

NEUBERGER BERMAN LLC

Statement of Financial Condition

December 31, 2016

(With Report of Independent Registered Public Accounting Firm Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Report of Independent Registered Public Accounting Firm

The Member
Neuberger Berman LLC:

We have audited the accompanying statement of financial condition of Neuberger Berman LLC (the Company) as of December 31, 2016 (the financial statement). The financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of Neuberger Berman LLC as of December 31, 2016, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

New York, New York
February 27, 2017

NEUBERGER BERMAN LLC

Statement of Financial Condition

December 31, 2016

(In thousands)

Assets	
Cash and cash equivalents	\$ 203,137
Cash segregated for the exclusive benefit of customers	500
Investments, at fair value	11,894
Receivables:	
Broker-dealers and clearing organizations	1,315
Advisory and administrative fees receivable	1,428
Due from affiliates	171
Other receivables	61
Furniture, equipment and leasehold improvements (net of accumulated depreciation and amortization of \$ 3,646)	999
Identifiable intangible assets and goodwill (net of accumulated amortization of \$ 34,963)	75,089
Other assets	1,934
Total assets	<u>\$ 296,528</u>
Liabilities and Equity	
Liabilities:	
Accrued compensation	\$ 115,372
Due to affiliates	34,044
Income taxes payable	13,095
Deferred income	13,977
Accounts payable and accrued expenses	3,503
Broker-dealers and customers	3,389
Other liabilities	45
Total liabilities	<u>183,425</u>
Commitments and contingencies (note 8)	
Member's capital	<u>113,103</u>
Total liabilities and member's capital	<u>\$ 296,528</u>

See accompanying notes to the Statement of Financial Condition.

NEUBERGER BERMAN LLC

Notes to Statement of Financial Condition

December 31, 2016

(Dollars in thousands, except where noted)

(1) Organization and Description of Business

Neuberger Berman LLC, a Delaware limited liability company (NB LLC or the Company), is an indirect wholly owned subsidiary of Neuberger Berman Group LLC, a Delaware limited liability company (NB Group), which is a majority owned subsidiary of NBSH Acquisition, LLC, a Delaware limited liability company (NBSH). NB LLC is a registered broker dealer and registered investment adviser. During 2016 and preceding years, NB LLC engaged principally in providing investment advisory services to individuals and institutions. In addition, NB LLC was retained by certain affiliated investment advisers to provide sub-advisory services to certain Neuberger Berman sponsored U. S. mutual funds and UCITS. The Company clears certain of its customers' securities transactions on a fully disclosed basis through National Financial Services LLC, which also serves as custodian for certain of the Company's clients.

Effective January 1, 2016, NB LLC transferred to Neuberger Berman Investment Advisers LLC ("NBIA") its rights and obligations with respect to services it had provided to certain institutional separate accounts, as well as to affiliated investment advisers with respect to U. S. mutual funds and UCITS. As of July 1, 2016, Neuberger Berman Management LLC (the original distributor of Neuberger Berman sponsored mutual funds) merged with and into NB LLC, and NB LLC became the distributor of Neuberger Berman sponsored mutual funds. As of January 1, 2017, the Company changed its name to Neuberger Berman BD LLC and transferred its remaining investment advisory agreements to NBIA. NB LLC continues to maintain its status as a registered investment adviser and a broker-dealer registered with the Securities and Exchange Commission. It anticipates that it will continue to clear certain clients' accounts on a fully disclosed basis and will be the distributor for the Neuberger Berman sponsored funds.

(2) Significant Accounting Policies

(a) *Basis of Presentation*

This statement of financial condition has been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of the statement of financial condition requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the statement of financial condition. Although these estimates and assumptions are based on the best available information, actual results could be materially different from those estimates.

(b) *Cash and Cash Equivalents*

Cash and cash equivalents consists of cash held in banks and other liquid investments that are payable on demand. At December 31, 2016, the Company held money market mutual fund investments of \$180.2 million. The remaining balance of \$22.9 million was held in several operating cash accounts with banks.

(c) *Investments*

Investments held by the Company are carried at market or fair value. Investments in money market funds are valued using the year end quoted net asset value per share.

NEUBERGER BERMAN LLC

Notes to Statement of Financial Condition

December 31, 2016

(Dollars in thousands, except where noted)

(c) Investments

Investments held by the Company are carried at market or fair value. Investments in money market funds are valued using the year end quoted net asset value per share.

(d) Securities Transactions

Securities transactions are recorded on a trade date basis. Securities owned and securities sold, not yet purchased are valued at market value or fair value as determined by management.

(e) Furniture, Equipment and Leasehold Improvements

Furniture, equipment, and leasehold improvements consist primarily of ownership interests in leasehold improvements, furniture and equipment, computer hardware and software, and are recorded at cost, net of accumulated depreciation and amortization. Leasehold improvements are amortized on a straight line basis over the lesser of the remaining life of the related office lease or the expected useful life of the assets. Depreciation and amortization are calculated using the straight line method over the assets' estimated useful lives of three to ten years. Expenditures for repairs and maintenance are charged to expense when incurred. The Company periodically evaluates long lived assets for impairment and if events or changes in circumstances indicate the carrying amounts of the assets may not be recoverable.

(e) Goodwill and Identifiable Intangible Assets

Goodwill and identifiable intangible assets with an indefinite useful life are tested for impairment annually or when an event occurs or circumstances change that signify the existence of impairment. Finite-lived intangible assets are amortized on a straight line basis over their estimated useful lives in accordance with GAAP, and are assessed for recoverability annually or more frequently if circumstances indicate impairment may have occurred.

(f) Distribution Fees

Distribution fees that relate to marketing by third parties are recorded when services are rendered to the Company.

(g) Income Taxes

Income taxes are accounted for using the liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis, using currently enacted tax rates. To the extent that deferred tax assets are considered more likely than not to be unrealizable, valuation allowances are provided. The Company records its income taxes receivable and payable based upon its estimated tax liability.

The Company records uncertain tax positions in accordance with ASC 740, "Accounting for Income Taxes", wherein a tax benefit is recognized if a tax position taken is more likely than not to be sustained on the basis of the technical merits of the position as of the reporting date.

NEUBERGER BERMAN LLC

Notes to Statement of Financial Condition

December 31, 2016

(Dollars in thousands, except where noted)

(h) Cash Segregated For The Exclusive Benefit of Customers

At December 31, 2016, cash of \$0.5 million was segregated in a special reserve bank account for the exclusive benefit of customers under Rule 15c3-3(k)(2)(i) of the Securities Exchange Act of 1934, as amended. Such amounts are not available for the creditors of the Company.

3. Fair Value of Investments

The Company follows GAAP with respect to fair value measurements, which among other things, requires enhanced disclosure about investments that are measured and reported at fair value. Fair value of a financial instrument is the amount at which the Company believes the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

GAAP establishes a hierarchal disclosure framework, which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. In accordance with GAAP, investments measured and reported at fair value are classified and disclosed based on observability of inputs used in the determination of fair values in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level 1 are, among other things, listed equities and listed derivatives. As required by GAAP, the Company does not adjust the quoted price for these investments, even in situations where the Company holds a large position and the sale of such position would likely deviate from the quoted price.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments that are generally included in this category include fixed income securities.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs used in the determination of fair value require significant management judgment or estimation. General and limited partner interests, certain loans and bonds and collateralized loan obligations are examples of investments included in this category.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input used to determine the fair value measurement in its entirety requires judgment and includes factors specific to the investment.

NEUBERGER BERMAN LLC

Notes to Statement of Financial Condition

December 31, 2016

(Dollars in thousands, except where noted)

Financial assets measured at fair value on a recurring basis using the fair value hierarchy levels at December 31, 2016 were as follows:

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 180,192	-	-	\$ 180,192
Investments	11,608	286	-	11,894
	<u>\$ 191,800</u>	<u>286</u>	<u>-</u>	<u>\$ 192,086</u>

The following is a description of the valuation methodologies used for NB LLC investments measured at fair value on a recurring basis, as well as the general classification of those investments pursuant to the valuation hierarchy:

Cash equivalents – Cash equivalents consist of excess cash invested in various money market mutual funds that are valued based on published net asset values and are included in Level 1 of the valuation hierarchy.

Investments – Investments include equity securities, fixed income securities and sponsored mutual funds. Equity securities generally are valued using unadjusted quoted market prices and are included in Level 1 of the valuation hierarchy. Fixed income securities are generally valued using broker quotes or pricing services based on similar instruments in active markets and are included in Level 2 of the valuation hierarchy. Sponsored funds consist of publicly traded funds which are valued using published net asset values and are included in Level 1 of the valuation hierarchy.

(4) Goodwill and Identifiable Intangible Assets

Goodwill is reflected in the statement of financial condition at its carrying value of \$73,987. Identifiable intangible assets of \$35,584 are primarily comprised of customer lists at December 31, 2016. Accumulated amortization on the identifiable intangibles is \$34,481 at December 31, 2016.

Identifiable intangible assets have amortizable lives of approximately 5 years. The remaining weighted average life of the identifiable intangible assets is approximately 1 year. Estimated remaining amortization expense for 2017 is as follows:

	2017
Estimated amortization expense	\$ 1,103

The Company assesses its goodwill for impairment at least annually or more frequently if circumstances indicate impairment may have occurred. In its assessment of goodwill for impairment, the Company considers qualitative factors, including events and circumstances that impact the business. If such analysis suggests impairment is more likely than not, a quantitative analysis is performed. Based on the qualitative assessment, management has concluded goodwill is not impaired.

NEUBERGER BERMAN LLC

Notes to Statement of Financial Condition

December 31, 2016

(Dollars in thousands, except where noted)

Identifiable finite-lived intangible assets are amortized over their estimated useful lives and are periodically assessed for impairment when circumstances indicate impairment may have occurred. If circumstances exist, the Company will perform an impairment test using an undiscounted cash flow analysis. If the asset is determined to be impaired, the difference between the book value of the asset and its current fair value would be recognized as an expense in the period in which the impairment is determined.

(5) Employee Benefit Plans

In 2016 the Company's retirement contribution for U.S. employees was equal to 15% of eligible earnings up to a maximum contribution of \$35.0 for each eligible employee (Retirement Contribution Program). Subject to certain eligibility requirements (such as being employed on December 31st of the plan year), all U.S. employees participate in the Retirement Contribution Program. Under the Retirement Contribution Program, the firm contribution is immediately vested and the participant has full discretion in directing investments within his/her 401(k) account. Effective January 2015, employees are no longer required to complete 12 months of service and are eligible to participate in the Retirement Contribution Program immediately upon hire by the Company.

For the year ended December 31, 2016, the Company accrued approximately \$14.1 million with respect to this program. Non-U.S. employees of the Company participate in defined contribution plans in locations where the Company has foreign operations. Employer contributions under this program are generally consistent with statutory and regulatory requirements and tax limits.

Certain eligible employees of NB LLC participate in the NB Group Contingent Compensation Plan (Contingent Compensation Plan or CCP). Other than with respect to death, disability, retirement or involuntary termination without cause (as defined in the Contingent Compensation Plan documents), amounts deferred under the Contingent Compensation Plan may be forfeited, should an employee no longer be employed by NB LLC or an affiliated entity.

In accordance with the terms of the Contingent Compensation Plan, a certain percentage of the total annual cash compensation of eligible employees is contingent (Contingent Amount). Such Contingent Amounts are subject to vesting, payment, and forfeiture and repayment conditions. For the purposes of determining both eligibility to participate in the Contingent Compensation Plan and the contingent percentage, total compensation includes, but is not limited to, base salary, bonus, production compensation, and certain other compensation. However, in no event is base salary treated as contingent. In addition to other conditions in the Contingent Compensation Plan, the Contingent Amounts are subject to vesting over a period of three years. Contingent Amounts vest in 1/3 increments on December 31 of each of the three years succeeding the applicable plan year.

The Contingent Amounts payable in cash are recorded in notional form in an account representing a notional investment that provides for a return (which may be positive or negative) based on a portfolio of Neuberger Berman investment management strategies, as selected by the Company. Vested Contingent Amounts payable in cash are paid to CCP Participants in a lump sum on or prior to March 15th of the year immediately succeeding the year in which such Contingent Amounts vest (subject to the satisfaction of the conditions for payment provided for in the Contingent Compensation Plan). Equity delivered

NEUBERGER BERMAN LLC

Notes to Statement of Financial Condition

December 31, 2016

(Dollars in thousands, except where noted)

pursuant to an election under the CCP is issued in the first quarter following the applicable CCP plan year.

Any NBSH equity issued pursuant to such elections is subject to the same three year vesting period applicable to cash amounts payable under the Contingent Compensation Plan.

(6) Income Taxes

The Company is a partnership for U.S. income tax purposes and because its principal place of business is in New York City, is subject to New York City Unincorporated Business Tax (NYC UBT).

As of December 31, 2016, the Company had a deferred tax asset of approximately \$0.8 million included in other assets on the statement of financial condition which consisted of the following:

		December 31, 2016
Deferred tax asset:		
Tax amortization of goodwill and intangibles	\$	966
Reserves not currently deductible		2
Depreciation		4
Other		10
Total deferred tax asset before valuation allowance		982
Valuation allowance		—
Total deferred tax asset, net of valuation allowance	\$	982
Deferred tax liability:		
Deferred compensation		(112)
Unrealized gain on investments		(85)
Total deferred tax liability	\$	(197)
Net deferred tax asset	\$	785

NEUBERGER BERMAN LLC

Notes to Statement of Financial Condition

December 31, 2016

(Dollars in thousands, except where noted)

Uncertain tax positions

The Company assesses its risk associated with uncertain tax positions and records tax benefits for all years subject to examination based on the best information available at the reporting date. During the period, the Company decreased the gross amount of the unrecognized tax benefits by \$2.1 million.

At December 31, 2016 and 2015, the unrecognized tax benefits, excluding interest and penalties, were \$11.4 million and \$13.5 million respectively. These amounts, if recognized, would favorably impact the Company's effective tax rate. At this time the Company does not expect any material change in the unrecognized tax positions over the next twelve months.

A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows:

		December 31, 2016
Balance on December 31, 2015	\$	13,457
Additions based on tax provisions related to the current period		1,664
<u>Subtractions based on net unrealized benefits for prior years</u>		<u>(3,755)</u>
<u>Balance on December 31, 2016</u>	<u>\$</u>	<u>11,366</u>

(7) Related Party Transactions

Investments include \$11.9 million invested in sponsored mutual funds at December 31, 2016.

Due to affiliates of \$34.0 million is comprised of \$16.3 million which is due to NB Services for allocated costs, \$16.7 million is due to NB Group for allocated costs, and \$1.0 million is due to other affiliates.

NEUBERGER BERMAN LLC

Notes to Statement of Financial Condition

December 31, 2016

(Dollars in thousands, except where noted)

(8) Commitments and Contingencies

(a) Lease Commitments

NB LLC has contractual obligations under long term non-cancelable lease arrangements, principally for branch office space, expiring on various dates through 2018. The lease for the former headquarters in New York City, that expires in April 2017, has been fully reserved as the space is no longer in use. Office space leases are subject to escalation provisions based on increases in costs incurred by the lessor. As of December 31, 2016, approximate aggregate minimum future rental payments (before operating expenses and real estate taxes) on the operating leases under these lease agreements are as follows:

Year:	Amount
2017	\$ 4,781
2018	361
Total minimum lease payments	\$ 5,142

(b) Litigation and Contingencies

NB LLC is involved in judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of its business. NB LLC recognizes liabilities for contingencies when there is an exposure that, when analyzed, indicates it is both probable that a liability will be incurred and the amount of such liability can be reasonably estimated. When a range of probable liability can be estimated, NB LLC accrues the amount it has determined it is most likely to incur. If the amount is not determinable, NB LLC accrues the minimum of the range of probable loss. The Company's management believes, based on currently available information, advice of counsel, and established reserves, that the eventual outcome of such proceedings, in the aggregate, will not have a material adverse effect on NB LLC's financial condition, results of operations or liquidity.

(9) Capital Requirements

As a registered broker-dealer and member of the Financial Industry Regulatory Authority, Inc. (FINRA), NB LLC is subject to the Securities Exchange Commission's Uniform Net Capital Rule 15c3-1. NB LLC is also a member of the National Futures Association and is subject to the Commodity Futures Trading Commission's Rule 1.17.

Under these rules, the Company is required to maintain minimum net capital, as defined, of not less than the greater of a) 2% of aggregate debit items arising from customer transactions, b) 8% of customer risk maintenance margin requirements plus 4% of non-customer risk maintenance margin requirements or c) \$1.5 million. As of December 31, 2016, NB LLC had net capital of approximately \$21.4 million, which exceeded the minimum net capital requirement by approximately \$19.9 million.

NEUBERGER BERMAN LLC

Notes to Statement of Financial Condition

December 31, 2016

(Dollars in thousands, except where noted)

Based on applicable regulatory requirements, the Company may not withdraw equity capital if its net capital falls below certain specified levels, as defined.

The Company is also subject to other U.S. federal, state and non-U.S. laws, rules and regulations and maintains adequate capital to ensure compliance with such laws, rules and regulations.

(10) Subsequent Events

The Company's management has evaluated events occurring after the date of the statement of financial condition (subsequent events) through February 27, 2017, the date the statement of financial condition was issued, to determine whether any subsequent events necessitate adjustment to or disclosure in the statement of financial condition.

Effective January 1, 2017, the Company changed its name to Neuberger Berman BD LLC and transferred its remaining investment advisory agreements to NBIA. NB LLC continues to maintain its status as a registered investment adviser and a broker-dealer registered with the Securities and Exchange Commission. It anticipates that it will continue to clear certain clients' accounts on a fully disclosed basis and will be the distributor for the Neuberger Berman sponsored funds.

On January 30, 2017, the Company paid a dividend in the amount of \$94.3 million to its parent, Neuberger Berman Investment Advisers LLC.