476</u>
<b>CASH AND CASH EQUIVALENTS—End of year</b>	<u><u>\$ 605,736</u></u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>	
Cash paid during the year for:	
Interest	<u>\$ 145</u>
Taxes	<u><u>\$ 19,788</u></u>

See notes to consolidated financial statements.

**LAZARD FRÈRES & CO. LLC****CONSOLIDATED STATEMENT OF CHANGES IN MEMBER'S EQUITY****YEAR ENDED DECEMBER 31, 2019****(In Thousands)**

	<u>Member's Equity</u>	<u>Comprehensive (loss), Net of Tax</u>	<u>Total Member's Equity</u>
BALANCE—January 1, 2019	\$ 853,543	\$ (60,396)	\$ 793,147
Comprehensive income:			
Net income	466,414	-	466,414
Other comprehensive income, net of tax:			
Currency translation adjustments	-	1,965	1,965
Employee benefit plans:			
Actuarial loss (net of tax benefit of \$803)	-	(6,350)	(6,350)
Amortization of actuarial net loss reclassified to earnings (net of tax expense of \$70)	<u>-</u>	<u>1,302</u>	<u>1,302</u>
Comprehensive income	<u>466,414</u>	<u>(3,083)</u>	<u>463,331</u>
Net capital distributions	(465,000)	-	(465,000)
Settlement of share-based compensation	<u>(26,135)</u>	<u>-</u>	<u>(26,135)</u>
BALANCE—December 31, 2019	<u>\$ 828,822</u>	<u>\$ (63,479)</u>	<u>\$ 765,343</u>

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

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### 1. ORGANIZATION AND BASIS OF PRESENTATION

The accompanying consolidated financial statements are those of Lazard Frères & Co. LLC (collectively referred to as the “Company”), a wholly-owned subsidiary of Lazard Group LLC (“Lazard Group”). Lazard Group is a wholly-owned indirect subsidiary of Lazard Ltd (“Lazard Ltd”), a Bermuda holding company, whose common stock is traded on the New York Stock Exchange. The Company includes the accounts of Lazard Frères & Co. LLC (“LF&Co.”), and its wholly-owned, non-guaranteed subsidiaries, Lazard Asset Management LLC and its subsidiaries (collectively referred to as “LAM”), Lazard LAM Holdings, Inc. and Goldsmith, Agio, Helms & Lynner, LLC and its subsidiary (“GAHL”). The Company’s principal operating activities are included in two business segments:

- Financial Advisory, which offers a wide array of financial advisory services regarding mergers and acquisitions (“M&A”), capital advisory, restructurings, and other strategic advisory matters to corporate, partnership, institutional, government and individual clients across the globe, 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 to corporations, public funds, endowments and foundations, labor funds, financial intermediaries and private clients.

In addition, the Company records selected other activities in its Corporate segment, including management of cash, investments, and transactions with affiliates.

***Basis of Presentation*** – The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). 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 VOE’s, 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 the 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 its investment at fair value. Intercompany transactions and balances have been eliminated.

As of December 31, 2019, the differences between assets and liabilities in the unaudited, unconsolidated statement of financial condition contained in LF&Co.’s Financial and Operational Combined Uniform Single (“FOCUS”) filing and the consolidated statement of financial condition of

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

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the Company contained herein, are the result of approximately \$512,328 of assets and \$512,328 of liabilities attributable to subsidiaries that are not presented on a consolidated basis in the LF&Co. unaudited FOCUS filing at December 31, 2019.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies below relate to reported amounts and disclosures in the consolidated financial statements.

**Foreign Currency Translation** – The consolidated financial statements are presented in U.S. Dollars. Many of the Company’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 year-end 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 to U.S. Dollars are reported in “accumulated other comprehensive loss, net of tax” (“AOCI”). Foreign currency remeasurement gains and losses on transactions in non-functional currencies are recognized in earnings and are included in “revenues - other” on the consolidated statement of income. The Company realized a net foreign currency remeasurement loss of \$71 in 2019.

**Use of Estimates** – The preparation of consolidated financial statements in conformity with U.S. GAAP requires the use of management’s estimates. In preparing the consolidated financial statements, management makes estimates and assumptions regarding:

- valuations of assets and liabilities requiring fair value estimates including, but not limited to, investments, derivatives, securities sold, not yet purchased and assumptions used to value pension and other post-retirement plans;
- the assessment of probability with regard to recognizing revenue;
- the discount rate used to measure right-of-use assets and operating lease liabilities;
- recognition of asset management and distribution fees and the value of the underlying assets under management;
- the adequacy of the allowance for doubtful accounts;
- the realization of deferred tax assets and adequacy of tax reserves for uncertain tax positions;
- the outcome of litigation;
- the carrying amount of goodwill, and
- other matters that affect the reported amounts and disclosure of contingencies in the consolidated financial statements.

Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the consolidated financial statements.

**Cash and Cash Equivalents** – The Company defines cash equivalents as short-term, highly liquid securities and cash deposits with original maturities of 90 days or less when purchased. The Company

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

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has concentrations of cash equivalents of \$212,516 and \$134,989 that are invested in Dreyfus and Goldman Sachs money market funds, respectively, as of December 31, 2019.

**Investments** – Investments in debt and marketable equity securities are accounted for at fair value, with any increase or decrease in fair value recorded in earnings. Such amounts are reflected in “investment gains and (losses), net” in the consolidated statement of income.

Investments also include interests in alternative investment funds, private equity funds, debt, equity, and debt equity funds, each accounted for at fair value. Any increases or decreases in the carrying value of those investments accounted for at fair value are reflected in “investment gains and (losses), net” in the consolidated statement of income.

Dividend income is earned on the Company’s investments in marketable equity securities and is reflected in “investment gains and (losses), net” in the consolidated statement of income.

Securities transactions and the related revenue and expense are recorded on a trade date basis. See Notes 5 and 6 for additional information regarding the Company’s investments.

**Allowance for Doubtful Accounts** – The Company maintains an allowance for bad debts to provide for estimated losses relating to fees and other receivables. The Company determines the adequacy of the allowance by estimating the probability of loss based on management’s analysis of the client’s creditworthiness and specifically reserves against exposures where the Company determines the receivables may be impaired, which may include situations where a fee is in dispute or litigation has commenced.

With respect to fees receivables from Financial Advisory activities, such receivables are generally deemed past due when they are outstanding 60 days from the date of the invoice. However, some Financial Advisory transactions include specific contractual payment terms that vary from one month to four years (as is the case with the Company’s Private Company Advisory (“PCA”) group’s financing receivables) following the invoice date or may be subject to court approval (as is the case with bankruptcy-related restructuring assignments). In such cases, receivables are deemed past due when payment is not received by the agreed-upon contractual date or the court approval date. Based upon the Company’s historical experience, the credit quality of the counterparties, and the lack of past due or uncollectible amounts, there is a nominal balance in the allowance for doubtful accounts for PCA fees receivable. Financial Advisory fee receivables past due in excess of 180 days are fully provided for unless there is evidence that the balance is collectable. Asset management and distribution fee receivables 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, the Company specifically reserves against exposures relating to Financial Advisory and Asset Management fees where the Company determines receivables are impaired. See Note 4 for additional information regarding receivables.

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

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**Receivables, net - other** – Other receivables consists of \$23,800 of proceeds associated with certain life insurance policies, \$4,433 from unsettled trades, \$1,126 of receivables from fees due from third parties, \$517 of loans receivable from employees, \$149 related to the settlement of mutual fund transactions with customers of LAM, \$100 for clearing deposits held at our clearing broker, and \$73 of commissions and other receivables. These receivables are short-term in nature, and accordingly, their carrying amount approximates fair value. The Company has a contractual obligation to pay \$15,573 of the life insurance proceeds to a third party, which is included in Accounts payable and accrued expense in the consolidated statement of financial condition.

**Property, net** – Property is stated at cost less accumulated depreciation and amortization. Leasehold improvements are capitalized and amortized on a straight-line basis over the lesser of the economic useful life of the improvement or the term of the lease, which generally range between 3 and 15 years. Depreciation of furniture and equipment, including computer hardware and software, is determined on a straight-line basis using estimated useful lives, generally between 3 and 15 years and is included in “occupancy and equipment” or “technology and information services” on the consolidated statement of income depending on the nature of the underlying asset. Repairs and maintenance are expensed as incurred.

**Goodwill** – As goodwill has an indefinite life, it is required to be 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. The Company completed its annual goodwill review as of November 1, 2019 and determined that no impairment existed. At December 31, 2019 goodwill of \$125,539 and \$2,912 was attributable to the Company’s Financial Advisory and Asset Management segments, respectively.

**Securities Sold, Not Yet Purchased** – Securities sold, not yet purchased are recorded on a trade date basis and represent liabilities for securities sold where there is an obligation to deliver such securities. These securities are accounted for at fair value, with any increase or decrease in fair value recorded in earnings in accordance with U.S. GAAP. Such gains and losses are reflected in “investment gains and (losses), net” in the consolidated statement of income.

**Derivative Instruments** – A derivative is typically defined as an instrument whose value is “derived” from underlying assets, indices or reference rates, such as a future, forward, swap, or option contract, or other financial instrument with similar characteristics. Derivative contracts often involve future commitments to exchange interest payment streams or currencies based on a notional or contractual amount (*i.e.*, currency forwards) or to purchase or sell other financial instruments at specified terms on a specified date (*i.e.*, interest rate swaps or options to buy or sell securities or currencies).

The Company enters into forward foreign currency exchange rate contracts, equity and fixed income swaps and other derivative contracts to economically hedge exposures to fluctuations in currency exchange rates and equity and debt security 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 “derivative obligations” on the consolidated statement of financial

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

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condition. Gains and losses on the Company's derivative instruments are included in "investment gains and (losses), net" "compensation and benefits expense" and "revenues – other" in the consolidated statement of income. See Note 7 for information regarding derivatives.

In addition to the derivative instruments described above, the Company records derivative liabilities relating to its obligations pertaining to LAM's deferred compensation arrangements. The fair value of these compensation arrangements are based on the value of the underlying investments, adjusted for estimated forfeitures, and are included in "accrued compensation and benefits" in the consolidated statement of financial condition. Changes in the fair value of the derivative liabilities are included in "compensation and benefits" in the consolidated statement of income, the impact of which, equally offsets the changes in the fair value of investments owned by the Company that are expected to be delivered upon settlement of LAM's deferred compensation arrangements. Changes in the fair value of such investments are reported in "investment gains and (losses), net" in the consolidated statement of income. See Note 14 for information regarding LAM's deferred compensation arrangements.

***Fair Value of Financial Assets and Liabilities*** – The majority of the Company's financial assets and liabilities are recorded at fair value or at amounts that approximate fair value. Such assets and liabilities include cash and cash equivalents, deposits with banks, receivables (excluding PCA receivables), investments, derivative instruments and securities sold not yet purchased.

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

The benefits of investment banking and advisory services are generally transferred to the Company's clients over time, and consideration for these advisory services typically includes transaction completion, transaction announcement and retainer fees. Retainer fees are generally fixed and recognized over the period in which the advisory services are performed. However, transaction announcement and transaction completion fees are variable and subject to constraints, and they are typically not recognized until there is an announcement date or a completion date, respectively, due to the uncertainty associated with those events. Therefore, in any given period, advisory fees recognized for certain transactions will relate to services performed in prior periods. The advisory fees that may be unrecognized as of the end of a reporting period, primarily comprised of fees associated with transaction announcements and transaction completions, generally remain unrecognized due to the uncertainty associated with those events. Receivables related to investment banking and other advisory fees are reported in "receivables, net – fees" on the consolidated statement of financial condition.



# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

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***Asset Management and Distribution Fees*** – Fees for Asset Management services are primarily comprised of management fees and incentive fees. Management fees are derived from fees for investment management and advisory services provided to clients. Fees for Distribution services are earned from distribution agreements whereby a LAM subsidiary acts as the principal underwriter for the open class shares of the Portfolios of The Lazard Funds, Inc. and service class shares of the Portfolios of Lazard Retirement Series, Inc., (collectively, the “Funds”). Distribution fees are earned at a rate of 0.25% of the average daily net assets of the Funds.

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

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

Incentive fees – The benefits of these management services are transferred to the Company’s clients over time. Consideration for these management services is generally variable and includes performance or incentive fees. The fees allocated to these management services that are unrecognized as of the end of the reporting period are generally amounts that are subject to constraints due to the uncertainty associated with performance targets and claw backs. Incentive fees totaling \$12,241 are included in “asset management and distribution fees” in the consolidated statement of income.

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

With regard to the disclosure requirement for remaining performance obligations, the Company elected the practical expedients permitted in the guidance to (i) exclude contracts with a duration of one year or less; and (ii) exclude variable consideration, such as transaction completion and transaction announcement fees, that is allocated entirely to unsatisfied performance obligations. Excluded variable consideration typically relates to contracts with duration of one year or less, and is generally constrained due to uncertainties. Therefore, when applying the practical expedients, amounts related

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

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to remaining performance obligations are not material to the Company's consolidated financial statements.

In addition, the Company earns performance-based incentive fees on various investment products, including traditional products and alternative investment funds, such as hedge funds.

For Hedge funds, incentive fees are calculated based on a specific percentage of a fund's net appreciation, in some cases in excess of established benchmarks, or thresholds. The Company records incentive fees on traditional products and hedge funds when a significant reversal in the amount of the cumulative revenue to be recognized is not probable, which is typically at the end of the relevant performance measurement period. The incentive fee measurement period is generally an annual period (unless an account is terminated during the year). Incentive fees received at the end of the measurement period are not subject to reversal or payback. Incentive fees on hedge funds are generally 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.

Receivables relating to asset management fees and distribution fees are reported in "receivables, net - fees" on the consolidated statement of financial condition.

***Underwriting Fees*** – Underwriting revenue is accrued on a trade date basis and represents fees earned on primary and secondary offerings of debt and equity securities. Expenses that are directly related to underwriting transactions that are billable to clients are recorded as incurred and presented on a gross basis in marketing and business development expense in the consolidated statement of income.

***Soft Dollar Arrangements*** – LAM obtains research and other services through commission-sharing arrangements with broker dealers, which are also known as "soft dollar" arrangements. Consistent with the "soft dollar" safe harbor established by Section 28(e) of the Securities Exchange Act of 1934, as amended, LAM does not have any contractual obligation or arrangement requiring it to pay for research and other eligible services obtained through soft dollar arrangements with brokers. Instead, the provider is obligated to pay for these services. Consequently, the Company does not incur any liability and does not accrue any expenses in connection with any research or other eligible services obtained by LAM pursuant to such soft dollar arrangements. For the year ended December 31, 2019, the Company obtained research and other eligible services through soft dollar arrangements, valued at approximately \$24,891. The use of soft dollars is limited by regulations in the European Union and the U.K. and, as such, the Company may directly pay a portion of the costs of research and other eligible services going forward.

***Income Taxes*** – Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. Such temporary differences are reflected as deferred tax assets and deferred tax liabilities on the consolidated statement of financial condition. A deferred tax asset is recognized 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.

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

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In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized and, when necessary, a valuation allowance is established. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. Management considers the following possible sources of taxable income when assessing the realization of deferred tax assets:

- 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 Company records tax positions taken or expected to be taken in a tax return based upon the Company's 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, the Company recognizes liabilities for certain unrecognized tax benefits based on the amounts that are more likely than not to be settled with the relevant taxing authority.

The Company recognizes interest and/or penalties related to unrecognized tax benefits in "provision for income taxes". See Note 17 for additional information relating to income taxes.

### 3. RECENT ACCOUNTING DEVELOPMENTS

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

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

# LAZARD FRÈRES & CO. LLC

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Substantially all of the Company's existing lease arrangements are operating leases. The adoption of the new guidance on January 1, 2019 resulted in a recognition of \$19,907 of right-of-use assets ("ROU assets") and \$22,240 of operating lease liabilities in the Company's consolidated statement of financial condition. The operating lease liabilities at January 1, 2019 reflect any remaining lease payments discounted using an incremental borrowing rate (on a collateralized basis) based on the remaining lease term (the "Discount"), as an implicit rate was not readily determinable for any of the Company's existing operating leases. The operating lease ROU assets are lower than the operating lease liabilities primarily because lease incentives reduce the ROU assets (see Note 11).

***Improvements to Nonemployee Share-Based Payment Accounting*** - In June 2018, the FASB issued updated guidance to simplify the accounting for nonemployee share-based payment transactions. The new guidance generally requires equity-classified nonemployee share-based payment awards to be measured at the grant date, which is the date at which a grantor and grantee reach a mutual understanding of the key terms and conditions of a share-based payment award. This update generally aligns the accounting for equity-classified share-based payment awards to nonemployees with the measurement date required for employees. The Company adopted the new guidance on January 1, 2019 and its application did not have a material impact on the Company's financial statements.

***Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*** - In February 2018, the FASB issued updated guidance on the tax effects of items in "accumulated other comprehensive income (loss), net of tax" ("AOCI"). Specifically, the new guidance will permit, but not require, a reclassification from AOCI to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate under the Tax Cuts and Jobs Act of 2017. The amount of the reclassification would be the difference between the historical corporate income tax rate and the newly enacted 21% corporate income tax rate. The Company adopted the new guidance on January 1, 2019 without reclassifying any amounts from AOCI to retained earnings. The application of the guidance did not have a material impact on the Company's financial statements.

***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 current expected credit losses ("CECL") 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. The new guidance will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings at the beginning of the year of adoption.

The Company will adopt the new credit loss guidance upon its effective date of January 1, 2020. The Company's adoption efforts include the identification of financial assets within the scope of the guidance, the evaluation of the current credit loss provisioning process, and the implementation of the CECL model. The impact of the new guidance primarily relates to the Company's fee receivables.

# LAZARD FRÈRES & CO. LLC

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To comply with the CECL model, the Company has analyzed historical bad debt charge-off data to determine the average charge-off rate used to measure the expected credit loss for fee receivables. The Company has determined that long-term forecasted information is not relevant to its fee receivables which are generally short-term. The Company will update the average charge-off rate periodically and maintain its quarterly reserve review process to consider current factors that would require an adjustment to the credit loss estimate. In addition, the Company will periodically perform a qualitative assessment to monitor risks associated with current and forecasted conditions that may require an adjustment to the expected credit loss allowance. The Company currently does not expect a material impact to its financial statements upon adoption of the new credit loss guidance.

***Intangibles—Goodwill and Other: Simplifying the Test for Goodwill Impairment*** - In January 2017, the FASB issued updated guidance which eliminated Step 2 from the goodwill impairment test. Step 2 is the process of measuring a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The new guidance requires entities to measure a goodwill impairment loss as the amount by which a reporting unit's carrying value exceeds its fair value, limited to the carrying amount of goodwill. The FASB also eliminated the requirements for entities that have reporting units with zero or negative carrying amounts to perform a qualitative assessment for the goodwill impairment test. Instead, those entities would be required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount. The new guidance is effective for interim or annual goodwill impairment tests performed in fiscal years beginning after December 15, 2019. The Company will adopt the new guidance as of January 1, 2020 and prospectively apply the new model for its goodwill impairment test. There will be no impact to the Company's financial statements at the adoption date.

***Intangibles—Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*** - In August 2018, the FASB issued updated guidance on the accounting for implementation costs incurred in a cloud computing arrangement. The new guidance requires the capitalization of the implementation costs incurred in a cloud computing arrangement to be aligned with the requirements for capitalizing costs incurred to develop or obtain internal-use software. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2019 and allows entities to either retrospectively or prospectively apply the amendments at adoption. The Company will adopt the new guidance as of January 1, 2020 and has elected to apply the new guidance prospectively to implementation costs incurred after the adoption date. There will be no impact to the Company's financial statements at the adoption date.

***Related Party Guidance for Variable Interest Entities*** - In October 2018, the FASB issued updated guidance that requires consideration of indirect interest held through related parties under common control for determining whether fees paid to decision makers and service providers are variable interests. The new guidance is effective for fiscal years and interim periods beginning after December 15, 2019. The amendments are required to be applied retrospectively with a cumulative-effect adjustment. The Company will adopt the new guidance as of January 1, 2020 and does not expect a material impact to its financial statements at the adoption date.

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

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***Fair Value Measurement: Changes to the Disclosure Requirements for Fair Value Measurement -***

In August 2018, the FASB issued updated guidance which modifies the disclosure requirements on fair value measurement. The updated guidance eliminates or modifies various required disclosures under the current guidance and includes additional requirements. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2019. The additional disclosures related to level 3 fair value measurements are to be applied prospectively and other amendments are to be applied retrospectively. The Company will adopt the new guidance on January 1, 2020 and update its fair value measurement disclosures in accordance with the new guidance. The Company currently does not expect a material impact to its financial statements at the adoption date.

***Compensation-Retirement Benefits: Changes to the Disclosure Requirements for Defined Benefit Plans -***

In August 2018, the FASB issued updated guidance which modifies the disclosure requirements regarding defined benefit plans and other postretirement plans. The updated guidance eliminates or clarifies certain currently required disclosures and includes additional requirements. The new guidance is effective for fiscal years ending after December 15, 2020 with retrospective application. The Company will adopt the new guidance on January 1, 2020 and update its related disclosures in accordance with the new guidance. The Company currently does not expect a material impact to its financial statements at the adoption date.

***Simplifying the Accounting for Income Taxes -*** In December 2019, the FASB issued new guidance to simplify the accounting for income taxes. The amendments include the removal of certain exceptions and various improvements. These improvements are related to the accounting for franchise tax based on income, evaluation of step up in tax basis of goodwill, allocation of consolidated tax expense to standalone legal entities, recognition of enacted change in tax laws or rates, and other minor changes. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the new guidance.

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**4. RECEIVABLES, NET - FEES**

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. The aggregate carrying amount of fees receivables approximates fair value.

The following table provides a summary of fees receivable as of December 31, 2019:

Financial advisory fees:	
Investment banking	\$ 76,036
PCA	65,413
Asset management fees:	
Asset management and distribution fees	<u>177,445</u>
Total fee receivables	318,894
Less: Allowance for doubtful accounts	<u>(997)</u>
Receivables, net - fees	<u><u>\$ 317,897</u></u>

Activity in the allowance for doubtful accounts for the year ended December 31, 2019 was as follows:

Balance, January 1, 2019	\$ (5,178)
Bad debt expense, net of recoveries	4,184
Charge-offs, foreign currency translation and other adjustments	<u>(3)</u>
Balance, December 31, 2019	<u><u>\$ (997)</u></u>

As of December 31, 2019, the Company had receivables past due or deemed uncollectible of \$4,971.

***Related Parties***

During the year ended December 31, 2019, the Company recognized approximately \$9,000 of investment banking and other advisory fees pertaining to financial advisory services provided to clients of which a member of Lazard Ltd's Board of Directors also served as a member of the client's board of directors or in a management capacity. Investment banking fees receivable as of December 31, 2019 includes \$3,000 of fees due from one of these related parties. The engagement terms were negotiated in the ordinary course of business on an arms-length basis.

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**5. INVESTMENTS**

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

**Investments:**

Equities	\$	48,257
Funds:		
Alternative investments <sup>(a)</sup>		16,271
Debt <sup>(a)</sup>		39,477
Equity <sup>(a)</sup>		58,793
Private equity		1,019
		<u>115,560</u>
Total Investments, at fair value	\$	<u>163,817</u>
Securities sold, not yet purchased, at fair value	\$	<u>12,894</u>

<sup>(a)</sup> Interests in alternative investments, debt and equity funds include investments with fair values of \$9,570, \$4,258 and \$12,124, respectively, as of December 31, 2019, held in order to satisfy the Company's liabilities upon vesting of previously granted fund interests related to the Company's deferred compensation arrangements. The Company's deferred compensation arrangements are further explained in Note 14.

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 LAM's business and securities held by LF&Co.

Alternative investment funds primarily consist of interests in various hedge funds, fund of funds and mutual funds related to LAM's business and amounts related to LAM's deferred compensation arrangements.

Debt funds primarily consist of a debt fund held by LF&Co, seed investments in funds related to LAM's business that invest in debt securities, and amounts related to LAM's deferred compensation arrangements.

Equity funds primarily consist of seed investments in funds related to LAM's business that invest in equity securities and amounts related to LAM's deferred compensation arrangements.

Private equity funds consist of an interest in a limited partnership that invests in private equity securities.

Unrealized investment gains and losses related to equity securities and trading debt securities of \$14,766 are reported in "investment gains and (losses), net" in the consolidated statement of income.



# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

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### 6. FAIR VALUE MEASUREMENTS

*The Fair Value Hierarchy of Investments and Certain Other Assets and Liabilities* – The Company 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 the Company 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 management's 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 and liabilities whose trading volume and level of activity have significantly decreased when compared with normal market activity and there is no longer sufficient frequency or volume to provide pricing information on an ongoing basis.

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

The fair value of equities is principally 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 are classified as Level 1 assets when the fair values are primarily based on the publicly reported closing price for the fund.

The fair values of derivatives entered into by the Company are classified as Level 2, and are based on the values of the related underlying assets, indices or reference rates as follows—the fair value of forward foreign currency exchange rate contracts is a function of the spot rate and the interest rate differential of the two currencies from the trade date to the settlement date; the fair value of equity and fixed income swaps is based on the change in fair values of the related underlying equity security, financial instrument or index and a specified notional holding; and the fair value of derivative liabilities related to LAM's deferred compensation arrangements is based on the value of the underlying investments, adjusted for forfeitures. See Note 7 and Note 14.

*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

# LAZARD FRÈRES & CO. LLC

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based on information provided by external fund administrators. The Company has no unfunded commitments related to these investments. The Company's investments valued at NAV as a practical expedient include (i) alternative investment funds, debt funds and equity funds that have redemption notice periods of 60 days or less and are redeemable in the near term, and (ii) private equity funds which are not redeemable in the near term as a result of redemption restrictions, however these funds are expected to be liquidated within the next 5 years.

The following table presents the classification of (i) investments and certain other assets and liabilities measured at fair value on a recurring basis as of December 31, 2019, within the fair value hierarchy and (ii) investments measured at NAV or its equivalent as a practical expedient:

	Fair Value Measurements on a Recurring Basis				
	Level 1	Level 2	Level 3	NAV	Total
<b>Assets:</b>					
Investments:					
Equities	\$ 46,914	\$ -	\$ 1,343	\$ -	\$ 48,257
Funds:					
Alternative investments	15,421	-	-	850	16,271
Debt	39,472	-	-	5	39,477
Equity	58,751	-	-	42	58,793
Private equity	-	-	-	1,019	1,019
Derivatives	-	611	-	-	611
Total	<u>\$ 160,558</u>	<u>\$ 611</u>	<u>\$ 1,343</u>	<u>\$ 1,916</u>	<u>\$ 164,428</u>
<b>Liabilities:</b>					
Securities sold, not yet purchased	\$ 12,894	\$ -	\$ -	\$ -	\$ 12,894
Derivatives	-	34,280	-	-	34,280
Total	<u>\$ 12,894</u>	<u>\$ 34,280</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,174</u>

The Company's level 3 investments were unchanged for the year, with the exception of a recognized foreign currency translation adjustment of (\$15). There were no transfers between any of the Level 1, 2 and 3 categories in the fair value measurement hierarchy and there were no purchases, sales, or realized and unrealized gains (losses) recorded during the year ended December 31, 2019.

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

**Financial Instruments Not Measured at Fair Value** – The table below presents the carrying value, fair value and fair value hierarchy category of certain financial instruments as of December 31, 2019 that are not measured at fair value in the Company’s consolidated statement of financial condition.

			Fair Value Measurements Using:		
			Quoted Prices in		
	Carrying Value	Fair Value	Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Cash and cash equivalents	\$ 605,736	\$ 605,736	\$ 605,736	\$ -	\$ -
PCA receivables	\$ 65,413	\$ 66,729	\$ -	\$ -	\$ 66,729
Interest-bearing deposits (included within other assets)	\$ 517	\$ 517	\$ 517	\$ -	\$ -

Cash and cash equivalents are carried at either cost or amortized cost that approximates fair value due to their short-term maturities. Money market funds are valued through the use of quoted market prices, or \$1.00 per share, which generally is the NAV of the fund.

Fair values of PCA fees receivables are generally determined by discounting both principal and interest cash flows expected to be collected, using a discount rate approximating current market interest rates for comparable financial instruments and based on unobservable inputs.

The carrying value of interest-bearing deposits is at amortized cost, which approximates fair value due to their short-term nature.

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

### 7. DERIVATIVES

The table below presents the fair values of the Company's derivative instruments reported within "other assets" and "derivative obligations" and the fair value of the Company's derivative liability relating to its obligations pertaining to LAM's deferred compensation arrangements reported within "accrued compensation and benefits" in the consolidated statement of financial condition as of December 31, 2019:

	Assets at December 31, 2019		Liabilities at December 31, 2019	
	Fair Value	Notional	Fair Value	Notional
Forward foreign currency exchange rate contracts	\$ 611	\$ 39,604	\$ 931	\$ 67,923
Equity and fixed income swaps and other <sup>(a)</sup>	152	3,579	8,678	66,458
LAM's deferred compensation arrangements	-	-	24,823	22,592
Total Derivatives	<u>763</u>	<u>\$ 43,183</u>	<u>34,432</u>	<u>\$ 156,973</u>
Counterparty netting	(152)		(152)	
Total Derivatives, net	<u>\$ 611</u>		<u>\$ 34,280</u>	

<sup>(a)</sup> Equity and fixed income swaps with the same counterparty under legally enforceable master netting agreements are recorded "net" in "derivative obligations" as of December 31, 2019.

The Company did not designate any of its derivatives as hedging instruments. Net gains (losses) with respect to derivative instruments are reflected in "investment gains and (losses), net" or "Revenue Other" in the consolidated statement of income. The Company's net gains (losses) relating to its obligation pertaining to LAM's deferred compensation arrangements are reported in "compensation and benefits" expense in the consolidated statement of income. These gains and (losses) are partially offset by changes in the fair value of investments expected to be delivered upon settlement and are reported in "investment gains and (losses), net" in the consolidated statement of income. Gains (losses) by type of derivative, are as follows:

	For the Year Ended December 31, 2019
Forward foreign currency exchange rate contracts	\$ 1,259
Equity and fixed income swaps and other	(14,659)
LAM's deferred compensation arrangements	(10,095)
Total	<u>\$ (23,495)</u>

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

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### 8. PROPERTY, NET

As of December 31, 2019, property, net consists of the following:

	<b>December 31, 2019</b>
Leasehold improvements	\$ 13,815
Furniture and equipment	<u>134,202</u>
Total	148,017
Less - Accumulated depreciation and amortization	<u>(117,874)</u>
Property, net	<u><u>\$ 30,143</u></u>

Depreciation and amortization expenses for the year ended December 31, 2019 were \$10,983 and are included in “occupancy and equipment” and “technology and information services” on the consolidated statement of income.

### 9. OTHER ASSETS AND OTHER LIABILITIES

The following table sets forth the Company’s other assets, by type, as of December 31, 2019:

	<b>December 31, 2019</b>
Prepaid expenses	\$ 21,956
Swap collateral	7,720
Reimbursable client expenses	7,159
Prepaid compensation	7,611
Pension asset	1,027
Other	<u>7,548</u>
Total	<u><u>\$ 53,021</u></u>

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The following table sets forth the Company's other liabilities, by type, as of December 31, 2019:

	<b>December 31, 2019</b>
LAM's settlements of mutual fund transactions payable to customers	\$ 7,983
Value Added Taxes Payable	1,947
Other	3,980
Total	<u>\$ 13,910</u>

#### **10. TRANSACTIONS WITH AFFILIATES**

A description of material transactions and balances with affiliates included in the consolidated financial statements of the Company as of December 31, 2019 or for the year then ended are set forth below.

***Investment Banking and Other Advisory Fees*** – The Company periodically shares investment banking and other advisory fees with affiliates that have jointly performed services relative to the completion of certain customer transactions. During 2019, the Company allocated \$55,060 of fee revenue to, and received \$19,184 of fee revenue from, affiliates.

***Executive Management Service Charge*** – The Company, through an agreement with an affiliate, Lazard Strategic Coordination Company LLC (“LSCC”), a wholly-owned subsidiary of Lazard Group, provides various services associated with the management, administration and operations of Lazard Group. During 2019, the Company provided services for LSCC and charged LSCC \$50,661 and \$56,910 for compensation and non-compensation related expenses, respectively, which the Company has recorded as reductions in “compensation and benefits” and “other” expenses in the consolidated statement of income.

LSCC allocates the costs paid by the Company along with other costs for management, administration and operations of Lazard Group to the Company and other subsidiaries and affiliates of Lazard Group. These costs are allocated based on revenue or headcount. During 2019, LSCC allocated to the Company costs totaling \$66,136 and \$62,213, which the Company has recorded in “compensation and benefits” and “other” expenses, respectively, in the consolidated statement of income.

***Investment Management Services and Revenues*** – The Company serves as an investment advisor for certain affiliated investment companies and alternative investment funds and receives management fees and, for the alternative investment funds, incentive fees for providing such services. Investment advisory fees relating to such services were \$397,238 of which \$38,329 remains as a receivable at December 31, 2019, and is included in “receivables, net - fees” in the consolidated statement of financial condition.

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

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***Distribution Fees*** – The Company serves as distributor for certain affiliated investment companies and earns distribution fee revenue for providing such services. Distribution fees earned relating to such services are described in Note 2 to the consolidated financial statements. The Company's distribution fees receivable as of December 31, 2019 was \$741.

***Receivables from Affiliates*** – Receivables from affiliates is comprised of the following items at December 31, 2019:

Receivable from Lazard Group in connection with incentive compensation plans	\$ 42,340
Banking and PCA fee sharing due from various affiliates	28,653
Executive management services agreement charges due from various affiliates	16,549
Other	<u>9,861</u>
Total Receivables from Affiliates	<u>\$ 97,403</u>

***Payables to Affiliates*** – Payables to affiliates is comprised of the following items at December 31, 2019:

Compensation charges due to Lazard Group	\$ 166,770
Deferred compensation charges due to various affiliates	12,041
Rent allocation payable to Lazard Group	21,193
Executive management services agreement charges by LSCC	37,013
Banking and PCA fee sharing due to various affiliates	8,834
Other	<u>7,057</u>
Total Payables to Affiliates	<u>\$ 252,908</u>

# **LAZARD FRÈRES & CO. LLC**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)**

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### **11. LEASES**

The Company adopted the new lease accounting guidance as of January 1, 2019, which resulted in recognition of ROU assets and lease liabilities related to operating leases on the consolidated statement of financial condition. The Company determines if an arrangement is, or contains, a lease at its inception and reevaluates the arrangement if the terms are modified. Operating lease ROU assets represent the right to use an underlying asset for the lease term and operating lease liabilities reflect the obligation to make lease payments arising from the lease. At any given time during the lease term, the operating lease liability represents the present value of the remaining lease payments and the ROU asset is measured at the amount of the lease liability, adjusted for rent prepayments, unamortized initial direct costs and the remaining balance of lease incentives received. Both the ROU asset and the operating lease liability are reduced to zero at the end of the lease.

The Company leases office space and equipment under non-cancelable lease agreements, which expire on various dates through 2028. Substantially all of these arrangements are operating leases relating to office space. Certain leases have renewal options that can be exercised at the discretion of the Company. The Company only includes renewal options in the lease term when it is reasonably certain to exercise the option. The Company does not record leases with a lease term of 12 months or less on the consolidated statement of financial condition; lease expense for these leases is recognized over the lease term on a straight-line basis.

For leases commencing on January 1, 2019 or thereafter that are recognized on the consolidated statement of financial condition, the Company applies its estimated Discount. The Company bases this Discount on the information available at the lease commencement date. The Company determines its Discount with consideration of the public debt issuances of the Company's sole member, Lazard Group, as well as publicly available data for instruments with similar characteristics.

For leases commencing on January 1, 2019 or thereafter that relate to office space and equipment, the Company accounts for the lease and non-lease components as a single lease component.

In addition to rent payments, operating leases for office space generally contain payments for real estate taxes, insurance costs, common area maintenance, and utilities that are not fixed. The Company accounts for these costs as variable payments and does not include them in the lease component. There are certain office leases outside of the U.S. that have annual rent increases based on year-over-year change in an index that are also accounted for as variable payments and are excluded from the lease component.



# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

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The following table summarizes the components of operating lease expense reflected on the accompanying consolidated statement of income for the year ended December 31, 2019:

	<b>Year Ended December 31, 2019</b>
Operating lease cost	\$ 42,050
Variable lease cost	10,158
Less - sublease income	<u>23</u>
Total	<u><u>\$ 52,185</u></u>

The following table summarizes the supplemental cash flow information and certain other information related to operating leases for the year ended December 31, 2019:

	<b>Year Ended December 31, 2019</b>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 6,577
Right-of-use assets obtained in exchange for operating lease liabilities	\$ 22,151
Weighted average remaining lease term	5 years
Weighted average discount rate	3.2%

Maturities of the operating lease liabilities outstanding at December 31, 2019 for each of the years in the period ending December 31, 2024 and thereafter are set forth in the table below.

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

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	Year Ended December 31, 2019
2020	\$ 5,987
2021	4,378
2022	3,362
2023	2,369
2024	1,637
Thereafter	1,925
Total minimum lease payments	19,658
Less - Sublease proceeds	1,431
Operating lease liabilities	<u>\$ 18,227</u>

### 12. COMMITMENTS AND CONTINGENCIES

**Other Commitments** – The Company has various other contractual commitments arising in the ordinary course of business. In addition, from time to time, the Company may enter into underwriting commitments in which it will participate as an underwriter. At December 31, 2019, the Company had no such underwriting commitments.

**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 the Company's 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 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.

### 13. MEMBER'S EQUITY

Pursuant to the Company's operating agreement, the Company allocates and distributes to Lazard Group a substantial portion of its distributable profits throughout the year and as soon as practicable after the end of each fiscal year.

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

*Accumulated Other Comprehensive Income (Loss), Net of Tax ("AOCI")* – The table below reflects the components of AOCI at December 31, 2019 and activity during the year then ended:

	Currency Translation Adjustments	Employee Benefit Plans	Total AOCI
Balance, January 1, 2019	\$ (31,751)	\$ (28,645)	\$ (60,396)
Activity January 1 to December 31, 2019:			
Currency translation adjustments	1,965		1,965
Actuarial losses before reclassifications, net of tax of \$(803)	-	(6,350)	(6,350)
Adjustments for items reclassified to earnings, net of tax of \$70	<u>-</u>	<u>1,302</u>	<u>1,302</u>
Other comprehensive income (loss), net	<u>1,965</u>	<u>(5,048)</u>	<u>(3,083)</u>
Balance, December 31, 2019	<u>\$ (29,786)</u>	<u>\$ (33,693)</u>	<u>\$ (63,479)</u>

During 2019, the Company reclassified out of AOCI \$1,302 of actuarial gains related to employee benefit plans. Actuarial losses reclassified to earnings are a component of the net periodic benefit cost which is summarized in Note 14 and is included in "compensation and benefits" expense in the consolidated statement of income.

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

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### 14. INCENTIVE COMPENSATION

The Company participates in Lazard Ltd's share-based and fund-based incentive compensation plans.

***Share-Based Incentive Compensation*** – Lazard Ltd's share-based incentive compensation awards that do not require future service are expensed immediately; however, awards that require future service are amortized over the applicable vesting period or requisite service period. Expenses relating to share-based incentive compensation awards are generally based on the fair value of Lazard Ltd's Class A common stock on the date of grant. In 2019, allocated expense to the Company related to the share-based compensation plan is \$106,056 and is recognized in "compensation and benefits" expense in the consolidated statement of income.

***Fund-Based Incentive Compensation*** – Lazard Group sponsors a program whereby Lazard Group grants interests in certain funds managed by LAM to eligible employees, ("Lazard Fund Interests"), which generally require future service as a condition for vesting. Lazard Asset Management Limited ("LAM-UK"), a subsidiary of LAM, based in the United Kingdom, owns the Lazard Fund Interests granted in 2019, 2018 and 2017 by Lazard Group to LAM-UK employees. These fund interests are included in investments on the consolidated statement of financial condition. Lazard Fund Interests granted in 2019, 2018 and 2017, generally provide for one-third vesting on the second anniversary of the grant date and the remaining two-thirds vesting on the third anniversary of the grant date. In 2019, the Company's expense associated with Lazard Fund Interests, excluding Lazard Fund Interests owned by LAM-UK, was \$78,817 and is recognized in "compensation and benefits" expense in the consolidated statement of income.

***LAM's Deferred Compensation Arrangements*** - LAM grants deferred interests in LAM funds and other LAM products to certain employees as specified in their compensation agreements (referred to herein as "LAM's deferred compensation arrangements"). LAM's deferred compensation arrangements generally require future service as a condition for vesting.

In connection with the Lazard Fund Interests purchased from Lazard Group and LAM's deferred compensation arrangements, the Company records a prepaid compensation asset and a corresponding compensation liability on the date of grant 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 and is charged to "compensation and benefits" expense in the consolidated statement of income. LAM's deferred compensation arrangements that do not require future service are expensed immediately. The related compensation liabilities associated with Lazard Fund Interests and LAM's deferred compensation arrangements are accounted for at fair value as derivative liabilities that contemplate the impact of estimated forfeitures, and are adjusted for changes in fair value primarily related to changes in value of the underlying investments. These changes in fair value are recorded in "compensation and benefits" expense in the consolidated statement of income. In 2019, the Company's expense associated with Lazard Fund Interests owned by LAM-UK and LAM's deferred compensation arrangements were \$9,901 and \$1,679, respectively, and are recognized in "compensation and benefits" expense in the consolidated statement of income.

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

The following is a summary of activities relating to Lazard Fund Interests owned by LAM and LAM's deferred compensation arrangements during the year ended December 31, 2019:

	<b>Prepaid Compensation Asset</b>	<b>Compensation Liability</b>
Balance, January 1, 2019	\$ 6,348	\$ (21,537)
Granted	9,941	(9,941)
Settled	-	9,552
Forfeited	(265)	414
Amortization	(8,413)	-
Adjustment to amortization of prepaid asset	-	-
Change in fair value related to the underlying investments	-	(2,779)
Adjustments to estimated forfeiture assumptions	-	-
Adjustment for estimated forfeitures	-	(532)
FX movement	-	-
Balance, December 31, 2019	<u>\$ 7,611</u>	<u>\$ (24,823)</u>

The amortization of the prepaid compensation will generally be recognized over a weighted average period of approximately 1.0 years subsequent to December 31, 2019.

The following is a summary of the impact of Lazard Fund Interests owned by LAM-UK and LAM's deferred compensation arrangements on "compensation and benefits" expenses within the accompanying consolidated statement of income:

	<b>For the Year Ended December 31, 2019</b>
Amortization, net of forfeitures	\$ 8,413
Change in the fair value of underlying investments	<u>2,779</u>
Total	<u>\$ 11,192</u>

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

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### 15. EMPLOYEE BENEFIT PLANS

The Company provides pension and other post-employment benefits to certain employees through defined benefit plans. The defined benefit pension plans, prior to being frozen, generally provided benefits to participants based on average levels of compensation. The other post-employment benefit plans sponsored by certain subsidiaries are active and provide benefits to the participants when they separate from the Company. Benefits are based on years of service and levels of compensation. The Company also offers a defined contribution benefit plan in the U.S. Expenses related to the Company's employee benefit plans are included in "compensation and benefits" expense in the consolidated statement of income.

LAM-UK co-sponsors a defined benefit pension plan (the "UK Plan") with Lazard & Co. Limited, a UK affiliate. These consolidated financial statements include LAM-UK's 27% share of the plan's assets and liabilities at December 31, 2019 and 27% of the plan's activity for the year ended December 31, 2019.

***Employer Contributions to Pension Plans*** – The Company's funding policy for its pension plans is to fund when required by government regulation or when applicable, upon an agreement with the plans' trustees. Management also evaluates from time to time whether to make voluntary contributions to the plans. The Company funds its post-employment plans on a voluntary basis. The Company is required to make a \$225 contribution to the qualified defined benefit plan in the United States. The Company expects to make a \$1,000 contribution to that plan during 2020.

***Investment Policies and Strategies*** – The primary investment goal is to ensure that the Company's pension plans remain well funded, taking account of the likely future risks to investment returns and contributions. As a result, portfolios of assets are maintained with appropriate liquidity and diversification that can be expected to generate long-term future returns that minimize the long-term costs of the pension plans without exposing the plans to an unacceptable risk of under-funding. The Company's likely future ability to pay such contributions as are required to maintain the funded status of the plans over a reasonable time period is considered when determining the level of risk that is appropriate. The Company's investing policy for its post-employment plans is to invest in highly liquid, low risk mutual funds or interest bearing bank accounts to ensure funds are readily available when employees separate from the Company. The fair value of the plans' investments classified as Level 1 assets are based on market quotes. The fair value of the plans' investments measured at NAV or its equivalent as a practical expedient is determined based on information provided by external fund administrators and such investments are redeemable in the near term.

The expected long-term rate of return on plan assets assumption is developed by using historical data, which includes: market yields, price earnings ratios, investment returns, volatilities and other data. Such historical data is then adjusted for (i) current market conditions including current market yields and equity dividend and earnings yields, and (ii) information from central banks and academic papers that serve as indicators of future inflation and economic growth. The adjusted historical data is then evaluated against investment manager expectations.

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

**Defined Contribution Plan** – Pursuant to certain matching contributions, the Company contributes to employer sponsored defined contribution plans. Such contributions amounted to \$9,770 for the year ended December 31, 2019, which is included in “compensation and benefits” expense in the consolidated statement of income.

The following table summarizes the components of net periodic benefit costs and other amounts recognized in accumulated other comprehensive income, for the year ended December 31, 2019. The Company uses December 31 as the measurement date for its pension plans and post-employment plans:

	<b>Employee Pension Plans</b>	<b>Post Employment Plans</b>
<b>Components of Net Periodic Benefit Costs:</b>		
Service cost	\$ -	\$ 114
Interest cost	3,486	20
Expected return on plan assets	(5,456)	(16)
Settlements	749	-
Amortization of:		
Prior service cost (credit)	30	-
Net actuarial loss (gain)	598	
Currency translation and other adjustments	(4)	2
Net periodic benefit cost	<u>\$ (597)</u>	<u>\$ 120</u>
<b>Other Changes in Plan Assets and Benefit Obligations Recognized in Accumulated Other Comprehensive Income (Loss):</b>		
Net actuarial (gain) loss	\$ 6,830	\$ 15
Reclassification of prior service (cost) credit	(30)	
Reclassification of actuarial gain (loss) to earnings	(1,347)	
Currency translation and other adjustments	<u>579</u>	<u>(10)</u>
Total recognized in other comprehensive income (excluding tax credit of \$934)	<u>6,032</u>	<u>5</u>
Net amount recognized in total periodic benefit cost and other comprehensive income	<u>\$ 5,435</u>	<u>\$ 125</u>
<b>Actual return on plan assets</b>	\$ 16,231	\$ 14
<b>Employer contribution</b>	\$ 220	\$ -
<b>Plan participants' contribution</b>	\$ -	\$ 56
<b>Benefits paid</b>	\$ (7,070)	\$ (56)

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

The amounts in “accumulated other comprehensive loss, net of tax” in the consolidated statement of financial condition as of December 31, 2019 that are expected to be recognized as components of net periodic benefit cost for the year ending December 31, 2020 are as follows:

	<b>Employee Pension Plan</b>	<b>Post Employment Plans</b>	<b>Total</b>
Net actuarial loss	\$ 770	\$ -	\$ 770

The assumptions used to develop actuarial present value of the projected benefit obligation and net periodic benefit cost as of and for the year ended December 31, 2019 are set forth below:

	<b>Employee Pension Plans</b>	<b>Post Employment Plans</b>
<b>Weighted-average assumptions used to determine Benefit Obligations:</b>		
Discount rate	2.24%	2.25%
<b>Weighted-average assumptions used to determine Net Periodic Benefit Cost:</b>		
Discount rate	3.21%	2.50%
Expected long-term rate of return on plan assets	5.03%	2.50%

Generally, the Company determined the discount rate for its defined benefit plans by utilizing indices for long-term, high-quality bonds and ensuring that the discount rate does not exceed the yield reported for those indices after adjustment for the duration of the plans’ liabilities.

In selecting the expected long-term rate of return on plan assets, the Company considered the average rate of earnings expected on the funds invested or to be invested to provide for the benefits of the plan, giving consideration to expected returns on different asset classes held by the plans in light of prevailing economic conditions.



# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

As a result of the pension plans being frozen, the accumulated benefit obligation and the projected benefit obligation are equal and with respect to the pension plans, are referred to herein as benefit obligation. The following table summarizes the Company's benefit obligations, the fair value of the assets and the funded status and amount recognized in the consolidated statement of financial condition for the benefit plans at December 31, 2019:

	<b>Employee Pension Plans</b>	<b>Post Employment Plans</b>
<b>Change in Benefit Obligation</b>		
Benefit obligation at beginning of year	\$ 122,498	\$ 902
Service cost	-	114
Interest cost	3,486	20
Actuarial (gain) loss	17,860	13
Benefits paid	(7,070)	(56)
Foreign currency translation adjustment	2,877	(30)
Benefit obligation at end of year	<u>139,651</u>	<u>963</u>
<b>Change in Plan Assets</b>		
Fair value of plan assets at beginning of year	117,781	825
Actual return on plan assets	16,231	14
Employer contribution	220	-
Plan participants' contribution	-	56
Benefits paid	(7,070)	\$ (56)
Foreign currency translation adjustment	3,304	(27)
Fair value of plan assets at end of year	<u>130,466</u>	<u>812</u>
Funded surplus (deficit) at end of year	<u>\$ (9,185)</u>	<u>\$ (151)</u>
<b>Amount recognized in the Consolidated Statement of Financial Condition consists of:</b>		
Pension asset (included in "other assets")	\$ 215	\$ 812
Accrued benefit liability	(9,400)	(963)
Net asset (liability) recognized	<u>\$ (9,185)</u>	<u>\$ (151)</u>
<b>Amounts Recognized in Accumulated Other Comprehensive (Income)/Loss (excluding tax benefit of \$2,446) consists of:</b>		
Actuarial net (gain) loss	\$ 18,586	\$ 326

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

**Expected Benefit Payments** – The following table summarizes the expected benefit payments for each of the Company’s plans for each of the next five years and in the aggregate for the five years thereafter:

	<b>Employee Pension Plans</b>	<b>Post Employment Plans</b>
2020	\$ 4,503	\$ 121
2021	\$ 5,593	\$ 98
2022	\$ 5,419	\$ 104
2023	\$ 5,195	\$ 295
2024	\$ 6,318	\$ 65
2025- 2029	\$ 31,179	\$ 392

**Plans’ Assets** – The following table presents the categorization of the Company’s pension plans’ investments, measured at fair value, into a fair value hierarchy and investments measure at NAV or its equivalent as a practical expedient in accordance with fair value measurement disclosure requirements as of December 31, 2019:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>NAV</b>	<b>Total</b>
<b><u>Plans' Assets</u></b>					
Cash	\$ 2,547	\$ -	\$ -	\$ -	\$ 2,547
Equities	5,130	-	-	-	5,130
Debt	4,071	-	-	-	4,071
Funds:					
Equity	38,209	791	-	6,443	45,443
Debt	8,828	14,206	-	46,331	69,365
Alternative investments	-	260	-	4,462	4,722
Total plans' assets measured at Fair Value	<u>\$ 58,785</u>	<u>\$ 15,257</u>	<u>\$ -</u>	<u>\$ 57,236</u>	<u>\$ 131,278</u>

Investments in funds managed by LAM include Level 1 Equity Funds of \$18,899 and \$6,442 of funds valued at net asset value as a practical expedient.

Consistent with the plans’ investment strategies, at December 31, 2019, the Company’s U.S. pension plan had 32% of the plans’ assets invested in Level 1 equity funds, 39% invested in Level 1 debt funds, 28% invested in equity funds valued at NAV as a practical expedient and 1% of the plan’s assets invested in cash, which is a Level 1 asset. The Company’s UK Plan at December 31, 2019 had 34%

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

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of the plan's assets invested in equities and equity funds that are Level 1 and Level 2 assets, 60 % of the plan's assets invested in debt that are Level 1, Level 2 and measured at NAV as a practical expedient, 4% of the plan's assets invested in alternative investments that are Level 2 and measured at NAV as a practical expedient and 2% of the plan's assets invested in cash, which is a Level 1 asset.

### 16. BUSINESS REALIGNMENT

Lazard Group conducted a review of its business, which resulted in a realignment that included employee reductions and the closing of subscale offices and investment strategies, most of which were completed during the third quarter of 2019.

Expenses associated with business realignment for the year ended December 31, 2019 were as follows:

	<b>Financial Advisory</b>	<b>Asset Management</b>	<b>Corporate</b>	<b>Total</b>
Compensation and benefits	\$ 25,177	\$ 14,480	\$ 2,486	\$42,143
Other	5	1,750	-	1,755
Total	<u>\$ 25,182</u>	<u>\$ 16,230</u>	<u>\$ 2,486</u>	<u>\$43,898</u>

Activity related to the obligations pursuant to business realignment during the year ended December 31, 2019 was as follows:

	<b>Accrued Compensation and Benefits</b>	<b>Other Liabilities</b>	<b>Total</b>
Balance, January 1, 2019	\$ -	\$ -	\$ -
New Charges	42,143	1,755	43,898
Less:			
Non-cash charges	(12,790)	(1,729)	(14,519)
Payments	(14,384)	42	(14,342)
Balance, December 31, 2019	<u>\$ 14,969</u>	<u>\$ 68</u>	<u>\$ 15,037</u>

### 17. INCOME TAXES

As a single-member limited liability company, LF&Co. is disregarded as an entity separate from its owner and its operations are included in the tax returns of Lazard Group. Therefore, the Company has no income tax expense except with regard to: (i) its certain subsidiaries that are taxed as corporations

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

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in the jurisdictions in which they operate as well as (ii) income attributable to operations apportioned to New York City, which are subject to New York City Unincorporated Business Tax (“UBT”).

The components of the Company’s provision for income taxes for the year ended December 31, 2019 consisted of:

Current tax expense/(benefit):	
Foreign	\$ 19,932
State and local	3,037
Federal	1,356
Total provision for current income taxes	<u>24,325</u>
Deferred tax expense (benefit):	
Foreign	(451)
State and local	7
Federal	50
Total tax benefit for deferred income taxes	<u>(394)</u>
Total provision for income taxes	<u>\$ 23,931</u>

Details of the Company’s deferred tax assets and liabilities at December 31, 2019 are as follows:

Deferred tax assets:	
Compensation and benefits	\$ 9,505
Basis adjustments	132
Net operating loss and tax credit carryforwards	4,181
Depreciation and amortization	430
Other	572
Gross deferred tax assets	<u>14,820</u>
Valuation allowance	<u>(2,931)</u>
Total deferred tax assets, net of valuation allowance	<u>11,889</u>
Deferred tax liabilities:	
Compensation and benefits	76
Depreciation and amortization	50
Goodwill	13
Other	768
Total deferred tax liabilities	<u>907</u>
Total net deferred tax assets	<u>\$ 10,982</u>

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

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The Company has net operating loss and tax credit carryforwards for which related deferred tax assets of \$4,181 were recorded at December 31, 2019 that primarily relate to indefinite lived carryforwards in Germany of \$1,327 and certain carryforwards of \$2,350 in the US which begin expiring in 2025.

The Company's liability for unrecognized tax benefits of \$17,891 at December 31, 2019, includes \$3,715 related to interest and penalties, which, if recognized, \$16,149 would favorably affect the effective tax rate. With few exceptions, the Company is no longer subject to income tax examination for years prior to 2014. While the Company is under examination in various tax jurisdictions with respect to certain open years, the Company does not expect that the result of any final determination related to these examinations will have a material impact on its consolidated financial statements. Developments with respect to such examinations are monitored on an ongoing basis and adjustments to tax liabilities are made as appropriate.

A reconciliation of the beginning to the ending amount of gross unrecognized tax benefits (excluding interest and penalties) is as follows:

Balance, January 1, 2019 (excluding interest & penalties of \$3,148)	\$ 13,509
Increases in gross unrecognized tax benefits pertaining to:	
Tax positions taken during current year	1,925
Tax positions taken in prior year	-
Decreases in gross unrecognized tax benefits pertaining to:	
Tax positions taken in prior years	(16)
Settlements	-
A lapse of the applicable statute of limitations	<u>(1,242)</u>
Balance, December 31, 2019 (excluding interest & penalties of \$3,715)	<u>\$ 14,176</u>

The Company anticipates that it is reasonably possible that approximately \$2,300 of unrecognized tax benefits recorded at December 31, 2019 may be recognized within 12 months by as a result of the lapse of the statute of limitations in various taxing jurisdictions.

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

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### 18. REGULATORY REQUIREMENTS

LF&Co. is a U.S. registered broker-dealer and is subject to the net capital requirements of Rule 15c3-1 under the Securities Exchange Act of 1934. 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 LF&Co.'s FOCUS report filed with the Financial Industry Regulatory Authority or \$5, whichever is greater. In addition, the ratio of aggregate indebtedness (as defined) to net capital may not exceed 15:1. At December 31, 2019, LF&Co.'s regulatory net capital was \$134,370, which exceeded the minimum requirement of \$6,947. The Company's aggregate indebtedness to net capital ratio was 0.78:1 as of December 31, 2019.

A subsidiary of GAHL and certain LAM subsidiaries are subject to various capital adequacy requirements promulgated by various regulatory and exchange authorities in the countries in which they operate. At December 31, 2019, each of these subsidiaries individually was in compliance with its capital requirements.

### 19. SEGMENTED INFORMATION

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

The Company's segment information 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

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

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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.

For the year ended December 31, 2019 no individual client constituted more than 10% of the net revenue of any of the Company's business segments.

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:

	<b>For the Year Ended December 31, 2019</b>
<b>Financial Advisory</b>	
Net Revenue	\$ 821,539
Operating Expenses (a)	(600,549)
Operating Income	<u>\$ 220,990</u>
Total Assets	<u>\$ 299,341</u>
<b>Asset Management</b>	
Net Revenue	\$ 978,448
Operating Expenses (a)	(688,836)
Operating Income	<u>\$ 289,612</u>
Total Assets	<u>\$ 555,994</u>
<b>Corporate</b>	
Net Revenue	\$ 20,000
Operating Expenses (a)	(40,257)
Operating Income	<u>\$ (20,257)</u>
Total Assets	<u>\$ 598,480</u>
<b>Total</b>	
Net Revenue	\$ 1,819,987
Operating Expenses (a)	(1,329,642)
Operating Income	<u>\$ 490,345</u>
Total Assets	<u>\$ 1,453,815</u>

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

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- (a) Operating expenses include depreciation and amortization of property as set forth in table below.

	<b>For the Year Ended December 31, 2019</b>
Financial Advisory	\$ 1,838
Asset Management	2,493
Corporate	6,652
Total	<u>\$ 10,983</u>

### *Geographic Information*

Due to the highly integrated nature of international financial markets, the Company manages its business based on the profitability of the enterprise as a whole. Accordingly, management believes that profitability by geographic region is not necessarily meaningful. The Company's revenue and identifiable assets are generally allocated based on the country or domicile of the legal entity providing the service.



# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 (In Thousands)

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The following table sets forth the net revenue from, and identifiable assets for, the Company and its consolidated subsidiaries by geographic region allocated on the basis described above. In the table below, Americas principally includes the United States, Asia Pacific principally includes Australia and Japan, and EMEA principally includes the United Kingdom.

		For the Year Ended December 31, 2019
<b>Net Revenue</b>		
Americas	\$	1,468,750
Asia Pacific		144,659
EMEA		206,578
Total	\$	1,819,987
<b>Operating Income</b>		
Americas	\$	401,196
Asia Pacific		44,316
EMEA		44,833
Total	\$	490,345
<b>Identifiable Assets</b>		
Americas	\$	1,130,840
Asia Pacific		123,585
EMEA		199,390
Total	\$	1,453,815

## 20. SUBSEQUENT EVENTS

Management has evaluated whether any events occurred subsequent to the date of these consolidated financial statements and through the date of issuance of the consolidated financial statements, and determined there were no material events that would require recognition or disclosure in these consolidated financial statements.

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**LAZARD FRÈRES & CO. LLC****UNCONSOLIDATED COMPUTATION OF NET CAPITAL FOR BROKERS AND DEALERS  
PURSUANT TO RULE 15c3-1 UNDER THE SECURITIES EXCHANGE ACT OF 1934  
DECEMBER 31, 2019  
(Dollars In Thousands)**

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TOTAL EQUITY:	\$ 765,343
ADD:	
Allowable credits and other deductions	<u>68,614</u>
TOTAL REGULATORY CAPITAL	<u>833,957</u>
NONALLOWABLE ASSETS:	
Receivable from brokers or dealers	250
Investments in and receivables from affiliates and subsidiaries	360,741
Investments	1,645
Property, net	17,619
Other assets	<u>309,081</u>
Total nonallowable assets	<u>689,336</u>
NET CAPITAL BEFORE HAIRCUTS ON SECURITIES	144,621
HAIRCUTS ON SECURITIES	<u>10,251</u>
NET CAPITAL	<u>\$ 134,370</u>
AGGREGATE INDEBTEDNESS	<u>\$ 104,212</u>
NET CAPITAL REQUIREMENT (6-2/3% of total aggregate indebtedness, as defined, or \$15, whichever is greater)	<u>\$ 6,947</u>
NET CAPITAL IN EXCESS OF MINIMUM REQUIREMENT	<u>\$ 127,423</u>
RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL	0.78:1

Note: There are no differences between the preceding computation and the Company's corresponding unaudited amended Part IIA of Form X-17A-5 as of December 31, 2019, filed on February 21, 2020.

# **LAZARD FRÈRES & CO. LLC**

## **COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS AND INFORMATION RELATING TO THE POSSESSION OR CONTROL REQUIREMENTS FOR BROKERS AND DEALERS PURSUANT TO RULE 15c3-3 UNDER THE SECURITIES EXCHANGE ACT OF 1934 AS OF DECEMBER 31, 2019**

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Lazard Frères & Co. LLC is exempt from the provisions of Rule 15c3-3 of the Securities and Exchange Commission, pursuant to Section (k)(2)(ii) for the period January 1, 2019 through September 30, 2019. The Company did not fit into one of the identified exemptive provisions in 17 C.F.R. § 240.15c3-3(k), consistent with Footnote 74 of the adopting release for the Rule 17a-5 amendments, for the period October 1, 2019 through December 31, 2019. The Company has no obligations under 17 C.F.R. § 240.15c3-3 as its business activities were limited to proprietary trading and receiving transaction-based compensation for identifying potential merger and acquisition opportunities for clients, referring securities transactions to other broker-dealers. Further, the Company did not hold customer funds or securities. The Company had, without exception, no obligations under 17 C.F.R. § 240.15c3-3 throughout the year ended December 31, 2019.